

Solomon Islands

Systematic Country Diagnostic Priorities for Supporting Poverty Reduction & Promoting Shared Prosperity



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Abbreviations

ADB	Asian Development Bank	NDS	National Development Strategy
CBRM	Community-Based Resource Management	NEAP	National Education Action Plan
CBSI	Central Bank of Solomon Islands	NFD	National Fisheries Developments
CDF	Constituency Development Fund	NGO	Nongovernmental Organization
CSR	Corporate Social Responsibility	NMP	National Mining Policy
DFAT	Australian Department of Foreign Affairs and Trade	NPF	National Provident Fund
DHS	Demographic and Health Survey	NTF	National Transport Fund
DRM	Disaster Risk Management	NTP	National Transport Plan
DRR	Disaster Risk Reduction	OOP	Out-of-pocket
ECE	Early Childhood Education	PNA	Parties to the Nauru Agreement
EEZ	Exclusive Economic Zone	PNG	Papua New Guinea
EITI	Extractive Industries Transparency Initiative	PPP	Public-Private Partnership
EU	European Union	RAMSI	Regional Assistance Mission to the Solomon Islands
FAO	United Nations Food and Agriculture Organization	RDP	Role Delineation Policy
FSS	Franchise Shipping Scheme	RSE	Recognized Seasonal Employer
FTE	Fixed Term Estate	RSIPF	Royal Solomon Islands Police Force
GDP	Gross Domestic Product	RSPO	Roundtable on Sustainable Palm Oil
GFC	Global Financial Crisis	RTC	Rural Training Centre
GNI	Gross National Income	SCD	Systematic Country Diagnostic
PGP	Guadalcanal Provincial Government	SEZ	Special Economic Zone
GPI	Gender Parity Index	SFA	Solomon Forestry Association
GPPOL	Guadalcanal Palm Oil Plantation Ltd.	SI\$	Solomon Islands Dollar
GPRDA	Guadalcanal Plains Resource Development Association	SIEA	Solomon Islands Electricity Authority
HCC	Honiara City Council	SINEP	Solomon Islands National Energy Policy
HIES	Household Income and Expenditure Survey	SINSO	The Solomon Islands National Statistics Office
ICT	Information and Communication Technology	SISEP	Solomon Islands Sustainable Energy Project
IFC	International Finance Corporation	SIWA	Solomon Islands Water Authority
IHME	Institute for Health Metrics and Evaluation	SME	Small and Medium Enterprise
IMF	International Monetary Fund	SOE	State-Owned Enterprise
IRD	Inland Revenue Department	SPC	Secretariat of the Pacific Community
MEHRD	Ministry of Education and Human Resource Development	SWP	Seasonal Worker Program
MFMRD	Ministry of Fisheries and Marine Resources Development	TVET	Technical and Vocational Education and Training
MHMS	Ministry of Health and Medical Services	UN	United Nations
MID	Ministry of Infrastructure Development	VCO	Virgin Coconut Oil
MLHS	Ministry of Lands, Housing, and survey	VDS	Vessel Day Scheme
MoFT	Ministry of Finance and Treasury	WDR	World Development Report
MOU	Memorandum of Understanding	WDI	World Development Indicators
MP	Member of Parliament	WHO	World Health Organization
NCD	Non-Communicable Disease		



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EXECUTIVE SUMMARY

Introduction and Country Context

Solomon Islands is a small, remote archipelago in the South Pacific that faces a fairly unique set of development challenges. Following a period of civil conflict that was brought to an end through international intervention in 2003, the economy has grown at an average annual rate of 5.5 percent. This relatively strong aggregate growth performance masks some key problems. First, growth has declined recently, averaging only 2.9 percent for the last four years, while the population has continued to expand at about 2 percent per year. Average per capita incomes are still lower today than they were before the conflict began nearly two decades ago. Second, the biggest driver of growth in the post-conflict period has been logging, which has occurred at a grossly unsustainable rate and is expected to decline sharply during the next decade. Solomon Islands thus faces a pressing need for new sources of growth, but these are highly constrained by its economic geography. Third, poverty remains extensive, despite having declined considerably since the end of the conflict. An estimated 25.1 percent of Solomon Islanders live below the international US\$1.90 per person per day poverty line in 2011 purchasing power parity terms, and 56.7 percent live on less than US\$3.10 per person per day. Fourth, providing access to basic services is extraordinarily challenging, given the small population scattered very thinly across this vast archipelago. Fifth, there are major sources of fragility in Solomon Islands, particularly arising from the limited reach and effectiveness of the state, from development that is very uneven across space, and from climate change.

Solomon Islands is now at a critical juncture in its development trajectory. The very high degree of international engagement in the post-conflict period has been considerably scaled back, in terms of both financial assistance and the supplementation of state capacity. At the same time, Solomon Islands is likely to embark on a transition from logging to mining as the key driver of growth. If managed well, this transition offers significant opportunities, yet it is equally subject to significant risks. Mining could lead to tensions and social disintegration within customary landowning groups in mining areas. Tensions and grievances over the distribution of benefits within the island-provinces where mining occurs may be scaled up into national-level conflict between these island-provinces and the central government.

Neither the economic geography nor the present political economy of Solomon Islands is particularly conducive to the establishment of state institutions capable of managing upcoming socioeconomic change. The small, dispersed population and remoteness from large markets increases the costs of public service delivery, constrains the reach of infrastructure, and reduces the range of opportunities for 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. The resultant spatial pattern of economic development is highly uneven. In such a context, broader poverty reduction and economic development are critically dependent on the state having the capability to secure an appropriate share of the economic rents being generated, and to redistribute them through public investment in health, education, and infrastructure provision across the country, both to share the benefits with people not directly participating in these industries, and to diversify the asset base of the economy. Yet fundamental political economy dynamics in Solomon Islands militate against the incentives for political elites to invest in effective state institutions that are needed to do this, or to address national-level development challenges.

Because of the weaknesses of state institutions, and consistent with Solomon Islands' historical experience, a variety of non-state and international actors will need to play important roles in managing upcoming and potentially risky socioeconomic change. The respective roles of the different state, non-state, and international actors are likely to vary by function as well as with geography across Solomon Islands, reflecting the existing diversity in the nature and extent of governance challenges and the different capacities of various actors and institutions to effectively manage them.

This Systematic Country Diagnostic (SCD) for Solomon Islands identifies key challenges and opportunities for achieving inclusive and sustainable growth, to accelerate progress toward the World Bank Group's twin goals of reducing extreme poverty and promoting shared prosperity. The World Bank Group's twin goals mirror the

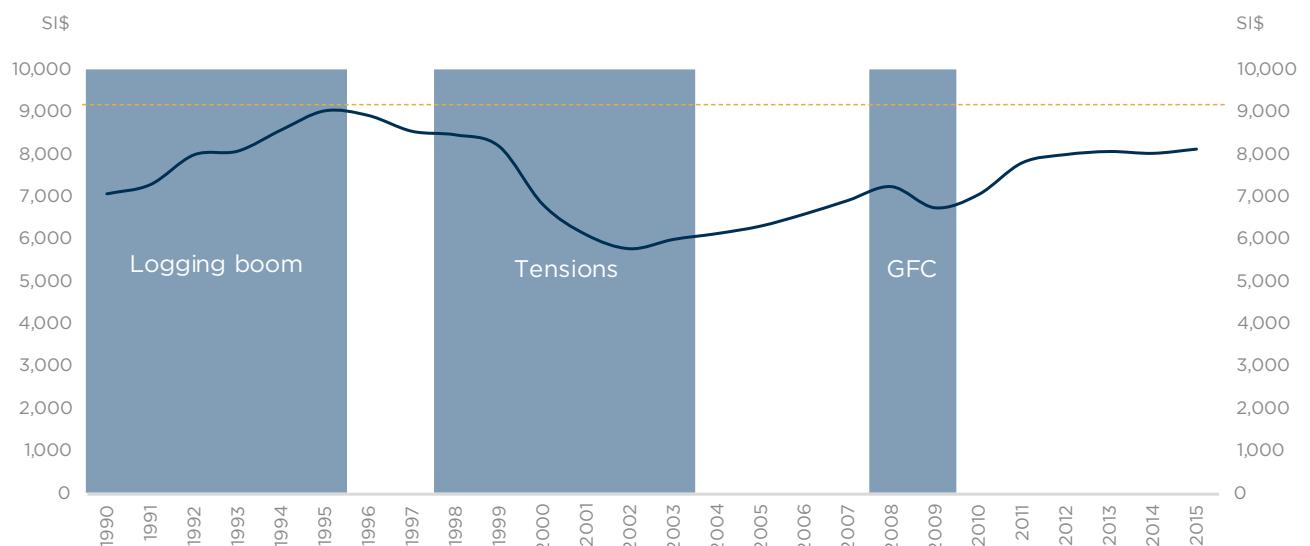
objectives of ‘sustained and inclusive economic growth’ and of having ‘poverty alleviated across the whole of the Solomon Islands’ in the *National Development Strategy: 2016–2035*.

Recent Economic and Poverty Developments

In the period since the end of the conflict, Solomon Islands has made substantial progress with economic development, but that progress has been quite uneven across space. The main contributors to economic growth have been logging (with rates of extraction significantly exceeding the estimated sustainable yield), services (driven by expanded public sector and international community spending in the post-conflict context), and agriculture (including the post-conflict resumption of copra and palm oil production). Although real gross domestic product (GDP) surpassed its pre-conflict peak in

2007, real GDP per capita has still not surpassed its pre-conflict peak (see Figure A). This striking circumstance is due to two factors: first, the low base of GDP per capita at the end of the conflict (some one-third below its level prior to the conflict); and second, relatively rapid population growth. According to the 2009 census, between 1999 and 2009 the population grew at an average of 2.3 percent annually. Most concerning is the fact that, between 2012 and 2016, GDP growth has averaged only 2.9 percent, with estimated population growth of about 2 percent per year. At this rate, it might be another decade before real GDP per capita surpasses its pre-conflict peak. It is hard to imagine how that kind of outlook could meet the expectations of Solomon Islanders with respect to rising living standards.

Figure A: Real GDP per capita

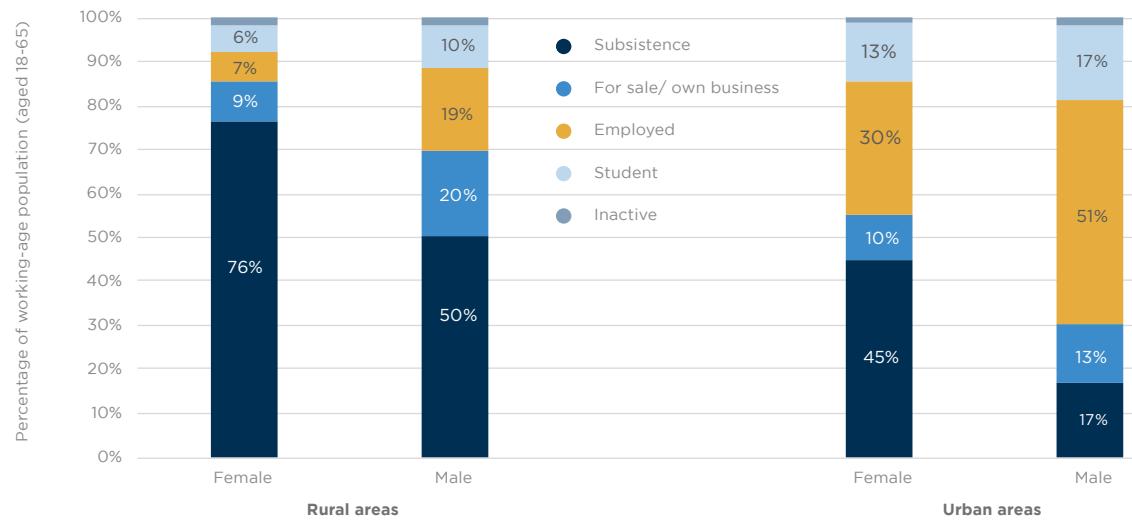


Source World Development Indicators (WDI).

In the period since the end of the conflict, Solomon Islands has also made substantial progress with poverty reduction, but that progress has again been quite uneven across space and between genders. Aggregate poverty rates appear to have declined—perhaps considerably. Significant differences in methodology between the last two Household Income and Expenditure Surveys (HIESs) mean that the poverty rates from them are not directly comparable. However, based on work constructing a consistent consumption aggregate and national basic needs poverty line for the two surveys, poverty appears to have declined by

8 percentage points between 2005/06 and 2012/13. This implies that some 45,000 people were lifted out of poverty over that period. Assessed on the basis of national poverty lines, basic needs poverty and food poverty is estimated to be higher in rural areas—where 80 percent of the population live—than in urban areas. There are major differences in livelihood opportunities between rural and urban areas, as well as between men and women (see Figure B). There are also significant differences in rates of basic needs poverty between provinces, underscoring the pronounced pattern of uneven development in Solomon Islands.

Figure B: Primary economic activity in rural and urban areas by gender



Source World Bank staff estimates based on the 2012/13 HIES.

Indicators of health and education show significant improvements in the post-conflict era, but this is not the case for access to most essential services and it is also difficult to discern improvements in gender equality. Headline indicators of health and education status, shown in Table A, display considerable improvement, although from relatively low bases (particularly with respect to school enrolment). Disaggregated data are not currently available, however, to assess the extent of improvement for the bottom two quintiles or analyze separate rural and urban trajectories. Morbidity and mortality caused by non-communicable diseases has also increased sharply over this period. Indicators of access to essential services based on the HIES

can be disaggregated by rural and urban area, with the results in Table B, and show little increase in access to an improved water source or to improved sanitation, either in Honiara or other provinces. There has, however, been a significant increase in access to off-grid electricity for lighting, particularly in the provinces. The multifaceted nature of gender inequality makes it difficult to draw conclusions about overall trends, but its pronounced extent remains clear, not only with respect to livelihood opportunities and leadership positions, but also with respect to the high incidence of violence against women.

Table A: Changes in key health and education indicators in the post-conflict period

Infant mortality (deaths per 1,000 live births)	27.2 (2002)	23.6 (2015)
Incidence of tuberculosis (per 100,000 people)	166 (2002)	86 (2014)
Life expectancy at birth (years)	64.1 (2002)	67.9 (2014)
Net primary enrolment rate	75.5 (2005)	88.4 (2014)
Net junior secondary enrolment rate	34.3 (2006)	42.2 (2012)

Source WDI and MEHRD 2015a.

Table B: Changes in essential services access between the 2005/06 and 2012/13 HIES

	Honiara		Other Provinces		Solomon Islands	
	2005/06	2012/13	2005/06	2012/13	2005/06	2012/13
Access to improved water source	93%	93%	77%	75%	79%	76%
Access to improved sanitation	70%	72%	18%	21%	25%	27%
Access to electricity for lighting	63%	72%	8%	42%	14%	45%
- on the grid	63%	58%	7%	4%	13%	9%

Source World Bank staff analysis of 2005/06 and 2012/13 HIES data.

At the current juncture, Solomon Islands faces some pressing economic challenges. The primary one is to develop additional sources of private sector growth, within the constraints of economic geography, both to maintain macroeconomic stability and to provide better job opportunities to the young and fast growing population. Given the small margin between average levels of GDP growth and population growth in the last few years, developing additional sources of private sector growth is a pressing challenge anyway. However, it is made more so by the unsustainability of the growth currently generated by logging, as well as the increased economic impact of natural disasters resulting from climate change. The SCD argues that, over the medium term, mining appears to be the only industry in Solomon Islands with any prospect of filling the macroeconomic space currently occupied by logging. The transition to mining as the key driver of growth would entail significant macroeconomic, conflict, and environmental risks. A second and related challenge is to address the difficulties of the fiscal position, both immediately and during the potential economic transition from logging to mining. Three important dynamics contribute to the extent of this fiscal challenge: (a) a significant decline in development assistance in recent years; (b) limits to further domestic revenue growth (and the specific need to replace the revenue that will be lost when logging declines); and (c) the need to meet the very high costs of public service delivery emanating from Solomon Islands' economic geography, which climate change is adding to.

Contemporary Sources of Risk and Resilience

Risk and resilience in Solomon Islands are best understood in terms of the capacity of institutions to manage social and economic change. These institutions include both state and non-state institutions, with the latter playing some particularly important roles in Solomon Islands, given the limited reach of the state in some areas of social, economic, and political life. Customary and other informal forms of social organization act as a key source of resilience, with a demonstrated capacity to adaptably deliver social order even in the absence of a strong and capable state. Risks arise from the

possibility that the pace of social and economic change will outstrip the capacity of both formal and informal institutions to adapt to new pressures.

Key sources of resilience include:

- **Customary institutions surrounding land and kinship.** For most Solomon Islanders, access to customary land provides a place to live, access to water, a source of food, an opportunity to earn a livelihood, and a foundation for social identity and belonging. The effects of population growth and climate change are likely to challenge some aspects of this resilience over time and pose greater risks of disputes over land and sea access, but the immediate risk to this source of resilience is from the commercialization of land. As well as being a key source of social identity, kinship systems act as networks that can provide support for socioeconomic advancement and for enduring periods of hardship, but this effect is weakened when kinship systems become overstretched.
- **Customary and church systems of authority that play a critical role in maintaining social order.** These provide mechanisms to deal with disputes, social order problems, and contests over resources, particularly in rural areas and informal urban settlements. Though generally accessible, accepted, and effective in their own way, non-state forms of authority tend to be unable to mediate and contain local problems that originate at a higher scale—as with logging-related disputes—and can become overwhelmed by the extent of contemporary social order problems. If overwhelmed, these institutions can not only cease to serve as sources of resilience but some may become sources of risk, if the authority of their leaders is turned to mobilizing protest, aggression, and violence.

Key sources of risk include:

- **The commercialization of land, especially around extractive industry development.** Commercialization could be a source of

gain to most Solomon Islanders, if the existing widely dispersed ownership of and access rights to land were leveraged for the benefit of all of those with existing ownership and access claims. However, to date, processes surrounding the commercialization of land have tended to marginalize the many and benefit the few — typically a few powerful men. The rise of ostensibly traditional, exclusive ‘customary landowners’ as powerful actors with strong relationships or overlap with political elites, is a salient political economy development in the post-conflict years; one that threatens to further marginalize the interests of women and other men in the development process and to undermine the role of customary land as a safety net against material dispossession.

- **The transition from logging to mining.** While this transition offers an important opportunity for Solomon Islands, because the political economy of large-scale mining could be more amenable to the development of effective state institutions than logging has been, achieving that political economy structure will be challenging and the risks of large-scale mining in the current political economy context are extremely high. Large-scale mining is likely to exacerbate disputes and conflict if (a) the wealth generated from mineral resources accrues mainly to foreign mining companies, limited numbers of powerful male ‘landowners’, and a central state that does not prioritize the use of them to enhance the reach of the state or the delivery of public services; and (b) the social and environmental costs of mining accrue mainly to the people in the surrounding area and the wider province.
- **Continued rapid urbanization.** Like the transition to mining, urbanization offers several important opportunities to Solomon Islands — if it is well managed. These include specialization and productivity, increased demand for agricultural and other products from rural areas, economies of scale in the provision of essential services, and new forms of social identity and new spaces for the voices of those previously more disempowered in social, economic, and political life. However, the risks of poorly managed urbanization are also high, particularly given the pronounced youth bulge. In the context of continued scarcity of job opportunities, lack of essential services

in informal settlements, marked inequities between formal and informal areas, and further urban expansion onto customary land, urbanization is likely to fuel disputes and grievances.

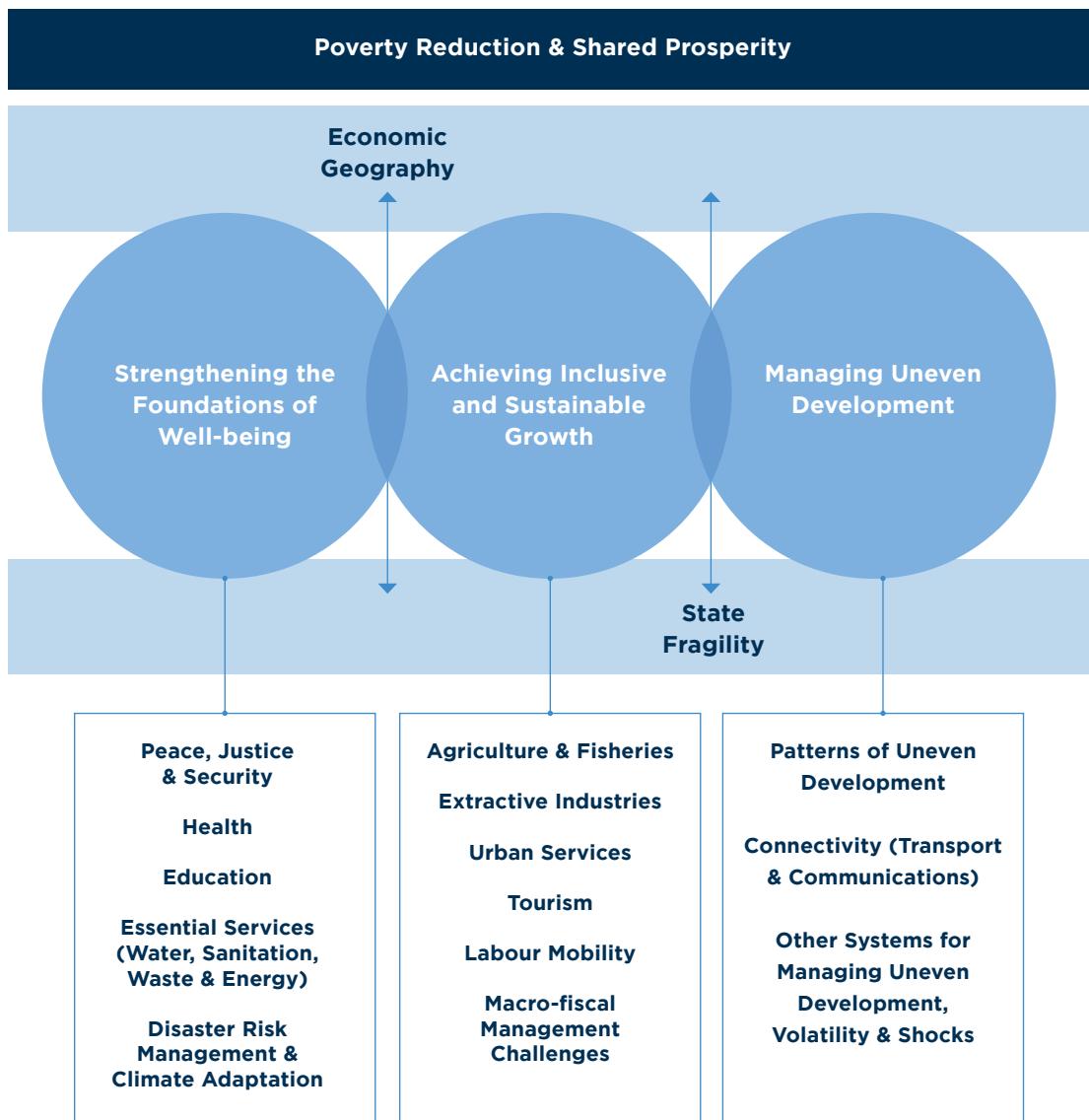
- **Demographic and sociocultural change.** As population growth rates continue to slow, dependency ratios will decline, potentially providing for increased incomes and productivity with the ‘demographic dividend’ of a larger share of the population at working age. However, negative consequences are also possible. While the evidence is not conclusive, the presence of youth bulges has been associated with conflict and violence internationally, especially in the context of limited employment opportunities and options for labor mobility. In Honiara, masculine identities can be associated with collective and interpersonal violence among urban youth. Both formal and informal institutions are currently struggling to deal with the violence and disorder associated with substance abuse among young males.
- **The Regional Assistance Mission to the Solomon Islands (RAMSI) transition.** While the external security guarantee remains in effect, the formal end of RAMSI in June 2017 may be treated by those with unresolved grievances from the earlier conflict as signaling a renewed opportunity to use violence to pursue their objectives. Beyond the sphere of security, the transition from institutional support to central agencies through in-line staff under RAMSI to advisory support has already occurred, but the extent of that support is continuing to decline. In part, the continued withdrawal of advisors reflects donor and government confidence in local capacity to undertake key state functions and a wish to bring the period of extraordinary post-conflict assistance to an end. However, the further reduction in advisor presence in finance, in particular, will raise governance and macroeconomic management risks in what is becoming a more difficult fiscal context, by removing some of the insulation between vital fiscal and fiduciary management processes and the underlying political economy.

Analytical Framework

The analytical framework adopted for this SCD examines potential contributors to reducing extreme poverty and promoting shared prosperity in Solomon Islands, while taking account of economic geography and political economy factors. In so doing, it draws on key lessons from the 2009 and 2017 World Development Reports (WDRs), 'Reshaping Economic Geography' and 'Governance and the Law'. The analytical framework is organized across three broad and interrelated pillars: (a) strengthening the foundations of well-being; (b) achieving inclusive and sustainable growth; and (c) managing uneven development (Figure C). Economic geography and state fragility are cross-cutting themes in the analysis of constraints and opportunities under each pillar.

The role the analytical framework plays in the SCD is to help identify potential priority areas for accelerating poverty reduction and shared prosperity in Solomon Islands. The first pillar focuses on provision of key services that contribute directly to people's well-being, which economic geography makes particularly challenging in this context. The second pillar examines potential sources of economic growth, together with the likely extent of their inclusiveness and sustainability. Not only are possible sources of private sector growth circumscribed by economic geography, but their feasibility, inclusiveness, and sustainability are also conditioned by political economy factors. The third pillar focuses on the overarching challenge of managing uneven development, recognizing both that development will be highly uneven as a consequence of economic geography and that spreading the benefits from centers of growth as widely as possible will be critical to improving equity and reducing fragility.

Figure C: Analytical framework for the Solomon Islands SCD



Priorities for Supporting Poverty Reduction and Shared Prosperity

In selecting a set of strategic priorities for supporting poverty reduction and shared prosperity from among those identified by the analytical framework, the SCD uses three main considerations. The first is the *relevance* of the area to security (mitigating the risks of fragility, conflict, and violence), to sustained and inclusive growth, and to equity (a substantial positive impact on the well-being of the poor and less well-off). The time frames over which these impacts are expected is part of this consideration. The second is our level of *confidence* that the relevant constraints have been accurately identified along with technically feasible means of addressing them. The third is the degree of *alignment* between the priority and what can feasibly emerge from the policy arena, given the political incentives of relevant elites under the existing distribution of power in the country. In line with WDR2017, this is not a static consideration but instead takes into account the potential for the policy arena to be reshaped through the levers of contestability, elite incentives, and the ideas, preferences, and beliefs of participants in the policy arena. It also accounts for how, over time, policy outcomes might alter the underlying distribution of power to allow a broader range of policy options in future.

The first tier of priorities is composed of those that are highly relevant to growth, equity, and security, and where there is some possibility—even if small—of achieving an alignment with the incentives of political elites. These first-tier priorities can be viewed as the core of a coherent and mutually dependent reform program with the potential to help Solomon Islands realize its immediate opportunities (mining development and urban growth) while managing its most pressing fragility risks (safeguarding agricultural livelihoods, sharing the benefits of growth as widely as possible, and supporting the development of institutions that attempt to manage an inevitably disruptive period of socioeconomic change).

Supporting the productivity and resilience of smallholder agriculture and fisheries, including their contribution to nutrition

It is critical to improve the ability of Solomon Islanders to obtain food and nutrition through smallholder agriculture and fishery activities, an ability that the majority of the population depend on, but which is currently under threat.

The productivity and resilience of both subsistence and semi-commercial agriculture and fisheries is of immediate and direct importance to the well-being of the rural population, as well as many urban residents, with nutrition of particular significance to child health and cognitive development. A vibrant agricultural and fisheries sector has the potential to underpin growth over the short term

and on a sustained basis. More productive and more resilient agriculture and fisheries is vital to mitigate pressures that may otherwise build with population growth and climate change toward disputes over increasingly scarce land and sea resources, as well as to reduce push factors in urban migration. While there is reasonable certainty over the constraints faced and the technical aspects of ways to address them, there remains some uncertainty over effective means to assist producers, especially given the limited state reach. While political elites are clearly very interested in rural development, they do not prioritize supporting it through core state systems. The extent of political concern with rural development would imply, however, that there is scope to achieve the necessary alignment, including through changing ideas about the most effective ways to improve rural livelihoods.

Supporting the effective functioning and connectivity of urban and other growth centers, to increase their contribution to growth and well-being in both urban and rural areas

It is critical to improve the functioning and connectivity of Honiara, in particular, as well as other growth centers around the country, to increase their ability to drive broader economic growth and improve the well-being of urban and rural communities. The functioning and connectivity of the urban service economy of Honiara as well as of other growth centers is vital not only to the livelihoods of urban residents, but also to livelihoods in all communities connected with them by land or sea. Potential impacts on the urban poor (many of whom are unable to access essential services and have limited livelihood opportunities) and the rural poor (who similarly lack access to essential services and need market access for their products) are very significant. The functioning and connectivity of Honiara is critical to security, because private sector activity in the urban service economy is a key channel for the redistribution of natural resource rents in the broader economy. Maximizing opportunities through backward linkages from that spending in urban and rural areas is likely to support stability. While there is considerable certainty about what constrains the functioning and connectivity of Honiara and other growth centers, there is considerable uncertainty about how these constraints could be eased, given the way power, authority, interest, and capability are distributed among many different state and non-state entities at many different levels. The extent of political antipathy toward urbanization and urban issues indicates a lack of alignment with political interests, yet political elites are strongly interested in connectivity to spread the benefits of growth into rural areas. This suggests an avenue for an indirect interest in the functioning of Honiara and other growth centers. Enhancing contestability in the policy arena could help this alignment and should be feasible given the extent of private sector, civil society, and municipal interest in tackling urban management concerns. Successes in improving the functioning of Honiara are likely to further enhance

contestability, because of the importance of the urban space for the voices of women and youth.

Supporting effective mining governance and measures to spread the benefits of mining

It is critical for Solomon Islands to secure the development of its mining industry as a driver of economic growth and to spread the benefits as far as possible through backward linkages and nationally through public expenditure. The SCD argues that Solomon Islands is in the unenviable position of depending on large-scale mining to manage its transition out of post-conflict levels of aid and unsustainable logging. The end of logging presents major challenges to economic growth and macroeconomic sustainability. Whether mining does actually replace logging's contributions to macroeconomic aggregates over the medium term, depends both on the timing of the decline in logging and the effectiveness of the governance of mining. Making mining governance sufficiently effective to secure the benefits and mitigate the risks of mining is vital. The industry itself is likely to create relatively few direct jobs, though additional jobs and wider growth benefits could come from backward linkages to agriculture, fisheries, transport, and other services and from the infrastructure and essential service developments around mining operations. More important is likely to be public expenditure on human and physical capital that the state could make if it secures an appropriate share of the rents from minerals extraction. Spreading the benefits as widely as possible through backward linkages and public expenditure will be vital to mitigate the conflict risks associated with large-scale mining, as will stakeholder benefit-sharing arrangements and effective environmental regulation. There is a solid body of knowledge on what is needed to enable mining development to drive broader economic growth and contribute to public investment in human and physical capital. There is also growing experience in relevant comparator countries, like Papua New Guinea, on effective ways to manage conflict risks. The incentives for political elites to support mining development are obvious, but to date this has not extended to effective mining governance. Given just how big the gains from effective mining governance could be in Solomon Islands, it must be possible for political elites to be better off with access to the larger pie that effective governance could yield, than under the current approach. At the same time, there is scope for the political economy dynamics of the prospective large-scale nickel mining to be quite different from the mining (and logging) preceding it, and this could facilitate the emergence of more pro-development political economy dynamics. This centers on the interests of a large-scale, long-life mine with heavy up-front investment in maintaining a long-term social license to operate, which could support—or even require—the existence of public authorities capable of containing conflict risks (including by mitigating spatial disparities through effective public investment). It also centers on the feasibility of the state reckoning with a large-

scale mining operation in a fixed location (relative to many, small, remote, and constantly shifting logging operations). Increasing the contestability of the policy arena will be critical to promote equity in benefit-sharing and support the mitigation of conflict risks.

Strengthening local-level institutions of public authority

It is critical for Solomon Islanders to have access to some form of local public authority, to support security and justice, and to increase their ability to articulate their priorities to the state for the use of public resources. Local-level law and order is not only critical to security and social cohesion, but is also a foundation for economic activity and growth and also for equity. Institutions of public authority at a decentralized level can be important means for linking citizens into the state system, providing potential for them to articulate their priorities and for the state to respond to those. This is of particular significance in an economy dominated by natural resource rents, where public expenditure is an important means for sharing the benefits of natural resource-based industries with the wider population. The Community Officers Program that the World Bank is supporting in Solomon Islands is demonstrating good results, both in local-level dispute resolution and in linking people to the broader state system. This suggests that an effective approach to supporting the development of local public authority has emerged. Part of its effectiveness is due to its flexibility—even between the two provinces where it is established, there are significant differences in the way it operates. This flexible approach should enable its successful expansion to other provinces, where it can also take contextually appropriate forms to fill the same types of functions. The local level appears to be a site of serious investment by political elites. The experience to date with the Community Officers Program indicates significant political interest in local-level institutions of public authority and serious investment by senior policy makers in supporting these institutions to work and in considering how they can serve an expanded set of purposes over time and space.

This next tier of priorities is composed of those that are highly relevant to growth, equity, and security, but where alignment is unlikely to be achievable in the near term. Or, in the case of tourism, there are more immediate economic challenges Solomon Islands has to address, for tourism investment to yield returns.

- **Supporting the provision of quality, basic education for all.** Tackling the quality of basic education at all levels, as well as access to it at the secondary level in particular, is highly relevant to equity and long-term economic growth opportunities, as well as to social cohesion, citizen engagement and public sector performance. Limited quality of and access to basic education appears

to be a matter of both supply and demand. Supply-side factors (including school places, qualified teachers, and learning materials) have received considerable attention to date, though significant gaps remain and efforts to fill these remain important. Demand-side factors (including accountability for teacher performance and school management) have received some attention, but there has been little progress in education authorities or communities holding teachers and schools to account. Even if communities value quality education, there appears to be little immediate prospect of community-level accountability mechanisms being effective, if they are not backed by vertical accountability. That is a very challenging situation to change, given both the near-exclusive political interest in tertiary scholarships and the myriad of school sites that need to be accounted for.

- **Supporting significantly expanded access to improved water, improved sanitation, and waste disposal services.** Expanding access to these services is critical to well-being, in particular for the poor and less well-off. Expanded service provision would also have important complementary benefits for the environmental (affecting the benefits people can derive from environmental assets, as in agriculture and fisheries, as well as the long-term potential of tourism to be a driver of growth). Whereas in urban areas, improving access to these services is largely about ensuring sufficient operational capacity of the utilities and resolving the impediment to access that utilities are making of occupancy titles, the situation is different in rural areas. It would be valuable to build an evidence base on the variety of approaches taken toward service provision by communities, Constituency Development Funds, provincial authorities, central government, donors and nongovernmental organizations (NGOs), to understand what has worked, in which contexts, and why. With respect to alignment, access to improved water tends to be prioritized by communities, but this is less true of sanitation and waste disposal. At the current juncture, it is difficult to see how state or non-state providers would have the reach, resources, or impetus to provide the kind of sustained support needed to create demand for behavior change in these areas.

• **Supporting the provision of better quality health services for all.** Improving health service access and quality is clearly relevant to well-being, equity, and long-term growth. Considerable attention has been paid to supply-side factors to date, with considerable success, making further improvement in many areas of health less of a pressing concern than in education, for instance. However, unlike in education, there are some initiatives underway in health that have some prospect of improving the accountability and performance of the health system and some prospect of sustainability due to their potential alignment with the interests of political elites. These initiatives include deconcentrating power and responsibility to more appropriate levels. One area that is pressing is child undernutrition. In addition to addressing nutritional concerns in agriculture and fisheries (as above), it is clearly important for measures to tackle undernutrition in the health sector to be prioritized. However, like measures in agriculture, this will only tackle part of the problem—with multi-sectoral strategies required, including addressing issues connected with low status of women.

- **Catalyzing significant tourism development.** Tourism offers Solomon Islands the opportunity to transform its long-term growth trajectory, with the growth it generates potentially inclusive and sustainable. It offers the prospect for more widely distributed economic power than is the case for extractive industries, which could also ease political economy constraints on future development. Supporting this development is critical, beginning with a prefeasibility study for Western Province, to identify what investors regard as the key gaps to fill to make tourism an investible proposition for the private sector and to assess what the market potential could be. If high-level support from the state can be secured, a capable development partner could then take the lead on coordinating work on the necessary infrastructure developments to enable private sector tourism investment to realize that potential. Tourism sector development is unlikely to be feasible if more immediate challenges of growth and macro-fiscal stability are not addressed effectively.

- **Supporting stronger fiscal and public expenditure management.** This is extremely important for growth, equity and security (particularly through effective service delivery). There is a history of effective international engagement in customs and revenue administration, where there is some alignment with political interests. Important gains have been made and continued assistance would be valuable. Extensive external assistance has also been provided for most areas of fiscal and public expenditure management in the post-conflict period, but the feasibility of continued engagement being useful is questionable. Misalignment with prevailing political incentives, rather than the lack of technical capacity, is currently the binding constraint to sustainable improvement on budget formulation, budget execution, and expenditure management.
- **Establishing formal social protection systems.** Given how exposed especially poorer households in Solomon Islands are to volatility and shocks and how limited their capacity to afford the goods and services they need may be in the wake of large-scale negative shocks, there seems a clear case for formal social protection systems for poor and vulnerable households. There is a need, however, to gather evidence on the extent to which and circumstances in which people fall through the gaps of the informal systems, as a basis for designing contextually appropriate formal systems. Experience in Melanesia would suggest there is virtually no chance of securing political support for such systems, at least in the medium-term, but this could be considered an area of such significance to the poor that it warrants establishment through parallel systems with development partner support, potentially on a long-term basis.
- **Projects should account for the economic geography and political economy of Solomon Islands.** A thorough understanding of the economic geography and political economy context is a prerequisite for judging whether projects are feasible and risk altering the distribution of power in ways impeding pro-development policies in future.
- **Trade-offs between immediate project effectiveness and the broader implications for state capability of parallel systems should be explicitly accounted for.** Solomon Islands' experience shows how resorting to parallel systems can weaken the impetus to strengthen state capability, with weak state capability in turn justifying the further resort to parallel systems. Any resort to parallel systems should be considered very carefully, particularly because of the resultant distortion of vital local accountability relationships.
- **Engagements should follow an iterative approach to addressing the identified development problems.** Donor engagements are likely to be contested and may yield unexpected outcomes, making iterative approaches, with room for periodic evaluation and flexibility to alter the approach critical to project effectiveness.

The SCD suggests the following broad principles as overarching implementation considerations for engagements and projects in Solomon Islands:

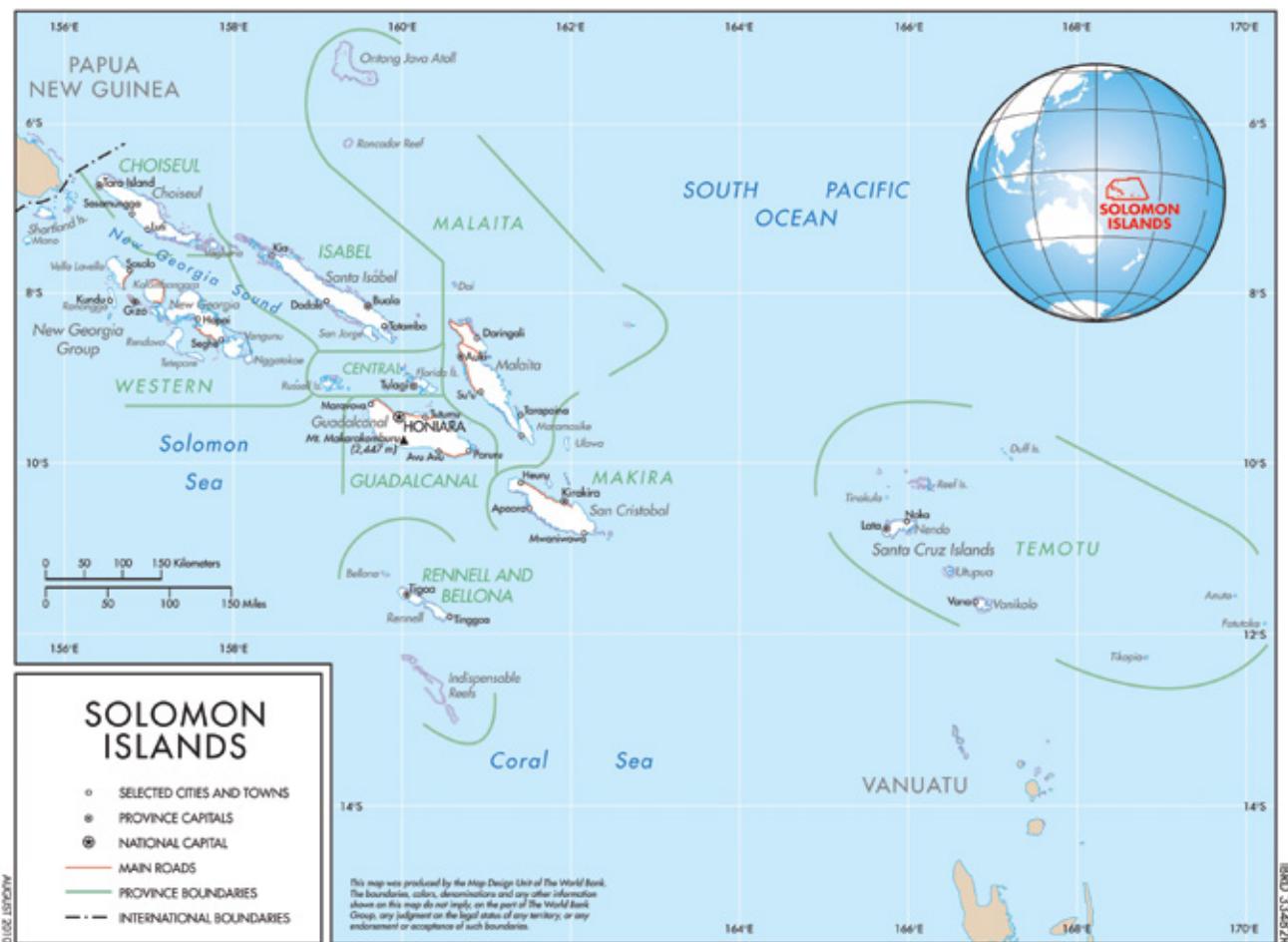
- **Potential engagements should be carefully screened for fragility risks, upstream.** Donor engagements may exacerbate drivers of fragility, conflict, and violence if benefits are distributed unevenly across existing social fractures. Dedicated resources for fragility analysis will be important, and the analysis must occur upstream to enable sectors and approaches to be chosen in light of fragility risks.



Solomon Islands is a small, remote archipelago in the South Pacific that faces a fairly unique set of development challenges (Figure 1). Following a period of civil conflict that was brought to an end through international intervention in 2003, the economy has grown at an average annual rate of 5.5 percent. This relatively strong aggregate growth performance masks some key problems. First, growth has declined recently, averaging only 2.9 percent for the last four years, while the population has continued to expand at about 2 percent per year. Average per capita incomes are still lower today than they were before the conflict began nearly two decades ago. Second, the biggest driver of growth in the post-conflict period has been logging, which has occurred at a grossly unsustainable rate and is expected to decline sharply

during the next decade. Solomon Islands thus faces a pressing need for new sources of growth, but these are highly constrained by its economic geography. Third, poverty remains extensive, despite having declined considerably since the end of the conflict. An estimated 25.1 percent of Solomon Islanders live below the international US\$1.90 per person per day poverty line in 2011 purchasing power parity terms, and 56.7 percent live on less than US\$3.10 per person per day. Fourth, providing access to basic services is extraordinarily challenging, given the small population scattered very thinly across this vast archipelago. Fifth, there are major sources of fragility in Solomon Islands, particularly arising from the limited reach and effectiveness of the state, from development that is very uneven across space, and from climate change.

Figure 1: Map of Solomon Islands



2. Solomon Islands is now at a critical juncture in its development trajectory. The very high degree of international engagement in the post-conflict period has been considerably scaled back, in terms of both financial assistance and the supplementation of state capacity. At the same time, Solomon Islands is likely to embark on a transition from logging to mining as the key driver of growth. If managed well, this transition offers significant opportunities, yet it is equally subject to significant risks.

3. Neither the economic geography nor the present political economy of Solomon Islands is particularly conducive to the establishment of effective state institutions. The small, dispersed population increases the costs of public service delivery, constrains the reach of infrastructure, and reduces the range of opportunities for private sector development. At the same time, fundamental political economy dynamics militate against the incentives for political elites to invest in effective state institutions and address national-level development challenges. Consistent with Solomon Islands' historical experience, a variety of non-state and international actors are also likely to need to play important roles in managing upcoming socioeconomic changes. The respective roles of different state, non-state, and international institutions are likely to vary by function as well as with geography across Solomon Islands, reflecting the existing diversity in the nature and extent of governance challenges and the different capacities of various actors and institutions to effectively manage them.

4. This Systematic Country Diagnostic (SCD) for Solomon Islands identifies key challenges and opportunities for achieving inclusive and sustainable growth, to accelerate progress toward the World Bank Group's twin goals of reducing extreme poverty and promoting shared prosperity.

The World Bank Group's twin goals mirror the objectives of 'sustained and inclusive economic growth' and of having 'poverty alleviated across the whole in Solomon Islands' *National Development Strategy: 2016-2035* (NDS). The analytical framework adopted for the SCD focuses on potential contributors to reduce extreme poverty and promote shared prosperity in Solomon Islands across three broad and interrelated pillars: (a) strengthening the foundations of well-being; (b) achieving inclusive and sustainable growth; and (c) managing uneven development. Economic geography and state fragility are treated as cross-cutting themes. The SCD is structured as follows:

- Section 2 sets out the country context;
- Section 3 presents the analytical framework for the SCD;
- Sections 4, 5, and 6 identify the status, constraints, and opportunities in each of the three pillars; and
- Section 7 identifies key development priorities for Solomon Islands, based on the preceding analysis.



5. **This section provides an overview of the country context of Solomon Islands.** It briefly sets out the interrelationships between economic geography, political economy, and state fragility and explains how these played out in the context of the recent civil conflict. It then outlines key economic and poverty developments in the years since the conflict, before summarizing contemporary sources of risk and resilience.

2.1 Economic Geography, Political Economy, and State Fragility

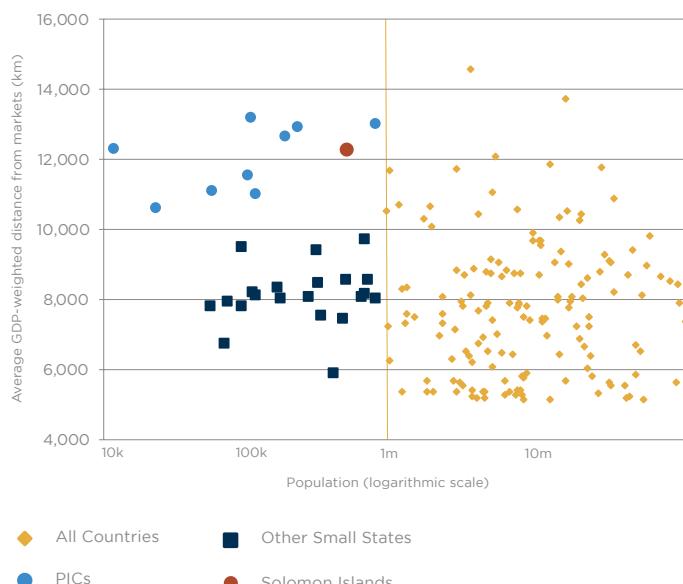
6. **Economic geography, political economy, and state fragility are fundamentally interrelated in Solomon Islands.** These factors have combined to shape the recent economic development and conflict in Solomon Islands and will continue to shape its future development opportunities, constraints, and risks.

Economic Geography

7. **The economic geography of Solomon Islands is unusually challenging.** Not only is it a very small state with a population of around 584,000,¹

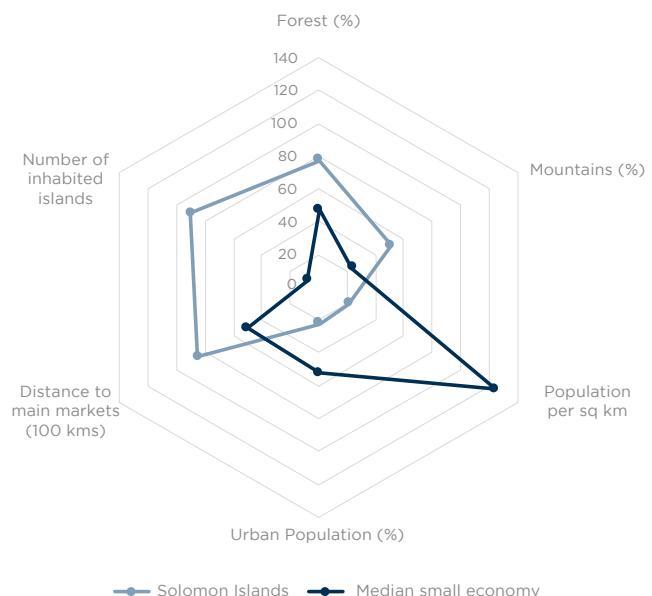
it is also extremely remote—being among the ten countries in the world that are most remote from large markets, as measured by GDP-weighted distance (Figure 2). In addition, it exhibits a high degree of internal dispersion and division (Figure 3). Its territory consists of nearly 1,000 islands with a total land area less than half the size of Tasmania, scattered across a vast area of ocean: from Choiseul in the northwest, to the Santa Cruz Islands 1,500 km to the southeast (roughly equivalent to the distance between London and Rome). The population is scattered across some 90 of the islands in the archipelago, with a population density of only 20.8 people per km². The population is divided not only by the ocean between islands but by mountainous terrain within most islands. A combination of steep topography, poor soils, and very high average levels of rainfall in many places means that agricultural land represents only 3.9 percent of the total land area. Nearly 80 percent of the population reside in rural areas, with rural villages often comprising fewer than 20 households. The people are mainly Melanesian, with small Polynesian and Micronesian communities, as well as small Asian (mainly ethnic Chinese) and Caucasian migrant groups. Some 70 distinct languages are spoken in Solomon Islands, with Solomon Pijin the *lingua franca* and English the official language.

Figure 2: Size and remoteness from major markets



Source World Bank 2011

Figure 3: Internal division and dispersion²



Source WDI

¹ This estimate is the latest reported in the WDI for 2015. The Solomon Islands National Statistics Office (SINSO) estimates the population at 642,000 for 2015.

² Note that the number of inhabited islands comparator is only for small economies that are island states.

8. This economic geography has profound implications for private sector activity and public service delivery in Solomon Islands. Small states that are near large markets can still take advantage of economies of scale in production through specialization and trade, but high transport costs undermine the extent to which openness can offset the disadvantages of smallness for states that are remote from large markets.³ High transport costs for all traded inputs and products, together with lack of economies of scale in the provision of the basic infrastructure required for private sector activity, push up the total cost of goods and services in small remote states (see Box 1). This limits their export industries to those that can secure premium prices in global markets, such as natural resource-based industries or industries catering for niche markets.

It also reduces the extent to which these states are likely to be able to realize agglomeration effects, including the productivity benefits of knowledge spillovers between firms and workers. Internal dispersion and division exacerbate these disadvantages by fracturing the already small domestic market, further increasing the already high costs of basic infrastructure provision and militating against the global appeal of locating production in such states. The combination of small size, remoteness, and internal dispersion and division can also prevent the realization of economies of scale in the provision of many types of infrastructure (for instance, energy and international ports) and public services (for instance, regulatory frameworks and general policy making), making their provision disproportionately costly.⁴

BOX 1

PACIFIC FUTURES AND PACIFIC POSSIBLE

The World Bank's Pacific Futures (2011) and Pacific Possible (2017) work recognizes the structural barriers to international competitiveness and economic growth in the Pacific Islands posed by small population size, remoteness from major markets, and internal dispersion and division. It also recognizes the constraints posed by their vulnerability to external shocks and environmental fragility. Since these structural barriers undermine global competitiveness in manufacturing and service industries, this work suggests that potential drivers of growth in the Pacific Islands will be limited to a few sectors where natural endowments enable these structural barriers to be overcome, because the rents that can be generated from these geographically specific natural endowments can potentially cover the higher production costs. This work focuses on fisheries, minerals, and tourism and also emphasizes the importance of international labor mobility and long-term, predictable, and significant levels of aid provided through country systems for improving the living standards of Pacific Islanders.

9. Economic geography clearly shapes the structure of the economy in Solomon Islands and the way it is integrated into the global economy.

The largest sector of the economy is the agriculture, fisheries, and forestry sector (Figure 4). It is dominated by smallholder agriculture (subsistence and cash crop) and subsistence fisheries, as well as by logging. The scarcity of large areas of reasonably flat agricultural land means that large-scale agriculture plays a fairly limited role. The services sector is the second largest sector, within which public administration is significant but tourism-related services are still very modest. The industrial sector is extremely limited (but does represent a slightly larger share of the economy when mining is underway). Strikingly, there has been no structural transformation of the economy over the four decades since independence in 1978. The significant changes that have occurred have been the growing importance of logging in the agriculture, fisheries, and forestry sector and the

slightly greater importance of public administration in the services sector. The composition of the current account gives an indication of how economic geography affects Solomon Islands' position in the global economy, with foreign exchange receipts dominated by log exports, other commodity exports, services receipts, and aid (Figure 5).

10. The structure of private sector activity and the scope of public service delivery both contribute to uneven development in Solomon Islands.

The state, concentrated in the capital Honiara, has underpinned the growth of an urban service economy, while natural resource extraction has largely occurred in the form of enclaves, amidst an otherwise predominantly rural, subsistence-based economy. At the same time, reflecting the very high cost of providing infrastructure and services to such small pockets of people spread so widely across such divided territory, access to infrastructure and public services has to some extent been concentrated

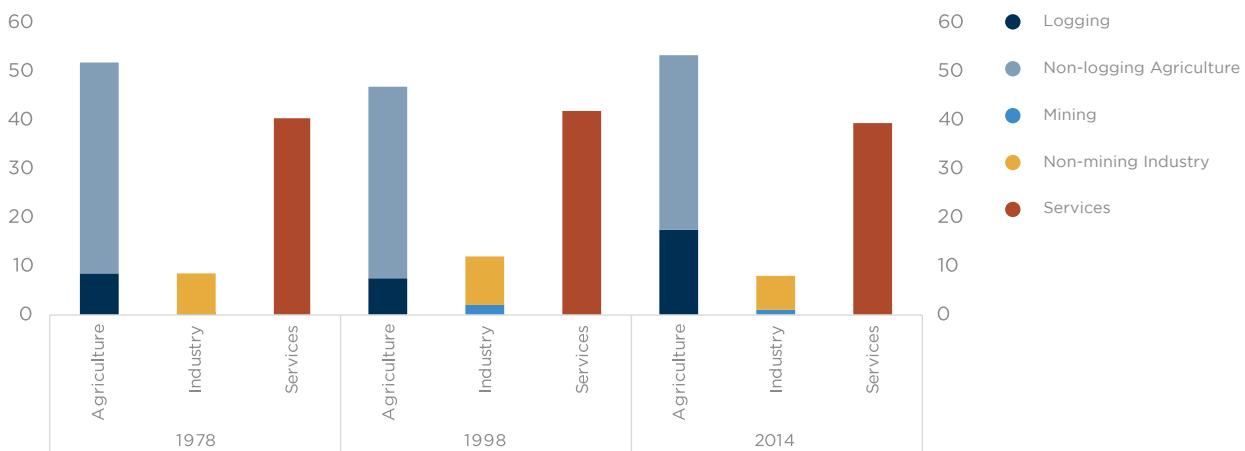
³ Winters and Martin (2004).

⁴ Horscroft (2014).

in Honiara (and to a lesser degree other urban areas) and achieving quality has been a significant challenge, particularly in rural areas. This has accentuated uneven development between urban and rural areas and among different rural areas, through the varying extent of infrastructure and services and the restricted ability of rural people to connect to and benefit from urban and other centers of growth. Comparisons of access to improved water, sanitation, and electricity show stark contrasts between rural areas—where the vast majority of people live—and urban areas (Table 1). Educational levels are also significantly

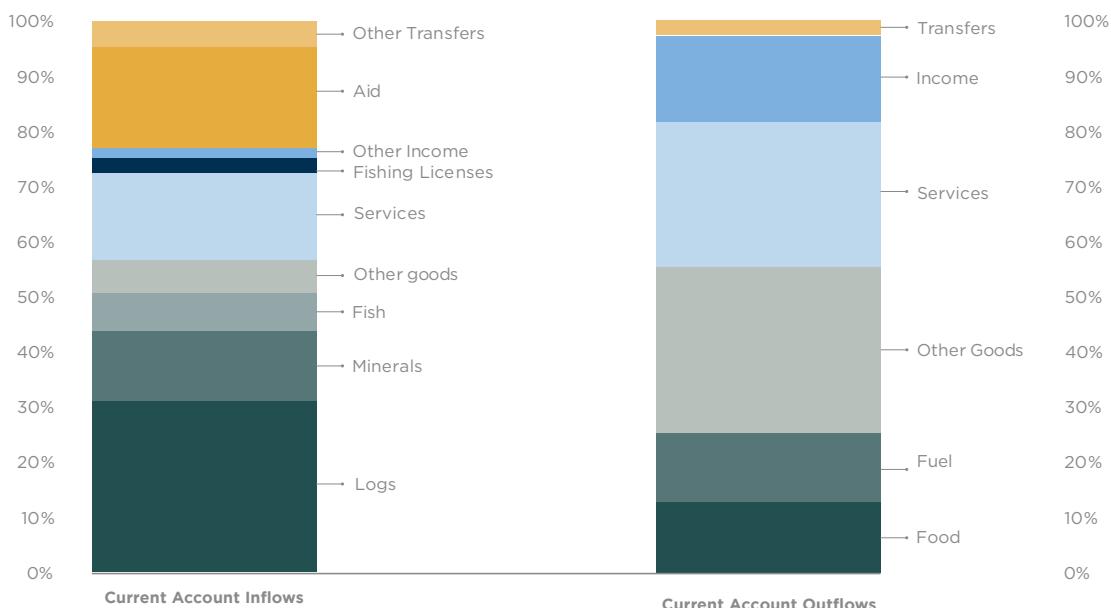
lower in rural areas, with historically poor education quality indicated by low functional literacy rates among adults (7-34 percent, depending on the province).⁵ While health indicators show much less divergence between rural and urban areas—a testimony to the reasonable coverage of health services across the country—rural and urban averages conceal considerable variations between provinces. These issues will be explored in more detail in subsequent sections.

Figure 4: Sectoral composition of real GDP (%)



Source Central Bank of Solomon Islands (CBSI).

Figure 5: Current account composition, 2010–2015



Source CBSI, International Monetary Fund (IMF), World Bank staff estimates.

⁵ Asia South Pacific Association for Basic and Adult Education/Coalition for Education Solomon Islands administered functional literacy tests in Honiara (2007), Malaita (2007), Isabel (2010), and Renbel (2010).

Table 1: Key indicators of well-being

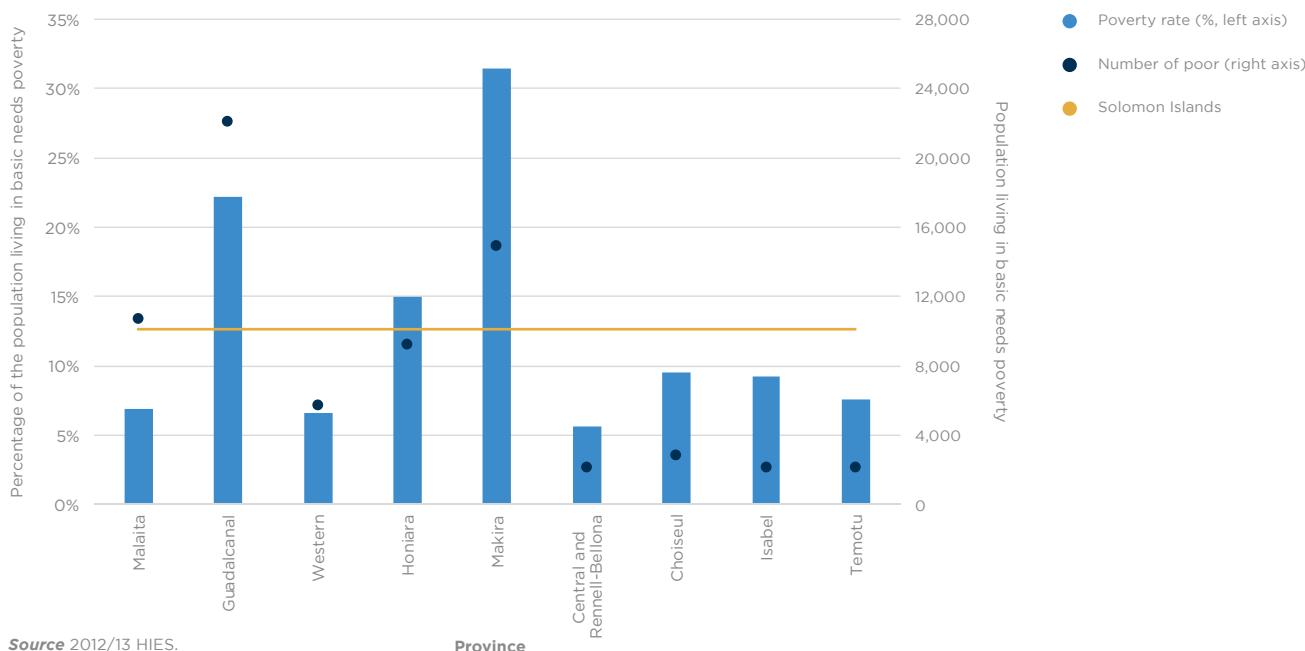
Indicator	Rural	Urban	Total
Improved water source (% of households, 2012/13)	73	92	76
Improved sanitation (% of households, 2012/13)	16	68	27
Electricity for lighting (% of households, 2012/13)	41	60	45
Grid electricity (% of households, 2012/13)	0	50	9
Infant mortality rate (per 1,000 live births, 2007)	27	23	26
Stunting (% of children under five, 2012/13)	38	36	38
Childbirth attendance by skilled personnel (% of births, 2007)	83	94	85
Attended primary school (% of working-age population, 2012/13)	90	96	91
Attended high school (% of working-age population, 2012/13)	42	69	48
Poverty headcount, national food poverty line (% of population, 2012/13)	5.3	0.0	4.4
Poverty headcount, national basic needs poverty line (% of population, 2012/13)	13.6	9.1	12.7

Source World Bank staff estimates based on the 2012/13 HIES; SINSO and World Bank 2015; SINSO 2009; MEHRD 2015a.

11. Provincial-level analysis of the 2012/13 Household Income and Expenditure Survey (HIES)⁶ also indicates uneven development in Solomon Islands, with some significant differences in the incidence of poverty between provinces. As Figure 6 shows, poverty rates are highest in Makira, Guadalcanal, and Honiara.⁷ Based on absolute numbers of poor people, the largest share of the poor live in Guadalcanal, then Makira, Malaita, and Honiara. Thus, even though the incidence of poverty

is estimated to be relatively low in Malaita, its large population still means it has the third largest share of poor people in Solomon Islands. Although there is clearly considerable spatial variation in poverty rates, the dominance of subsistence agriculture and fisheries in rural Solomon Islands likely prevents even larger variation, acting as a floor under the well-being of rural Solomon Islanders, however disconnected they may be from centers of growth.⁸

Figure 6: Basic needs poverty across provinces, 2012/13



Source 2012/13 HIES.

⁶ This SCD draws heavily on World Bank staff analysis of unit-record data from the 2012/13 HIES. To analyze and disaggregate the data from a welfare perspective, the analysis focuses on the records for which complete consumption aggregates were available (re-weighted appropriately). As a result, some indicators might deviate slightly from equivalent statistics published elsewhere (such as SINSO's comprehensive HIES report). The SCD primarily focuses on the national measure of basic needs poverty in examining the nature of deprivation within and across Solomon Islands. The global poverty rates referred to earlier (based on the 2011 purchasing power parity US\$1.90 and US\$3.10 lines) are used to provide an international perspective only.

⁷ During the 2012/13 HIES, economic activity in parts of Makira was affected by flash floods, landslides and cyclone damage, so the reported high incidence of poverty might not be found in a different year.

⁸ Preliminary formulations of poverty maps constructed using small area estimation techniques also show considerable spatial variation in poverty. Wards with relatively high rates of poverty are found in seven of the nine provinces, including constituting half of the wards of Honiara.

Political Economy⁹

12. In Solomon Islands, the main holders of political and economic power have not forged a long-term political settlement in favor of investing in effective state institutions. Internationally, effective state institutions have typically emerged through the gradual institutionalization of bargains among and between elite coalitions, often in the presence of external or internal security threats.¹⁰ Such durable and institutionalized pact formation allows political elites to extend their time horizons for political action and creates a joint interest between political and economic elites in securing resources to build and consolidate stable state structures. The political economy of Solomon Islands actively militates against such stable pact formation, with weak, non-durable, and monetized transactional linkages between economic and political elites instead. Class-based social and ideological divisions remain largely absent, ethno-linguistic fragmentation remains salient, and the existence of an external security guarantee reduces the extent of common threats to political and economic elites that might otherwise facilitate more durable pact formation. While the political economy of Solomon Islands has proven extremely durable over time, the policy arena is by no means uncontested—with some dynamic and effective elements of civil society, particularly in Honiara.

13. The way the Westminster-style political system operates in Solomon Islands involves a disconnect between voter choice and the government that results. Solomon Islands has a unitary form of government, with national Members of Parliament (MPs) elected from 50 single-seat constituencies on the basis of first-past-the-post ballots.¹¹ Following elections, a now highly institutionalized process governs the formation of government, with different political factions attempting to attract a sufficient number of MPs to form a ruling coalition. Cabinet positions, policy concessions, property, cash, vehicles, and mortgages are traded, with business elites—especially logging interests—actively involved in the process.¹² Programmatic political parties are effectively absent,¹³ with electors voting for individual MPs and those MPs then bargaining over government formation.¹⁴ Thus, during elections people have no way of knowing who they are voting for as Prime Minister. As well as lacking this key accountability linkage between voter choice and the government that results, the system as

practiced entails considerable instability. Floor crossing has been frequent, with only two post-independence governments ever seeing out a full parliamentary term. The electoral system is also highly skewed against Honiara: at the time of the 2009 census, nearly 16 percent of the population resided in Honiara, but it has only 6 percent of the parliamentary seats.

14. These political institutions intersect with and reinforce a social context in which local identities and affiliations are predominant. The presence of some 70 distinct living languages in Solomon Islands gives some indication of the historical fragmentation of the population, which ethnographic research suggests was characterized by diverse, fluid, decentralized, and relatively egalitarian small-scale societies in pre-colonial times. Primary identities tended to reside locally, with extended kinship groups. Wider and often mutually inimical island or regional-scale ‘ethnic’ identities emerged during the colonial era, largely through the experience of migrant labor and plantation work, and intensified in the years surrounding independence.¹⁵ However, in general, colonial rule did little to alter the predominance of localized identities and little to promote any form of national identity.¹⁶

15. The resultant political system is one dominated by local—rather than national—concerns. The support base of MPs depends primarily on what they can deliver to their constituents. Given both the absence of programmatic political parties and the limited reach and effectiveness of the state, that depends primarily on what MPs can deliver directly to their constituents, not on what state institutions can deliver to them (over which MPs have little control individually, nor much scope for claiming credit personally even if they could influence it). Voters, in turn, have come to judge their MPs, “on how well they deliver private goods or localized public goods to their constituents.”¹⁷ These systems and imperatives have spurred the growth of Constituency Development Funds (CDFs), which provide MPs with discretionary funds to direct to their constituents. These now account for about a third of the capital budget and nearly a tenth of total expenditure, have become highly institutionalized, and dominate the attention and interest of MPs.¹⁸ In this context, it is difficult for those who lack access to cash (for instance, in the form of logging royalties, land rents, contributions from businesses, or CDFs themselves) to enroll the necessary support to be elected, disadvantaging women and youth

⁹ This section draws heavily on Craig and Porter (2014), Allen (2017), Haque (2012), and Bennett (2002).

¹⁰ See, in particular, Craig and Porter (2014), drawing on Khan (2010), Slater (2010), and North, Wallis, and Weingast (2013), as well as WDR2017.

¹¹ The lower tier of government consists of nine provincial authorities (formerly colonial administrative units) and the Honiara City Council (HCC). Each has an elected assembly, but these authorities are established under legislation, and the central government has retained tight control over their executive and legislative functions.

¹² Bennett (2000, 2002), Allen (2011), Craig and Porter (2014), and Allen (2017).

¹³ Programmatic political parties are parties with credible stances on broad public policies, whose organizational arrangements allow them to ensure that candidate preferences coincide with party preferences (Keefer 2011).

¹⁴ Only once has a single party government—rather than a coalition—emerged following an election.

¹⁵ Migrant labor primarily involved men from Malaita and Guadalcanal, with a number of plantations in ‘the West’ (Western and Choiseul provinces), producing the three dominant island or regional ‘ethnic’ identities.

¹⁶ Except for the sphere of law and order, the colonial state had very limited reach—and even in this basic respect, it relied heavily on local governance systems to maintain public order. In the early independence period, the state expanded education provision through provincial government-run schools, but it retreated from the sphere of law and order, leaving little in the way of public authority in the lives of most Solomon Islanders.

¹⁷ Wood (2014).

¹⁸ For a considered view of the system from the perspective of an MP, see Hou (2016).

relative to senior males. As a result, MPs are nearly always senior males—and they are also nearly always indigenous Solomon Islanders, rather than from ethnic groups that are the main holders of economic power (see below).¹⁹ Though often residing in Honiara themselves, 94 percent of MPs depend on rural ties for electoral support (this includes ethno-linguistic ties to other urban dwellers with kinship ties to their constituencies and who return there to vote at election time, at the expense of MPs). The greater ability of voters to secure the interest of MPs through smaller rural constituencies and the reliance of nearly all MPs on localized ethno-linguistic ties for support helps reinforce the salience of local ethno-linguistic identities.

16. All of the above factors contribute to a situation where political elites tend to lack a strong interest in investing in effective state institutions.

The current political system reflects the absence and precludes the emergence of programmatic political parties. Political parties exist more as opportunistic coalitions of MPs, held together by transactional bargaining and subject to frequent defections. In other country contexts, programmatic political parties have served to structure the incentives of individual MPs around broader ideological or policy goals. Without stable pacts that extend political time horizons and facilitate collective action at the national level, political elites in Solomon Islands appear not to regard performance by the formal machinery of government as an appealing way to gain or retain public office. This contributes to the under-investment of resources and political attention in effective state machinery, which further reduces the appeal to MPs of basing electoral claims on national policy and the functioning of state institutions rather than on parallel systems like CDFs.

17. In parallel, the main holders of economic power in Solomon Islands have not had a strong interest in supporting broader forms of public authority either.

Although MPs typically have business interests in one form or another, they do not tend to be the main holders of economic power in Solomon Islands. Instead, there is a distinct cleavage between political and economic power holders, across which no stable pact has been formed in favor of investing in effective state institutions. Domestically, economic power holders are mainly ethnic Chinese—some well-established in Honiara for generations (tending to dominate real estate, trade, and other sectors of the urban service economy), and newer arrivals who are challenging the business interests of the earlier arrivals. But the main economic power holders are foreign: in logging, Malaysian and Indonesian companies; in mining, until recently an Australian corporation in the case of the Gold Ridge mine, and Malaysian and Indonesian loggers-turned-miners in the case of

bauxite mining on Rennell Island, with prospecting licenses predominantly held by Asian companies. Loggers have long had a strong interest in a state with minimal regulatory power, a situation that parallels some of the mining interests that have operated to date. Real estate and trade interests in Honiara have also had little interest in effective state institutions beyond sufficient stability to avoid major civil unrest (which Regional Assistance Mission to the Solomon Islands (RAMSI) has largely provided since 2003), benefiting from weaknesses in tax administration and sourcing their security privately. Rather than institutionalizing pacts that support the core machinery of government, the primary interactions between economic and political elites have institutionalized highly transactional relationships that often corrode state effectiveness and the rule of law, with economic elites providing financial support to current or prospective MPs in return for specific privileges, contracts, or concessions. Most MPs rely—at least to some extent—on the financial support provided by business elites to maintain their political support among constituents and fellow MPs. Individual MPs that move against business interests risk losing access to these financial resources, opening opportunities for political rivals to contest their constituency or their position within the ruling coalition. Business elites have become adroit at exploiting this collective action problem to oppose policies or administrative decisions that run counter to their interests. Governments that attempted to assert control over loggers in the 1990s, for instance, were brought down by logging money-induced defections.²⁰

18. While these fundamental political economy dynamics of Solomon Islands have proven extremely durable over time, they are by no means uncontested.

Civil society may be quite thin, but it has some dynamic and effective elements. Forum Solomon Islands International, an advocacy group that fosters debate on social, political, and economic issues, has online forums with relatively large numbers of followers that are also beginning to engage the interest of MPs. Transparency Solomon Islands has successfully challenged legislation in the courts. And the Solomon Islands Chamber of Commerce and Industry regularly calls for greater transparency, formal dialogue, and accountability in policy making. In addition, the media frequently reports on political and official corruption, disputes over the use of CDFs, and other contentious issues. While women and youth have very limited voice in national politics, part of the attraction of urban relative to rural areas for them is the increased scope to voice their concerns and some degree of freedom from the constraints of rural life. In public service jobs, in particular, as well as in a degree of entrepreneurial advancement and roles in civil society and media, there are opportunities for empowerment for women and youth. Without taking

¹⁹ All but three MPs since independence have been male, and only on very rare occasions has an MP of an ethnicity other than Solomon Islander been elected. (Women have had greater levels of representation in provincial governments, but the provincial government system is weak relative to the central government.)

²⁰ Bennett (2000, 2002), Allen (2011), and Allen and Porter (2016).

away from the social innovation seen in some rural areas, Honiara offers a critically important space for enhancing contestation over public policy.

19. The lack of a political settlement between the main political and economic power holders in favor of investing in effective state authority has combined with the economic geography of Solomon Islands to limit the reach of the state. The extent of state reach varies considerably by function, sector, and place. Beyond urban areas, there is scant presence of state authority in support of law and order or justice. Instead, non-state forms of authority—particularly customary and church systems—are predominant. In contrast, public health system coverage is reasonably good, with the majority of people about a half-hour walk from some form of facility (though it may not be adequately staffed or resourced). Some three-quarters of rural children can walk to primary school in half an hour (though a third of primary schools are church rather than state schools), but half of secondary students have to live away from home for school. Water, sanitation, waste disposal, and energy utilities are largely absent beyond urban areas. To facilitate access to the state and its services, connective infrastructure is critical. An estimated 77 percent of the rural population is within reach of a road, which connects people to the coast and the maritime transport that is the primary mode of transport for people and goods. While road and maritime connections may make local urban centers reasonably accessible, many island groups have only monthly shipping services to Honiara, limiting their access to services (and markets). In the regulatory sphere, as subsequent sections will explore, the reach of the state is quite limited in key areas like land and natural resources. Patterns of state reach can of course change over time, for instance with better transport connections to urban centers, greater urbanization, more decentralized service provision, or the growth of economic sectors with different political economy dynamics from the current ones.

Drivers of Fragility, Conflict, and Violence²¹

20. In the late 1990s, Solomon Islands entered a period of conflict known as the ‘ethnic tension’, the key drivers of which—contested state legitimacy, uneven development, poorly managed urbanization, and contested control over land and natural resources—remain present today. In the years preceding the tension, debates about state legitimacy, the division of power, federalism, and provincial succession were commonplace among political elites. Economic growth, though rapid in the first half of the 1990s, was highly uneven, driven by logging and to a lesser extent by mining and the expansion of Honiara’s service economy. Inequities were particularly pronounced on Guadalcanal, with a stark contrast between the wealth generated

in Honiara and at the foreign-owned Gold Ridge mine and oil palm plantation in the north, and the poverty and hardship faced by people from the remote Weather Coast in the south. Urbanisation was rapid, with the majority of migrants coming from Malaita and dominating the workforce of Honiara, Gold Ridge, and the oil palm plantation. As informal settlements on public land within the city boundaries of Honiara became overcrowded and families joined workers at Gold Ridge and the oil palm plantation, settlements spilled onto peri-urban land in Guadalcanal Province. Some of this had been alienated before independence, but some was customary land, owned by Guale (people from Guadalcanal) under a matrilineal system that could accommodate access to land but not permanent transfer. Migrants—mainly from Malaita where land is patrilineal and transfer was not unknown²²—typically negotiated access with Guale landowning groups through systems of reciprocal gift exchange and social obligation or through intermarriage. These understandings were vulnerable to destabilization as new arrivals joined—and a new generation succeeded—those who had negotiated the land access initially and as perceptions developed that over time migrants had begun to disrespect local *kastom* (chiefly) laws and practices and apply their own.

21. The proximate factors precipitating the tension included the end of the logging boom, the crisis in neighboring Bougainville, and the role played by ‘conflict engineers’. The logging boom ended with the Asian Financial Crisis in 1997, provoking a fiscal crisis and curtailing the rents that had been funding exchanges between loggers, MPs, and their supporters. In the context of the fiscal crisis, the government cut public service jobs (cuts that continued as a condition of external adjustment assistance in 1998), sought to increase the determined price of logs, cut grants to provincial authorities, and suspended the area councils that served as local-level public authorities—marking a further retreat of the state in the area of law and order. In the context of the Bougainville crisis, a paramilitary wing of the police had been formed and armed by the mid-1990s to respond to the conflict spilling over the border, while at the same time thousands of displaced Bougainvilleans took refuge primarily on Guadalcanal, sharing stories of evicting migrant workers on their land and fighting for a fairer share of mining revenues. Though contested, it is more likely than not that political elites actively contributed to the mobilization and arming of Guale and Malaitan militant groups in pursuit of their own political and economic interests.²³ In 1998, the Guadalcanal Premier put forward a set of demands on behalf of the Provincial Assembly for the removal of ‘illegal’ settlers, as well as Honiara and other major developments, from Guadalcanal and the adoption of a federal system. When the

²¹ This section draws heavily on Allen (2017), as well as Evans (2017), Dinnen, Porter, and Sage (2010), Coppel (2012), Bennett (2002), and Craig and Porter (2014).

²² Allen (2017).

government did not respond, young Guale men mainly from the Weather Coast mobilized and targeted Malaitan settlers, drawing on a narrative of the exploitation of their land and resources by outsiders that had been forged alongside the island-scale Guale identity during the colonial-era migrant labor experience. Young Malaitan men mobilized in response, drawing on a counter-narrative of the enduring neglect of Malaita, and the unrecognized contributions of Malaitan labor to building the Solomon Islands, also forged during the colonial era. They were mainly from the more densely populated and impoverished areas of northern Malaita (and increasingly also from Honiara), obtaining weapons from the Malaitan-dominated paramilitary wing of the police. Approximately 35,000 migrants—mainly Malaitans—were displaced from their homes on Guadalcanal in a low-intensity conflict that lasted five years, cost an estimated 200 lives, and involved widespread sexual violence against women and girls. Particularly after the signing of a peace agreement in 2000, access to compensation payments became a key motivation of militants and political elites, and the conflict was increasingly characterized by criminality. While the Gold Ridge mine, oil palm plantation, and many other aspects of the market economy (including copra exports) ceased during the tension, logging continued in most provinces except Guadalcanal. State services were weakened to the point of collapse, especially in areas where the conflict occurred. Solomon Islanders endured the conflict as well as they did, largely through retreat into subsistence agriculture and fisheries.

22. The conflict ended in 2003 as a result of an Australian-led regional military intervention, restoring law and order, stabilizing government finances, and rebuilding the central state. RAMSI was primarily a law and order intervention accompanied by machinery-of-government support to underpin stability and the delivery of public services.²⁴ Rather than RAMSI having an explicit mandate to tackle the underlying drivers of the conflict, it was implicitly expected that security and service delivery would promote greater social inclusion and lead to a liberal political settlement.²⁵ RAMSI brought the conflict to an end, successfully removed most weapons from the community, supported prosecution of ex-militants, police, and eventually politicians and senior public servants implicated in the conflict and associated criminality and corruption, and rebuilt national institutions.²⁶ Unusually for a post-conflict setting, Solomon Islands has been largely peaceful since the end of the conflict, with incidents involving firearms infrequent, transitions of political power occurring in

accordance with electoral rules, and sporadic large-scale protests that have taken place since 2003 not triggering the return of conflict.²⁷

23. Trends in government effectiveness since the end of the conflict present a mixed picture. In the wake of the conflict, the international community played a significant role in governance in Solomon Islands, with development partners—particularly Australia and New Zealand—jointly involved in the management and operation of key state functions. This was most evident in security and policing, but extended in various degrees to finance, revenue, customs, justice, health, and education. Over time, most of these engagements have become more typical technical assistance engagements, with a reduced presence of expatriates in in-line roles. However, one unintended consequence of the strong development partner presence in the state, seems to have been the dulling of the already limited incentives of political elites to take responsibility for the effective functioning of the state.²⁸ Instead, political attention and public resources have been increasingly channeled into parallel systems like CDFs that bypass the state proper (including its increasingly strong financial management provisions, supported by development partners). At the same time, development partners—increasingly frustrated by the lack of efficacy of state institutions under the control of the executive—have sought to create special purpose entities to insulate particular state functions, finances, and staff from politics (for instance, the National Transport Fund).²⁹ Parallel systems may be the most effective way to provide key functions and services, but there is often a trade-off with the risk they contribute to the underlying problem of a weak core state or raise expectations of service standards the state lacks the capacity and resources to sustain. The resultant state in Solomon Islands exhibits a high degree of fragmentation and an array of parallel systems, with many well-functioning pockets within or alongside it but a pronounced lack of overall coherence—unsurprisingly, given the immense management challenges of such a situation and the overload of activity relative to the capacity of the core state system. Overall, Solomon Islands has exhibited mixed trends on governance indicators, with few clear signs of improvement (Figures 7 and 8).

²³ Allen (2017).

²⁴ See Coppel (2012), who describes the primary task under RAMSI's civil order mandate as reestablishing security in Honiara and the main tasks under the economic mandate as stabilizing government finances and promoting longer-term economic recovery and revived business confidence through the pursuit of economic reforms and the rebuilding of the essential machinery of government to support stability and service delivery.

²⁵ A Truth and Reconciliation Commission took place from 2010 to 2012, but its final report was never released (leaving a number of civil society actors concerned about the non-resolution of these issues) and its efficacy in the wake of the intense prosecutorial activity that preceded it has been questioned (Allen 2017).

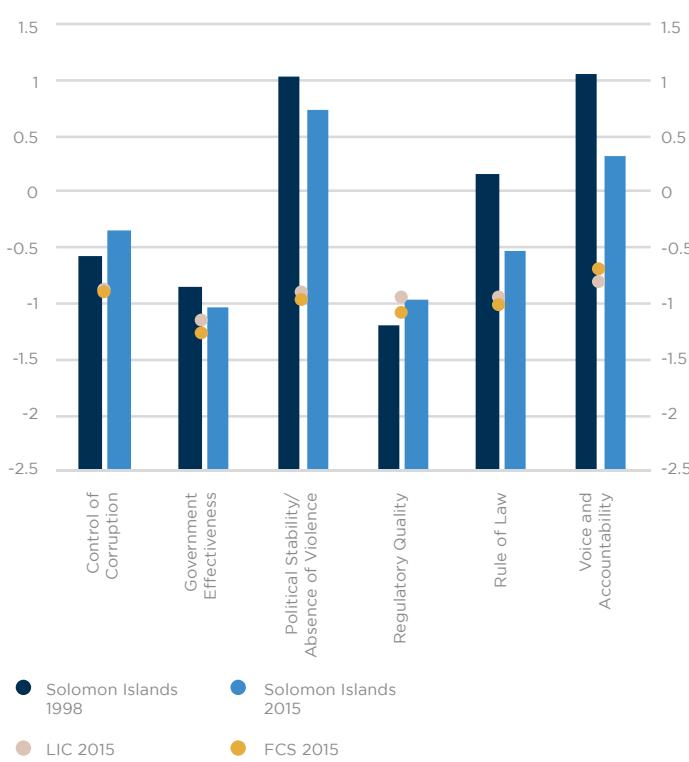
²⁶ Dinnen, Porter, and Sage (2010).

²⁷ Coppel (2012).

²⁸ Craig and Porter (2014); Haque (2012).

²⁹ Dinnen, Porter, and Sage (2010); Haque (2012, 2013); Craig and Porter (2014).

Figure 7: World Governance Indicators – changes and comparators

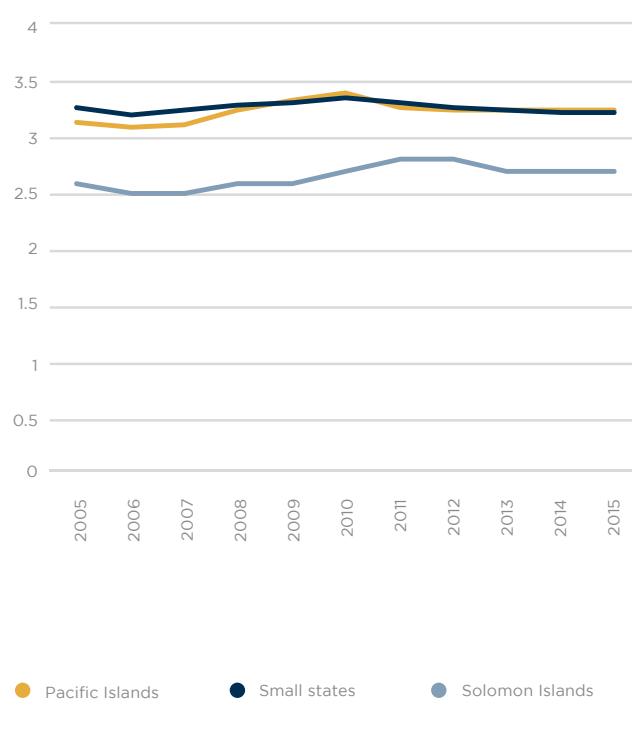


Source World Bank.

Note The scale is -2.5 (worst) to +2.5 (best).

LIC = low income countries; FCS = fragile and conflict-affected states.

Figure 8: Country Policy and Institutional Assessment public sector management and institutions scores - changes and comparators



Source World Bank.

Note The scale is 0 (worst) to 6 (best).



2.2 Post-conflict Developments

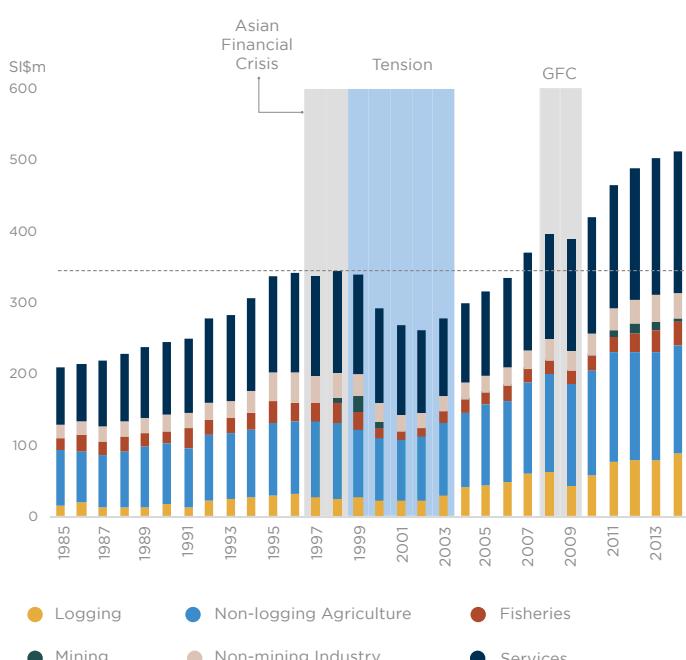
24. Since the tension, Solomon Islands has made substantial progress with economic development and poverty reduction, but that progress has been quite uneven across space and between genders. The conflict has cost Solomon Islanders dearly in economic terms, with people poorer on average today than they were two decades ago before the conflict. There is a pressing need to develop additional sources of growth and to preserve fiscal stability. There is also a pressing need to strengthen resilience and mitigate some of the stark socioeconomic inequities between urban and rural areas, across provinces, and between genders.

Post-conflict Economic Developments

25. In the period since the tension the economy has grown quite strongly, driven by logging, agriculture, and the post-conflict expansion of public sector spending. Indicating one aspect of the cost of the conflict, by 2002, real GDP was 24.4 percent below what it had been in 1998. Over the next six years, GDP grew by an average of 7.3 percent per year and, after a modest contraction in 2009 caused by the Global Financial Crisis (GFC),

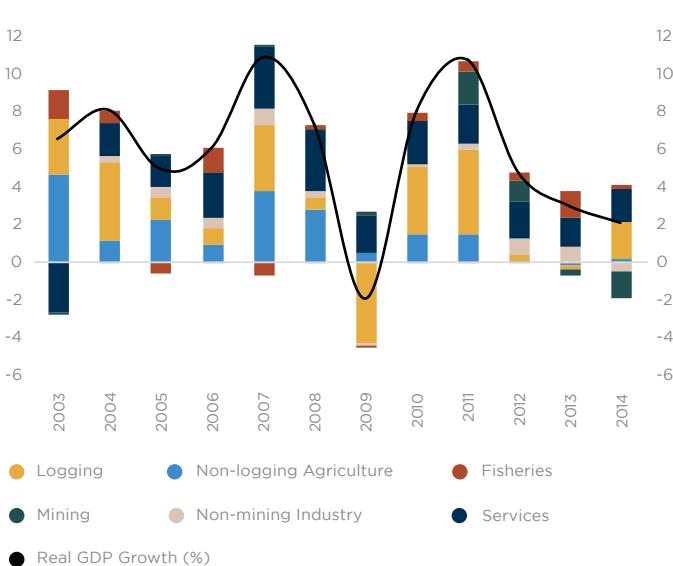
it has since grown by an average of 5 percent per year (Figure 9). The largest single contributor to GDP growth since the tension has been logging, accounting for 26.5 percent of the overall increase in real GDP between 2002 and 2014 (Figure 10). Over this period, log production increased by nearly 10 percent per year on average, with rates of extraction significantly exceeding the estimated sustainable yield. Log exports are almost wholly dependent on the market in China (the channel through which the GFC caused the economy to contract in 2009). The services sector as a whole has also made a significant contribution to post-conflict growth (33.8 percent of the overall increase in GDP), driven by the post-conflict expansion of public sector spending as well as international community spending outside government systems.³⁰ The agriculture sector (excluding logging) has also made a significant contribution to growth (24.5 percent of the overall increase in GDP), including from the post-conflict resumption of copra production and reopening of the oil palm plantation. The temporary resumption of mining at Gold Ridge contributed to growth in 2011–12, before detracting from it in 2013–14.

Figure 9: Real GDP, 1990–2016 (constant 1985 prices)



Source CBSI.

Figure 10: Sectoral composition of real GDP growth (%)



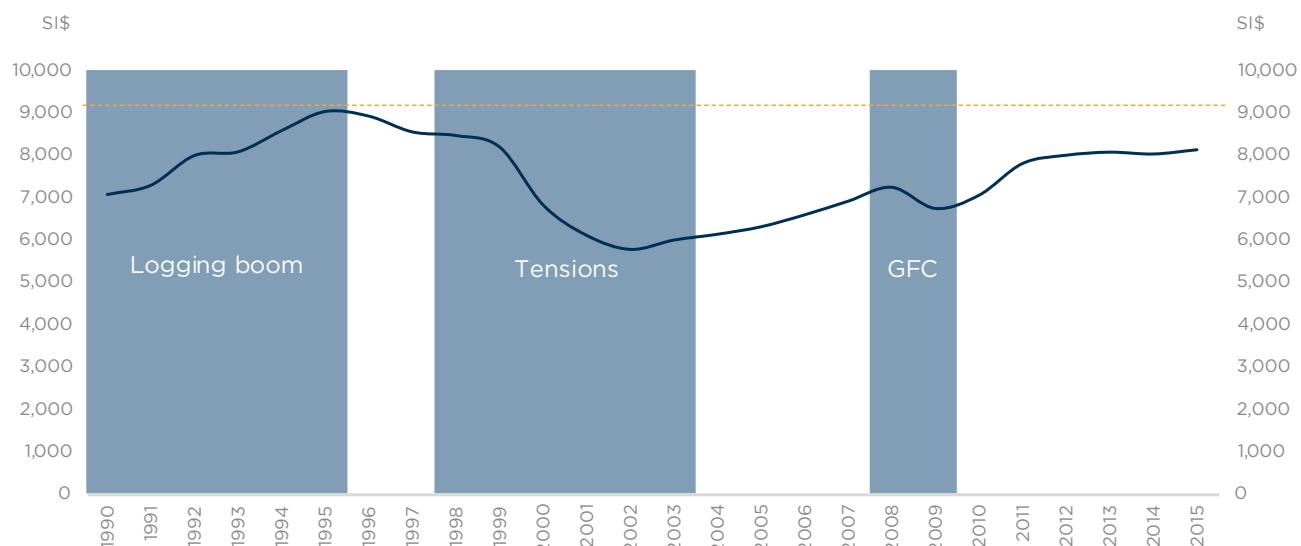
Source CBSI and World Bank staff estimates.

³⁰ Limitations on the comparability of the preferred source of sectoral growth data and the only source of sub-sectoral growth data means it is not possible to present disaggregated data for the services sector in Figure 10.

26. Although real GDP surpassed its pre-conflict peak in 2007, real GDP per capita has still not surpassed its pre-conflict peak. That is, on average, Solomon Islanders are still poorer today than they were two decades ago (Figure 11). This striking circumstance is due to two factors: first, the low base of GDP per capita at the end of the tension (some one-third below its pre-conflict peak); and second, relatively rapid population growth. According to the 2009 census, between 1999 and 2009 the population grew at an average of 2.3 percent annually,³¹ and the age structure of the population was very young (with 59 percent below

age 25). As a result, the average real GDP growth of 5.5 percent annually since the tension equates to about 2.6 percent per year, in per capita terms. Most concerning is the fact that, between 2012 and 2016, GDP growth has averaged only 2.9 percent, with estimated population growth of about 2 percent per year. At this rate, it might be another decade before real GDP per capita surpasses its pre-conflict peak. It is hard to imagine how that kind of outlook could meet the expectations of Solomon Islanders in respect of rising living standards.

Figure 11: Real GDP per capita



Source World Development Indicators (WDI).

27. In the period since the tension, macroeconomic stability has been restored. During the tension, declining revenue and reduced expenditure control yielded a sharp deterioration in the fiscal position, resulting in a deficit of 8.3 percent of GDP by 2001. By the end of the tension, the government was in default on all its official debts, and foreign reserves were virtually exhausted. Through the Honiara Club Agreement with its major creditors, Solomon Islands' public debt was written down and a debt moratorium maintained until its risk of debt distress fell from high to moderate. In the post-conflict period, there has been an extraordinary recovery in domestic revenues as well as extraordinarily high levels of development assistance (Figure 12). These resources were used to fund an expansion of public expenditure on service delivery, as well as on CDFs. At least at an aggregate level, budget discipline was maintained and cash

reserves were rebuilt. Supporting these processes, in the first decade after the tension, Australian and New Zealand officials played key advisory and in-line roles in the Ministry of Finance and Treasury (MoFT), especially in the divisions responsible for finance, revenue, and customs. A very limited number of these advisory positions still remain. On the external side, the U.S. dollar-pegged exchange rate was allowed to depreciate significantly and foreign reserves were rebuilt. After the economic contraction in 2009, the IMF provided a Standby Credit Facility in 2010, followed by an Extended Credit Facility which expired at the end of 2015. Between 2010 and 2014, key development partners also provided budget support against a joint set of policy reforms that were heavily focused on public financial management.³²

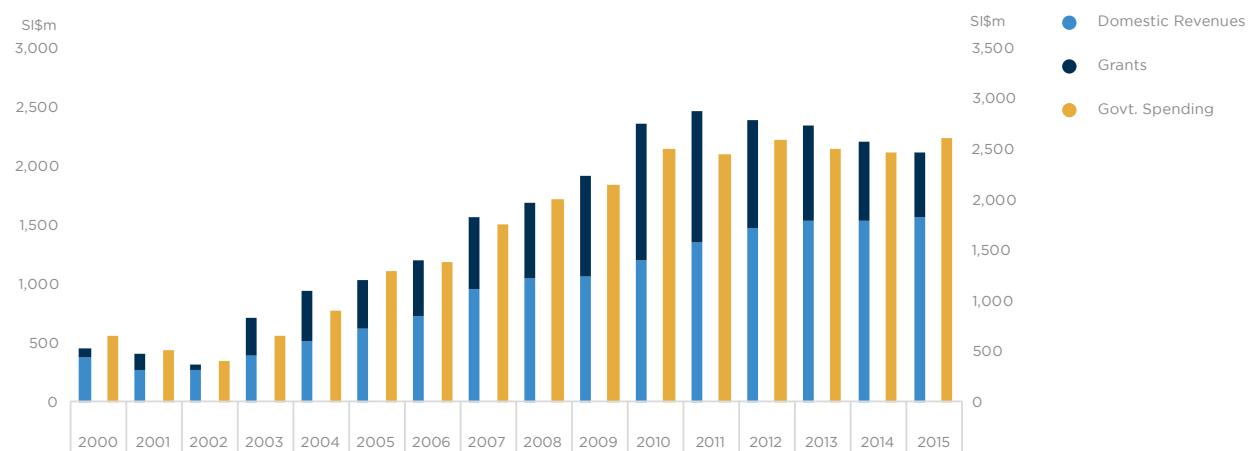
³¹ While this is the official figure published in the 2009 census report, the report notes that there was likely an undercount during the census, resulting in annual population growth for the period being closer to 3 percent.

³² For further information on post-conflict macroeconomic management, see Haque (2013).

28. At the current juncture Solomon Islands faces some pressing economic challenges. The primary one is to develop additional sources of growth, within the constraints imposed on private sector development by economic geography. This is necessary for macroeconomic stability and to provide job opportunities to the young and fast growing population. As Figure 13 shows, the size of the working-age population in Solomon Islands is projected to expand rapidly over the coming decades, providing an opportunity (for growth generated by the expanding labor force) and a risk (if job opportunities are not available for the rising number of job seekers). Given the small

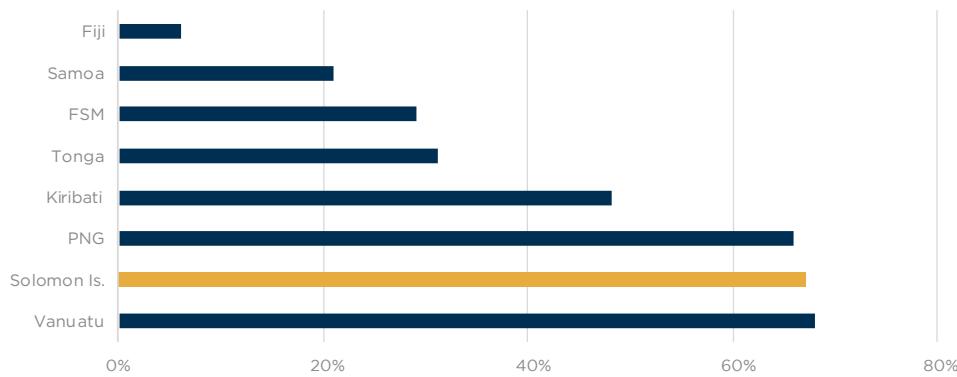
margin between average levels of GDP growth and population growth in the last few years, developing additional sources of growth is a pressing challenge anyway. However, it is made more so by the unsustainability of the growth currently generated by logging, as well as the increased economic impact of natural disasters resulting from climate change. As the SCD will argue, over the medium term, mining appears to be the only industry in Solomon Islands with any prospect of filling the macroeconomic space currently occupied by logging, and it would entail significant macro-fiscal, conflict, and environmental risks.

Figure 12: Total revenues and expenditures (constant prices), 2000–2015



Source IMF, World Bank staff calculations

Figure 13: Projected expansion of working-age population, 2010–2040



Source United Nations (UN) World Population Statistics 2015.

29. A second and related challenge is to address the difficulties of the fiscal position, both immediately and through the potential transition from logging to mining. In the immediate term, the government faces the difficulty of financing its deficit. Aid has declined sharply from its peak of 31.1 percent of GDP in 2010 to an estimated 12.2 percent of GDP in 2016 (where it is expected to remain over the near term). In the earlier stages of the decline, rising domestic revenues enabled real expenditure to be roughly maintained, without fiscal deficits. However, domestic revenues have since stabilized in real terms and, from 2015 onward, the government has run down its cash balances to finance its deficits. Those

cash balances are expected to be exhausted in 2017. Managing the fiscal situation is thus an immediate challenge. It will be compounded by the decline of logging, which currently provides 15–20 percent of domestic revenues directly, in the form of duties on log exports. Since the timing and rate of the decline of logging is unknown, it is also unknown whether investments in large-scale mining—if forthcoming soon—will yield growth, exports, and royalties for the state in time to offset that decline or whether there will be a significant gap. These challenges and uncertainties are made more concerning by the winding down of development partner support for the revenue administration, and—on the

expenditure side—by the government’s decision to cease a number of development partner-provided key financial control-type roles. In this context, medium-term risks to the continued financing of public functions and services that are provided by the state would have to be rated as significant, and macroeconomic instability could not be ruled out.

Post-conflict Poverty Developments

30. In the years since the tension, aggregate poverty rates appear to have declined—perhaps considerably. Significant differences in methodology between the 2005/06 HIES and 2013/14 HIES mean that the poverty rates are not comparable. Based on work constructing a consistent consumption aggregate and basic needs poverty line for the two surveys, aggregate poverty appears to have declined by 8 percentage points between 2005/06 and 2012/13, from 22 percent to 14 percent. This implies that some 45,000 people were lifted out of poverty over that period. While the differences in methodology mean this comparison is not robust, a considerable decline in poverty over this period is consistent with the rising per capita GDP and the contribution to growth that has come from relatively inclusive sources: non-logging agriculture and, perhaps also, the urban service economy.

31. Based on the 2012/13 HIES, 12.7 percent of the population were below the national basic needs poverty line (13.6 percent in rural areas and 9.1 percent in urban areas). In rural areas, 5.3 percent of the population were below the national food poverty line, with food poverty virtually nonexistent in urban areas. As well as being different in magnitude, poverty is different in nature in rural and urban areas. In rural areas, 64 percent of the value of rural households’ consumption baskets goes toward food, and households produce 60 percent of the food they consume on average (although processed foods are now widely available). Some 63 percent of working-age adults in rural areas are primarily engaged in subsistence activity (including producing goods for own consumption and other unpaid domestic work), compared to 31 percent in urban areas—with significantly higher rates among women than men (Figure 14). Opportunities for paid work are greater in urban areas, with 41 percent of working-age adults employed in urban areas versus 13 percent in rural areas—with significantly lower rates among women than men. In urban areas, 69 percent of household income comes from wages and salaries, on average, compared to 22 percent in rural areas (Figure 15). On average, 42 percent of the value of urban households’ consumption baskets goes toward food.³³ Only 10–15 percent of the food consumed by urban households is locally produced, with diets relying heavily on processed foods (mainly instant noodles, flour, rice, canned fish, and biscuits).

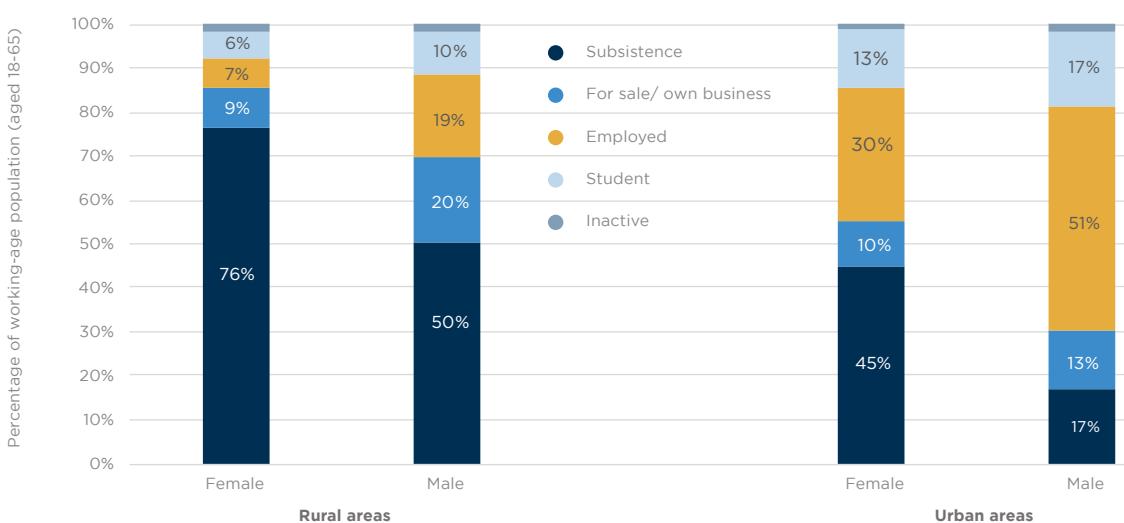
³³ The cost of living is significant higher in Honiara than in the provinces, reflected in higher poverty lines.



32. In addition to those living in poverty, a high proportion of Solomon Islanders are vulnerable to falling into poverty. For example, the number of people unable to meet their basic needs would increase by 25 percent if the poverty line was just 10 percent higher. The well-being of Solomon Islanders is subject to considerable volatility and is highly vulnerable to shocks. This is due to both the nature of economic activities and the absence of mechanisms to mitigate risks—aside from traditional social safety nets and retreat into subsistence agriculture and fisheries (though depending on the nature of the shock, this may not be possible). Rural households are vulnerable to weather, pest, disease, and natural

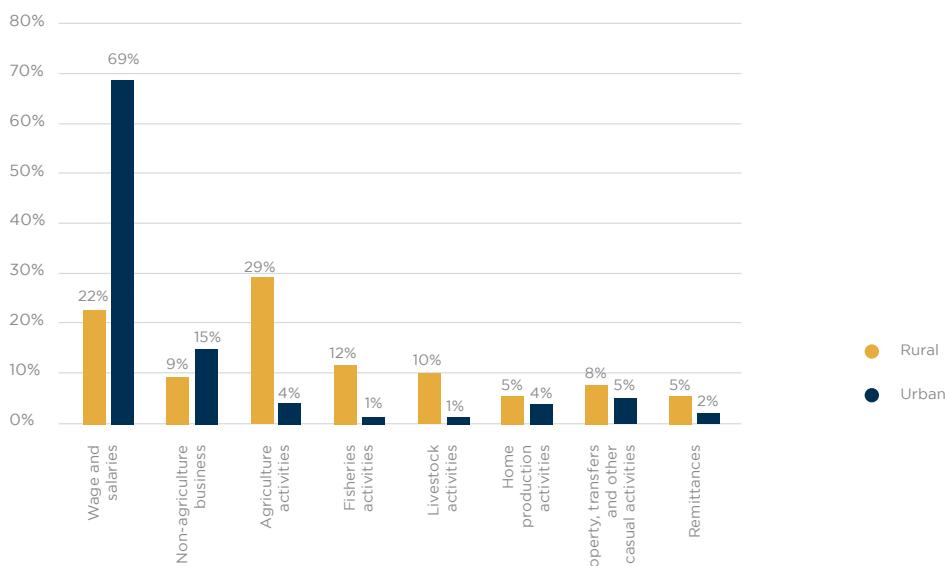
disaster-related agricultural and fisheries losses (all of which climate change is likely to exacerbate), as well as cash crop and fuel price volatility and shocks. Urban households are particularly vulnerable to food and fuel price spikes and to the loss of income due to unemployment. Rural and urban households are both vulnerable to personal and property losses from the natural disasters Solomon Islands is susceptible to, including cyclones, floods, earthquakes, tsunamis, storm surges, and king tides (which are likely to increase in intensity with climate change), as well as to losses of livelihood opportunities resulting from health shocks.

Figure 14: Primary economic activity in rural and urban areas by gender



Source World Bank staff estimates based on the 2012/13 HIES.

Figure 15: Average household income composition by rural and urban areas³⁴



Source United Nations (UN) World Population Statistics 2015.

³⁴ These particular estimates reflect the (democratic) average of the composition of income across households, excluding imputed rent and the income-equivalent of goods produced for home consumption.

33. There is little clear evidence of inequality dynamics in the years since the tension. The limited comparability of consumption aggregates between the 2005/06 and 2012/13 HIES means that robust conclusions cannot be drawn on trends in inequality. The Gini coefficient on real consumption per adult equivalent calculated from the 2012/13 HIES is a very moderate 0.33.³⁵ The top quintile consumes just over five times the level of the lowest quintile, and the bottom two quintiles account for 20 percent of total consumption. Post-conflict growth of relatively inclusive non-logging agriculture could be expected to have reduced inequality, as should the expansion of public service delivery, but post-conflict growth from logging could be expected to have increased it. Other than these broad expectations, there is little to go on.³⁶

34. Indicators of health and education show significant improvements in the post-conflict period, but this is not the case for access to

essential services (other than off-grid electricity). Headline indicators of health and education status, shown in Table 2, display considerable improvement. Disaggregated data are not currently available, however, to assess the extent of improvement for the bottom two quintiles or even the rural-urban trajectories. Indicators of access to essential services based on the HIES can be disaggregated by area, with the results in Table 3, and show little improvement in access to an improved water source or access to improved sanitation, either in Honiara or other provinces. There has, however, been a significant increase in access to off-grid electricity for lighting, particularly in the provinces. These comparisons tend to reinforce the significance of economic geography constraints for the infrastructure provision, but suggest that a different dynamic is at play Honiara, which the SCD explores. Despite improvements in some areas of well-being, Solomon Islands did not achieve any of the Millennium Development Goals (MDGs).

Table 2: Changes in key health and education indicators in the post-conflict period

Infant mortality (deaths per 1,000 live births)	27.2 (2002)	23.6 (2015)
Incidence of tuberculosis (per 100,000 people)	166 (2002)	86 (2014)
Life expectancy at birth (years)	64.1 (2002)	67.9 (2014)
Net primary enrolment rate	75.5 (2005)	88.4 (2014)
Net junior secondary enrolment rate	34.3 (2006)	42.2 (2012)

Source WDI and MEHRD 2015a.

Table 3: Changes in essential services access between the 2005/06 and 2012/13 HIES³⁷

	Honiara		Other Provinces		Solomon Islands	
	2005/06	2012/13	2005/06	2012/13	2005/06	2012/13
Access to improved water source	93%	93%	77%	75%	79%	76%
Access to improved sanitation	70%	72%	18%	21%	25%	27%
Access to electricity for lighting	63%	72%	8%	42%	14%	45%
- on the grid	63%	58%	7%	4%	13%	9%

Source World Bank staff analysis of 2005/06 and 2012/13 HIES data.

35. While the multifaceted nature of gender inequality makes it difficult to draw conclusions about overall trends, its pronounced extent is clear. A set of static indicators of gender inequity are shown in Table 4, including the very high incidence of violence against women. With respect to trends, there has been some improvement in the post-conflict period in gender equity in school enrolment, albeit from a relatively high base.³⁸

By 2014, the Gender Parity Index (GPI) for the net enrolment ratios for primary, junior secondary, and senior secondary education were 0.97, 1.1, and 1.0 respectively (indicating lower participation of girls in primary education, offset by lower grade repetition and dropouts to yield higher participation of girls in junior secondary education, with lower progression for girls then seeing them fall back to parity). Other important trends include recent

³⁵ The original analysis of the 2005/06 HIES reports a Gini coefficient of 0.39, with the bottom two quintiles accounting for 19 percent of aggregate consumption. At face value, this suggests a decline in inequality between 2005/06 and 2012/13, but as indicated the two consumption distributions are not comparable.

³⁶ For similar reasons to the inequality statistics, it is not possible to make robust comparisons between the two HIES of the extent of interprovincial inequality.

³⁷ Note that questions and response options relating to access to water, sanitation, and electricity were significantly altered between the 2005/06 and 2012/13 surveys. The access rates presented represent best World Bank staff estimates, but they are not directly comparable, and small changes should be interpreted with caution.

³⁸ The available baselines are 2005 for net primary enrolment (74 percent for girls and 77 percent for boys), and 2006 for net junior secondary enrolment (31 percent for girls and 38 percent for boys).

legislation introducing ‘domestic violence’ as a criminal offence, the public provision of gender-based violence support services (in urban areas), the growth of women’s advocacy groups (particularly in Honiara), and increasing entrepreneurship among women. Other dynamics associated with processes of development risk systematically intensifying gender inequity. When customary land is commercialized, women are typically marginalized in processes of legal registration, decision making,

and rent or royalty payments—particularly in areas of matrilineal landholding (Monson 2010, 2015). Paid employment is rising in importance, with opportunities for women particularly scarce. As explored in subsequent sections, these processes tend to raise the status and power of men relative to women and so continually change the ground on which efforts to empower women and increase their voice in social, economic, and political decision-making are operating.

Table 4: Indicators of gender inequity

	Male	Female
Gender composition of MPs	98%	2%
Gender composition of public servants at senior level	81%	19%
Gender composition of public servants	62%	38%
Gender composition of business directors and shareholders	70%	30%
Percentage aged 18-65 employed	26%	12%
Percentage aged 18-65 with primary economic activity at home/in subsistence	43%	70%
Percentage aged 18-65 who attended primary school or above	95%	86%
Percentage aged 18-65 who attended secondary school or above	49%	37%
Functional literacy rate [among adults?]	21%	14%
Percentage of ever-partnered women who have experienced intimate partner violence	n/a	64%

Source World Bank staff analysis of 2012/13 HIES, ADB 2015, SPC 2009.

2.3 Contemporary Sources of Risk and Resilience³⁹

36. Risk and resilience in Solomon Islands are best understood in terms of the capacity of institutions to manage social and economic change.

These institutions include both state and non-state institutions, with the latter playing some particularly important roles in Solomon Islands, given the limited reach of the state in some areas of social, economic, and political life. Customary and other informal forms of social organization act as a key source of resilience, with a demonstrated capacity to adaptably deliver social order even in the absence of a strong and capable state. Risks arise from the possibility that the pace of social and economic change will outstrip the capacity of both formal and informal institutions to adapt to new pressures.

Key Sources of Resilience

37. Customary institutions surrounding land and kinship are an important source of resilience.

For most Solomon Islanders, access to customary land provides a place to live, access to water, a

source of food, an opportunity to earn a livelihood, and a foundation for social identity and belonging (see Box 2). The effects of population growth and climate change are likely to challenge some aspects of this resilience over time and pose greater risks of disputes over land and sea access, but the most immediate risk to this source of resilience comes from the commercialization of land (see below). As well as being a key source of social identity, kinship systems act as networks that can provide support for socioeconomic advancement and for enduring periods of hardship. They play important roles, for instance, supporting migrants from rural areas when they arrive in urban areas to seek work or access public services. As a source of resilience during hardship, kinship systems have weaknesses, including where they become overstretched. They also tend to reinforce existing power relations, disadvantaging women in particular, as when pressure from kinship groups contributes to keeping women in abusive relationships. In addition, they can corrode incentives for effort where those accumulating wealth face resentment or even ostracism if they do not distribute it and where they form the basis of nepotism in the public and private sectors.

³⁹ This section draws heavily on Allen (2017).

BOX 2

CUSTOMARY LAND IN SOLOMON ISLANDS

Some 87 percent of the land area of Solomon Islands is designated as customary land. This means that ownership of it and access to it are governed by customary systems, usually involving control by kinship groups (matrilineal in some areas, patrilineal in others). In rural areas, where most land is in customary hands, indigenous Solomon Islanders have access to land to live on and for subsistence purposes through kinship networks. Social identity is generally very closely tied to kinship and thus also to land. Customary land is not meant to be available for commercial use. Formally, that requires prior registration of the land, involving demarcation of boundaries and naming up to five people as 'duly appointed representatives' of the landowners on its title (a trusteeship system). Monson (2010) has found that in practice these representatives have nearly always been men—including in areas of matrilineal landholding.

The rest of the land area of Solomon Islands is alienated land—including Honiara, within the city boundaries, the provincial capitals, and virtually all of the flat agricultural land in the country. Almost all alienated land is publicly owned, with the Commissioner of Lands holding the perpetual estate interest in public land on behalf of the government. With the passage of the Land and Titles Amendment Act (2014), the government established a Land Board, shifting decision making from the Commissioner of Lands to the Land Board. Most public land has been allocated on 75-year leases—called 'fixed term estates' (FTEs)—to firms and households. In contrast to rural areas, where land provides for housing, subsistence, and access to essential services like water, in informal settlements in and around Honiara residents typically lack security of tenure where they live, there is little space for subsistence production, and access to essential services can be denied because of lack of formal title.

38. Customary and church systems of authority also provide an important source of resilience through their critical role in maintaining social order. As will be explored in subsequent sections, they often provide mechanisms to deal with disputes, social order problems, and contests over resources, particularly in rural areas and in informal urban settlements. Though generally accessible, accepted, and effective in their own way, non-state forms of authority tend to be unable to mediate and contain local problems that originate at a higher scale—as with logging-related disputes—and can become overwhelmed by the extent of social order problems—as with substance abuse, in some areas. In some cases, non-state systems have lost their authority because power holders in them have become parties to the transactions they need to adjudicate. Field research in both rural and urban settings points to widespread perceptions of systemic unfairness and injustice, which combine with lack of confidence in state or non-state forms of public authority to address these, to fuel grievance and erode social cohesion.⁴⁰ When overwhelmed, these institutions can not only cease to serve as sources of resilience but some may become sources of risk, if their authority is turned to mobilizing protest, aggression, and violence. The precise role they

play in future will depend, in part, on the authority, capacity, and resources they can command to manage contestation and the nature, extent, and pace of social and economic changes that they have to adapt to.

Key Sources of Risk

39. The commercialization of land is a major source of risk, especially in the context of extractive industry development. Commercialization could be a source of gain to most Solomon Islanders, if the existing widely dispersed ownership of and access rights to land were leveraged for the benefit of all of those with existing ownership and access claims. However, to date, processes surrounding the commercialization of land have tended to marginalize the many and benefit the few—typically a few powerful men.⁴¹ The rise of ostensibly traditional, exclusive 'customary landowners' as powerful actors with strong relationships or overlap with political elites, is a salient political economy development in the post-conflict years. It is one that threatens to further marginalize the interests of women and other men in the development process and to undermine the role of customary land as a safety net against material dispossession.

⁴⁰ Allen et al. (2013); Evans (2017).

40. As the SCD explores, the transition from logging to mining offers an important opportunity for Solomon Islands, because the political economy of large-scale mining could be more amenable to the development of effective state institutions than logging has been. However, achieving that political economy structure in Solomon Islands will be challenging, and the risks of large-scale mining in the current political economy context are extremely high. Large-scale mining is likely to exacerbate disputes and conflict within the provinces concerned and between those provinces and the central government if (a) the wealth generated from mineral resources accrues mainly to foreign mining companies, limited numbers of powerful male ‘landowners’, and a central state that does not prioritize the use of them to enhance the reach of the state or the delivery of public services; and (b) the social and environmental costs of mining accrue mainly to the people in the surrounding area and the wider province. It is probable that these dynamics would reinforce the position of the state as the focus of ‘unfinished business’ in Solomon Islands, intensifying calls for a federal system or secession to reconfigure the locus of power and authority over natural resources.⁴²

41. Like the transition to mining, urbanization offers several important opportunities to Solomon Islands—if it is well managed. First, the density of productive activity associated with urbanization facilitates productivity improvements as a result of increased specialization. Second, urban growth can increase demand for agricultural and other products from rural areas, if the requisite infrastructure connections are in place. Third, urbanization can allow the realization of economies of scale in the provision of essential services to a larger share of the population, bringing down unit costs—the benefits of which could be used to invest in the geographic expansion of service networks. Finally, urbanization can spur new forms of social identity and provide space for the voices of those previously more disempowered in social, economic, and political life. However, the risks of poorly managed urbanization in Solomon Islands are also high, particularly given the pronounced youth bulge. At present, an estimated 7,500 young people enter the workforce each year but only one in six school-leavers finds paid employment. If rapid urban growth occurs with scarce paid employment opportunities, lack of essential services in informal settlements, marked inequities between formal and informal areas, and further expansion onto customary land without a resolution of the status of this land that satisfies landowning groups, it is likely to fuel disputes and grievances. However, in the context of these relatively new forms of contest among newly associating groups in new urban spaces, necessity could stimulate the emergence of new informal institutions that are able to mediate across established lines of social identity and difference.

42. Interrelated with the challenge of effectively managing urbanization are the risks of demographic and sociocultural change in Solomon Islands. As population growth rates continue to slow in Solomon Islands, dependency ratios will decline, potentially providing for increased incomes and productivity with the ‘demographic dividend’ of a larger share of the population at working age. However, negative consequences are also possible. While the evidence is not conclusive, the presence of youth bulges has been associated with conflict and violence internationally, especially in the context of limited employment opportunities and options for labor mobility. Recent research in Honiara has highlighted an association between masculine identities and collective and interpersonal violence among urban youth.⁴³ This subculture is fueled by alcohol and marijuana, which are cheap and easily available in Honiara. Both formal and informal institutions are currently struggling to deal with the violence and disorder associated with substance abuse among young males.

43. The end of June 2017 will mark the formal completion of RAMSI, a transition point that is a source of risk for Solomon Islands. While the external security guarantee remains in effect, the formal end of RAMSI may be treated by those with unresolved grievances from the tension as signaling a renewed opportunity to use violence to pursue their objectives. Beyond the sphere of security, the transition from institutional support to central agencies through in-line staff under RAMSI to advisory support has already occurred, but the extent of that support is continuing to decline. In part, the continued withdrawal of advisors reflects donor and government confidence in local capacity to undertake key state functions and a wish to bring the period of extraordinary post-conflict assistance to an end. It will increase space for locally driven policy processes that might better reflect domestic concerns and priorities. However, the further reduction in advisor presence in MoFT, in particular, will raise governance and macroeconomic management risks by removing some of the insulation between vital fiscal and fiduciary management processes and the underlying political economy. With fiscal difficulties now becoming very pressing, this may not be an appropriate point to take that additional risk.

⁴¹ See Monson (2010, 2015).

⁴² On the logging to mining transition, see in particular Allen and Porter (2016) and Baines (2015).

⁴³ Evans (2017).

44. The analytical framework adopted for this SCD examines potential contributors to reducing extreme poverty and promoting shared prosperity in Solomon Islands, while taking account of economic geography and political economy factors.

In so doing, it tailors the broad analytical approach developed by the World Bank Group for SCDs to the specific country context of Solomon Islands, as outlined above. It also draws on key lessons from the World Development Reports (WDRs) of 2009 and 2017, as outlined below.

45. Consistent with WDR2009 ‘Reshaping Economic Geography’, the SCD reflects the acknowledgement that economic development is inevitably spatially unbalanced, both within and across national boundaries. The absence of large and dense population centers, long distances to global centers of economic activity, and geographical and social divisions all have fundamental implications for the feasible range of development trajectories available to Solomon Islands. Solomon Islands’ future development depends on identifying and pursuing strategies that are consistent with its economic geography, including (a) focusing on economic development opportunities that are viable despite the constraints of economic geography; and (b) ensuring the public sector can effectively manage the impacts of uneven development, including through redistributing the benefits of concentrated economic activity.

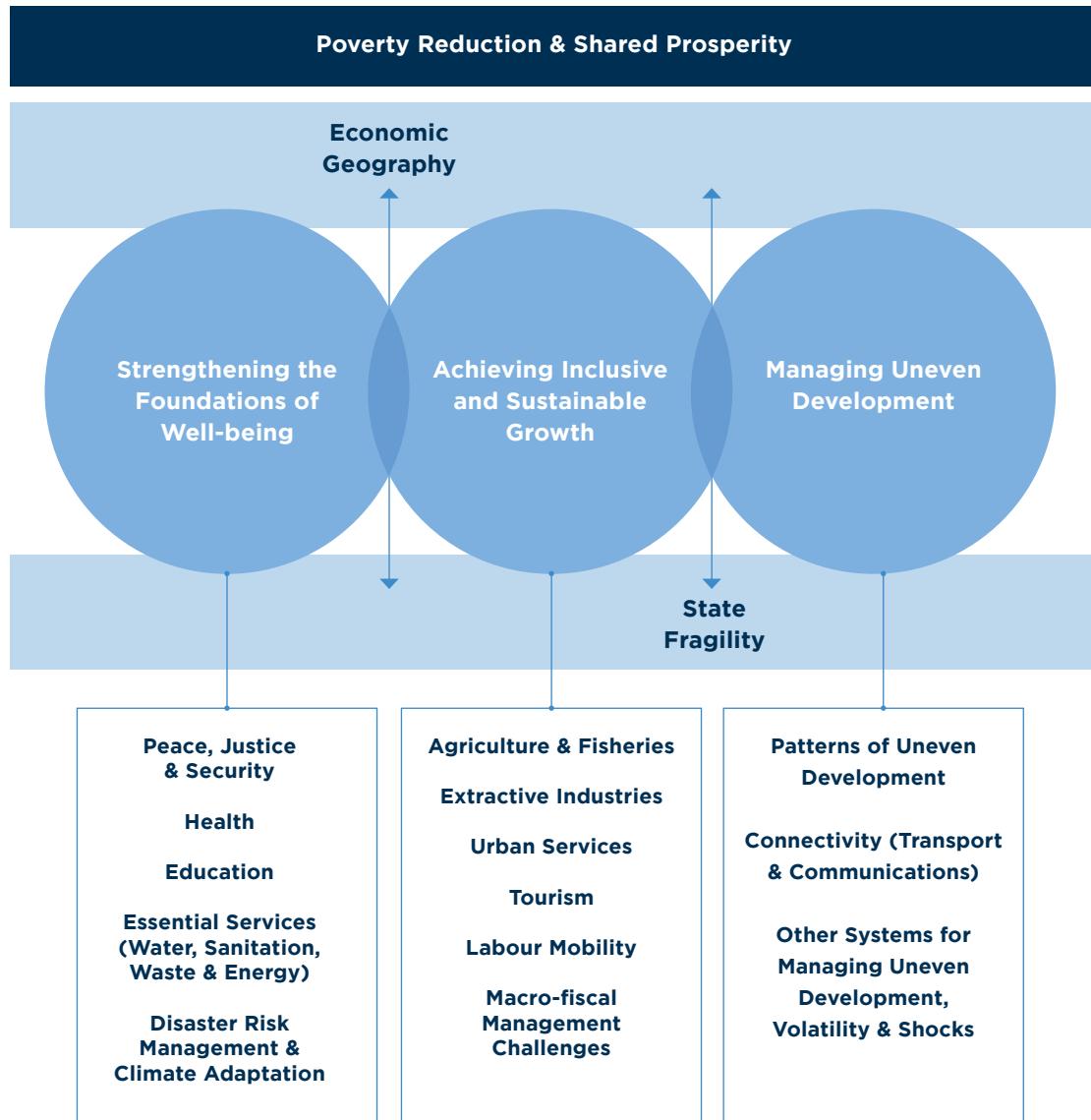
46. Consistent with WDR2017 ‘Governance and the Law’, the SCD acknowledges political economy constraints to state effectiveness and political drivers of state fragility (which are closely interrelated with economic geography in Solomon Islands). In the years since the conflict, unparalleled international resources in per capita terms have been mobilized to rebuild state institutions and strengthen state capacity in Solomon Islands. Consistent with the conclusions of WDR2017,

policy interventions have not always delivered the expected outcomes because of underlying political economy factors that have undermined the critical determinants of policy effectiveness: commitment, coordination, or cooperation. The challenge is to attend to the political economy context and identify approaches that go with the grain of the incentive structures of powerful elites—or alter the feasible set of policies by changing the incentives of elites, altering preferences and beliefs, or increasing the contestability of the policy arena. Failing this, international resources may need to be mobilized to subsidize development outcomes that domestic political elites are unwilling to invest in.

47. The analytical framework is organized across three broad and interrelated pillars: (a) strengthening the foundations of well-being; (b) achieving inclusive and sustainable growth; and (c) managing uneven development (Figure 16). Economic geography and state fragility are cross-cutting themes in the analysis of constraints and opportunities under each pillar. The first pillar focuses on provision of the basics of life, which the economic geography of Solomon Islands makes particularly challenging. The second pillar examines potential sources of growth, together with the likely extent of their inclusiveness and sustainability. As we have seen in the previous section, not only are the possible sources of growth in Solomon Islands circumscribed by its economic geography, their feasibility, inclusiveness, and sustainability are heavily conditioned by political economy factors. The third pillar focuses on the overarching challenge of managing uneven development, recognizing both that development will be highly uneven in Solomon Islands as a consequence of its economic geography and that spreading the benefits from centers of growth as widely as possible will be critical to poverty reduction, shared prosperity, and the avoidance of further conflict.



Figure 16: Analytical framework for the Solomon Islands SCD



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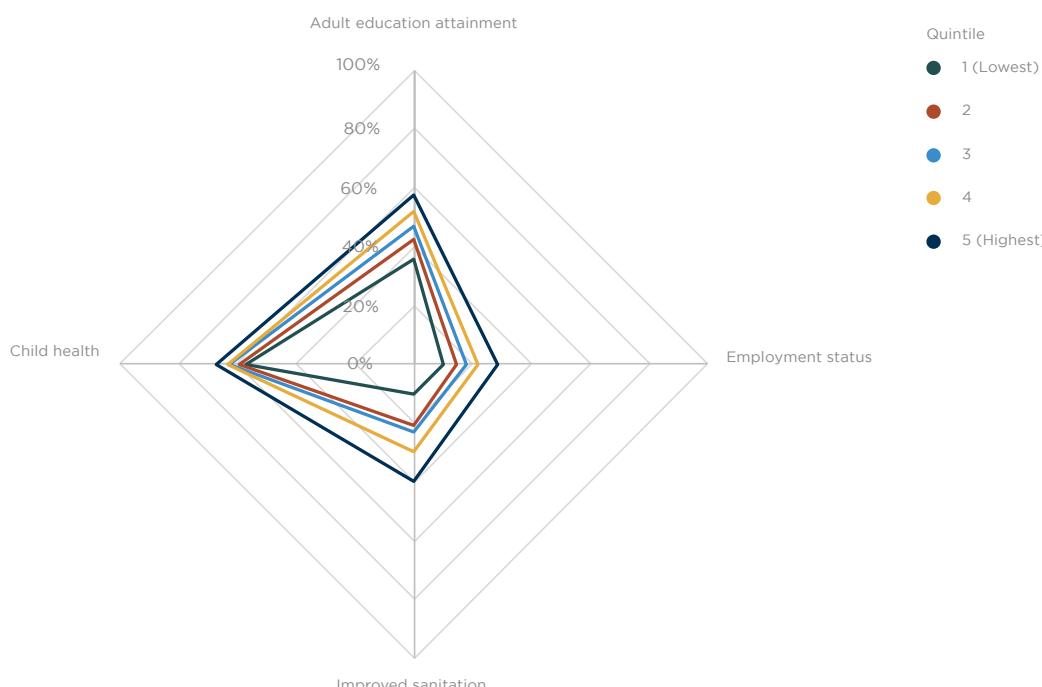
PILLAR 1: STRENGTHENING THE FOUNDATIONS OF WELL-BEING

48. Under this pillar, the SCD focuses on key services that contribute directly to people's well-being: security, health, education, essential services, and protection from natural disasters.

As well as being inherently important to people's well-being, they are also critical to people's ability to pursue their livelihoods and thus have a significant bearing on poverty reduction and economic development. This is particularly evident in the context of the current youth bulge, because investment in human capital will be critical to that youth bulge yielding a 'demographic dividend' for

Solomon Islands, rather than contributing to higher risks of instability because the large numbers of labor force entrants cannot be productively employed. As Figure 17 shows, health, education, and access to essential services are positively correlated with employment status and consumption in Solomon Islands. Following a brief outline of trends in public expenditure on key services, the subsequent sections explain current constraints for each service and identify opportunities for improved access and quality.

Figure 17: Links between consumption welfare and adult educational attainment, child health status, access to sanitation, and employment status



Source World Bank staff analysis of 2012/13 HIES.

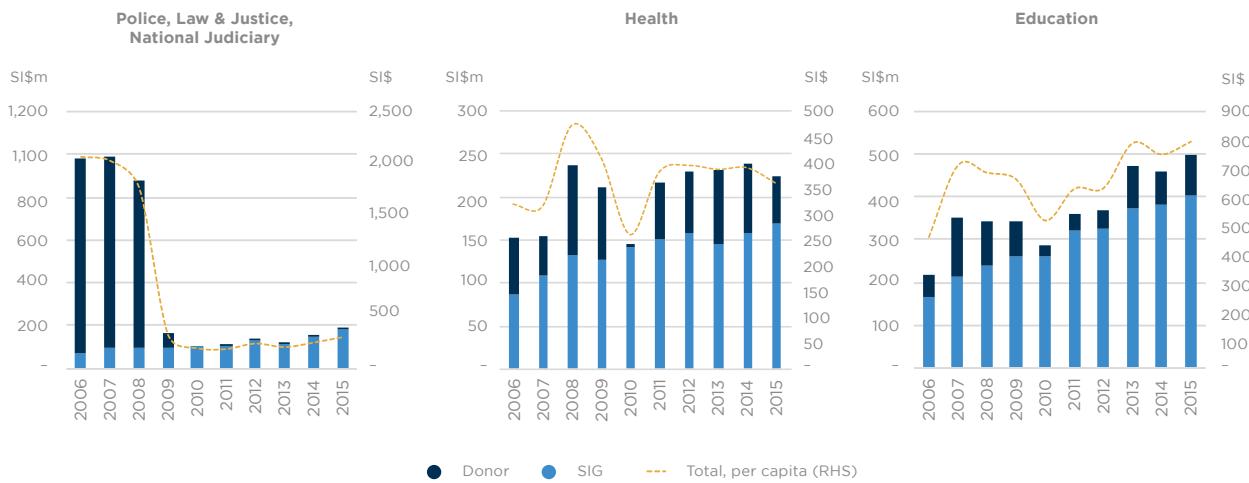
Note Adult educational attainment is measured by the share of the working-age population who attended higher than primary-level education; employment status is measured by the share of the working-age population employed; improved sanitation is measured by the share of households with access to improved sanitation; and child health is measured by the share of children aged 5 and under who are not stunted according to World Health Organization (WHO) standards.

49. Increased public expenditure on the provision of key services has delivered good results in aggregate, but these have been uneven across the country. Public expenditure on policing and justice rose sharply in the immediate post-conflict years, with donor spending then contracting sharply after the security situation stabilized (Figure 18). In health and education, public expenditure has risen strongly in real terms since the tension, though in health that growth has slowed in recent years and

in per capita terms spending has actually declined.⁴⁴ In recent years, donor spending in all three sectors has declined in per capita terms. Over the same period, although the share of public expenditure on policing and justice has fallen, that on health and education has risen. The sections below will explore the level of services achieved in each of these areas, bearing in mind the very challenging context for service delivery posed by Solomon Islands' thinly dispersed population.

⁴⁴ Central government expenditure on essential services is not a meaningful indicator, given the significant portion of expenditure in these areas by state-owned enterprises (SOEs) (including as supported by donors) and to a lesser extent also by municipal/provincial authorities. Trends in expenditure on disaster risk management (DRM) and climate adaptation are also hard to discern from budget data, because they are widely dispersed across agencies.

Figure 18: Public expenditure on police and justice, health and education, 2006–2015



Source World Bank staff analysis.

4.1 Peace, Security, and Justice⁴⁵

50. The existence of peace and security allows people to go about their everyday lives without a generalized fear of violence. Justice, in turn, helps to promote and reinforce security at a general level as well as to provide people with an avenue to remedy particular wrongs they have suffered. In aggregate terms, peace, security, and justice are important contributors to stability, the maintenance of the social capital that enables society and the economy to function, and the existence of private sector investment incentives. The institutions that provide security and justice are critical to the management of disputes and dissent and the avoidance of future large-scale conflict and violence. These institutions themselves, and the security and justice that they provide, differ in different parts of Solomon Islands. In general, however, they are hybrid in nature—drawing on multiple sources of authority and influence—and they are often less accessible for certain disadvantaged groups—notably women.

Current Conditions and Constraints

51. Numerous actors and institutions contribute to the maintenance of peace in post-conflict Solomon Islands. Stability and social order are maintained in part through a range of diverse local systems of ‘chiefly’ authority (typically referred to as *kastom* systems), church authority, and hybrids of the two. These local systems have varying degrees of vertical linkages. Most provinces or subregions within them have hierarchical structures linking up chiefly authority at different scales, but this does not extend to the national scale. Churches, on the other hand, do come together at the national level, in the ecumenical Solomon Islands Christian Association, which played an important peace-building role during the tension. The local systems also interact in varying ways and to various degrees with a range of state actors, including the Royal Solomon Islands Police Force (RSIPF), the different levels of the formal court system, provincial authorities, and

elected representatives. Stability at the national level is also supported by super-national institutions—a legacy of RAMSI—in the form of an effective Australian security guarantee.⁴⁶ Australia continues to provide the Police Commissioner, support to the strategic planning and tactical response capacity of the RSIPF, and advisors across a number of justice sector agencies, including the judiciary.

52. Beyond the risk of escalation into widespread conflict and violence, local-level dispute mediation systems are important for everyday security and justice. In urban areas—not counting informal settlements—the RSIPF is seen as the key public authority for maintaining law and order, and the formal court system exists. The RSIPF has a clear presence in formal urban areas (with over half of the police officers in Solomon Islands based in Honiara) and generally responds to callouts for violent crime. The extent to which this has applied to domestic violence is questionable, however, and the extent to which that is changing with initiatives to implement the Family Protection Act is as yet unclear. At the same time, most businesses rely on private security firms for their security. With respect to justice, the court system exists in Honiara but is subject to a significant case backlog and is perceived as slow. In other provincial capitals, court sittings tend to be infrequent and unreliable. There are legal aid mechanisms to make the court system more accessible to the poor, but their resources are very limited. According to the Doing Business indicators, it costs nearly 80 percent of the value of a commercial claim to resolve it through the court system (though at 455 days, the time to enforce claims is below the regional average).

53. Institutions supporting law and order in informal settlements in and around Honiara are very different from formal areas and vary considerably among informal areas. Fieldwork research suggests that a striking feature of these informal settlements is the absence of police presence, despite the proximity of the RSIPF in Honiara, Guadalcanal, and—in a few instances, like White River—police

⁴⁵ This section draws heavily on Allen et al. (2013), World Bank and SIG (2016), and Evans (2017).

⁴⁶ Australia has made clear that it would still be prepared to mobilize its security forces as necessary to secure peace, in the event of a serious breakdown in law and order or a return to conflict in Solomon Islands.

stations located within settlements (Evans 2017). The RSIPF's approach to policing in informal settlements tends to be reactive, remaining confined to police stations or absent until a serious incident is reported and then operating a 'reach and retreat' approach. This reactive style is unsuited to a context where personal relationships are key. Due in part to memories of police participation in criminal activity during the tension, disdain for the police tends to be high in informal settlements, and there is a history of violence against police in some settlements which police officers informally admit makes them wary of entry.⁴⁷ Youth complain that when police do enter settlements they tend to engage with the same groups of senior males. As a result, most issues of order—including criminal conduct—dealt with in informal settlements rely on non-state systems. These vary by settlement, but typically involve using kinship groups to support mediation or 'payback' (confronting the perpetrator with violence or the threat of it) and relying on local governance arrangements (usually for breaches of *kastom* or where community cohesion is threatened, involving public reconciliation, sometimes with police witnesses). While varying in their effectiveness, these systems generally appear to struggle with the magnitude and nature of the disorder in urban areas, in particular newer problems related to *kwaso* (local distilled alcohol), cannabis, alcohol, and gender-based violence. They can also be subject themselves to contested leadership and can be limited in their effectiveness across language groups in settlements where language-based divisions are significant, as in Burns Creek. At the same time, as residents of informal settlements—including youth—exhibit a high degree of disdain for police and the policing they experience, they consistently voice support for a proactive police presence.

54. In rural areas, the provision of security and justice is also dominated by non-state forms of public authority. These consist primarily of overlapping or hybrid *kastom* and church-based institutions, emerging in part to fill the 'spaces of statelessness' created by state withdrawal after independence and with the suspension of area councils (Allen 2017). These institutions are generally seen as having a legitimate mandate to deal with disputes and grievances,⁴⁸ but, as in urban spaces, many are overwhelmed by the extent and changing nature of the order and justice problems they need to deal with. Also, as in urban spaces, they often seem to marginalize the interests of women and youth. Alongside kinship groups, however, they are among the few institutions women suffering gender-based violence can turn to in rural areas. In many locations, the *kastom* system is increasingly fragile, unable to deal with disputes arising from the commercialization of land and resources. In some cases, the legitimacy of these institutions is being undermined by involvement of chiefs and local leaders in the contested transactions—particularly in

relation to logging. Across Solomon Islands, logging is highly correlated with discord, with local disputes around land ownership and usage, access to and spending of royalties, rents and access fees, and the fact that the influx of money and workers fuels alcohol and substance abuse. These dynamics in turn affect norms around marriage and obligations between men and women (particularly adultery and domestic violence) and alter relationships between youths and elders. Police, where accessible, are regularly alleged to support the loggers who are able to pay for their services. Courts are typically too slow to be useful or—where orders are issued—these are often ignored.⁴⁹ With none of the available systems able to deal effectively with logging-related disputes (which often involve relatively powerful foreign corporations and decisions made by national actors in Honiara), affected citizens are often left without remedy. The sense of grievance is extensive.

Outlook and Opportunities

55. Rapid urban growth and the continued pattern of enclave-based natural resource extraction in rural areas pose considerable risks to the outlook for security and justice. Rapid population growth in Honiara can be expected to put increased pressure on local governance institutions, with further overcrowding likely to exacerbate the drivers of insecurity and disputation in the absence of adequate public services or livelihood opportunities. On the current trajectory, logging and other forms of enclave development—including mining—in rural areas are likely to continue to undermine *kastom* and church-based authorities, as they are unable to cope with the related disputes or have been compromised by them. While *kastom* and church-based authorities have demonstrated considerable capacity to adapt over time, in many areas that capacity is being overwhelmed given the rapidity of social change and the scale of the disputes surrounding the commercialization of resources. When these institutions reach breaking point, they can cease to be sources of resilience and become drivers of conflict. A significant share of what manifest as 'local' disputes in rural areas result from regulatory failures from as far away as Honiara, for instance with logging. Past efforts to remedy these failures have had negligible results, given the deeply corrosive effect logging has had on executive regulatory authority.⁵⁰ The potential remains for 'local' disputes and conflicts to be scaled up into more widespread conflict and violence, partly because the 'local' disputes have linkages with actors and institutions at larger scales and partly because the contours of the disputes can intersect with island-scale social identities.

56. The World Bank's engagement to date suggests that Solomon Islanders want to remake their connections with both traditional restraints and modern forms of accountability and are willing

⁴⁷ Anecdotally, requests for police assistance in Burns Creek often go unanswered, but it is difficult to assess police responsiveness in settlements because crime data are not disaggregated geographically within Honiara.

⁴⁸ Church rivalries can be a source of conflict, however, with church fragmentation correlated with conflict.

⁴⁹ In general, lower-level courts that ostensibly operate across Solomon Islands, function only sporadically and are largely inaccessible to rural people, due to resourcing problems and centralized administration and sittings.

⁵⁰ See Hughes et al. (2010) and Cox, Duituturaga, and Scheye 2012.

to invest in doing so. That experience indicates that no single form of state or non-state authority is likely to succeed across the country or for all of the set of problems and issues that feature in people's narratives of insecurity and injustice. Where local, non-state institutions remain legitimate, their effectiveness may be strengthened through formal state recognition and credible connections with state authority—including police and courts. This reversal of state retreat would not represent an attempt to supplant these non-state institutions—which the state manifestly lacks the reach to do—but to support them. This is what the World Bank's Community Officers Program does in some rural areas, supporting communities to play the main role in security and justice but—critically—with a link to the state through their chosen officers, which strengthens the authority and utility of the officers.⁵¹ Appropriate to the diverse context in which they are operating, there are variations in the way different officers operate, including in the horizontal (to *kastom*, church, and other local authorities) and vertical (to police, provincial and national authorities) linkages they form. By responding to the problems and issues prioritized by citizens and by having the attention and engagement of some powerful actors, this initiative appears to be well aligned with its context. Critical to the relevance and impact of this kind of initiative is its ability to forge links between local populations and broader state authorities (provincial and national), potentially supporting greater accountability of the public sector. Its geographic extension, including to informal urban settlements, would appear to be worthy of consideration. Particular efforts to address the specific needs of women are also critical, to mitigate the extent of their marginalization in existing forms of public authority.

4.2 Health

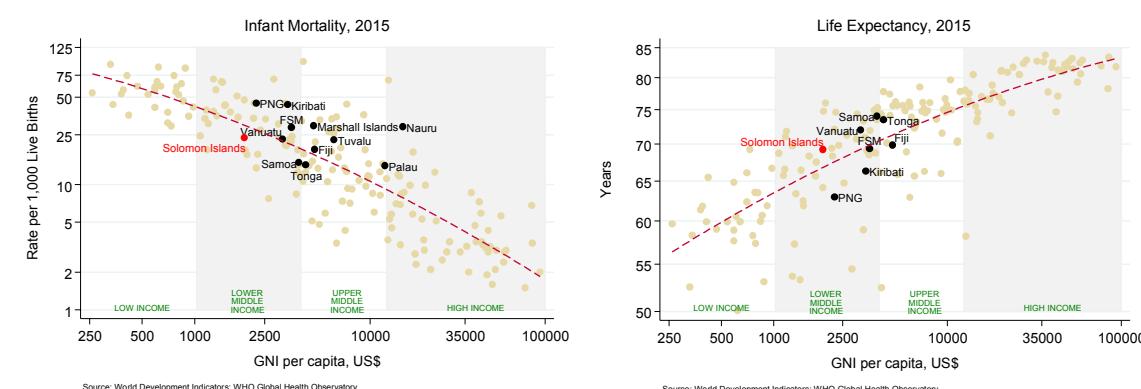
57. Health makes a direct as well as an indirect contribution to people's well-being. In itself, being healthy directly improves a person's quality of life. However, it also contributes to a person's productive capacity, and thereby their income-earning potential and their ability to provide for their own needs and those of their family and

community. This contribution begins in infancy when brain development is occurring most rapidly, with undernutrition in the first 1,000 days of life associated with poor cognitive and educational outcomes in childhood and adolescence, as well as lower wage earnings and decreased likelihood of exiting poverty in adulthood. Wealth disparities in reading, language, and cognitive performance emerge before children enter primary school, making investments in early childhood health and nutrition (together with care, stimulation, and learning) critical to addressing inequality and breaking cycles of poverty. Among the working-age population, the poor tend to rely more heavily on their labor for a livelihood—rather than having financial capital—so health is of disproportionate importance to their well-being. At an aggregate level, a healthy workforce is a key factor of production, supporting private sector development and economic growth.

Current Conditions and Constraints

58. Population health outcomes have improved significantly since the end of the tension, but the health system faces several remaining and newly emergent challenges. There have been significant and fairly steady reductions in the incidence of tuberculosis and malaria and in maternal, child, and infant mortality rates and increases in life expectancy. Key health indicators are now a little better than global averages, given gross national income (GNI) per capita (Figure 19).⁵² While further improvements are necessary to meet national targets and global goals, they will be difficult to achieve. Immunization rates have improved, but remain volatile, and recent outbreaks suggest that coverage is insufficient. Tuberculosis and chronic respiratory infections continue to represent a significant share of the disease burden, and malaria remains a significant cause of under-five deaths. Like other Pacific Islands, Solomon Islands has a classic 'double burden of disease' situation, with a high and increasing burden of non-communicable diseases (NCDs), combined with ongoing challenges with communicable diseases and maternal, neonatal, and child health. There are indications that undernutrition in children is a significant problem, with a high prevalence of stunting and alarming rate of wasting (see Box 3).

Figure 19: Key health indicators by GNI per capita, global comparison



Source WDI; WHO Global Health Observatory.

⁵¹ Under this program, the World Bank is assisting the Ministry of Provincial Government and Institutional Strengthening to manage a network of community officers whose primary function is dispute resolution.

⁵² The position for maternal mortality is similar to that shown here for infant mortality.

BOX 3

CHILD UNDERNUTRITION IN SOLOMON ISLANDS

Solomon Islands faces the double burden of malnutrition-related diseases, reflected in a high prevalence of child stunting and wasting while rates of overweight/obesity are rising. According to the 2012/13 HIES, 38 percent of children five and under are stunted, a rate considered 'high' according to WHO thresholds. Furthermore, 16 percent of children under five are wasted, a level considered 'alarming' according to WHO thresholds. Nutrition lays the biochemical foundation for physical and cognitive development. Stunting is a well-established risk marker and proxy population indicator for chronic malnutrition, which impairs child health, development, and well-being. Height growth not accumulated before age two is largely irrecoverable and the cognitive impacts on brain development are largely irreversible. Severe childhood wasting is associated with an 11-fold increase in the risk of mortality. Early life undernutrition also increases later life propensity for the development of NCDs.

HIES data indicates that rates of stunting are higher among poor people and for boys relative to girls. The rate of stunting for children in the bottom 40 percent of households is 43 percent, compared to 33 percent for the top quintile. Rates of stunted and wasted children are also generally higher among boys than girls and are slightly higher in rural areas than urban areas. There are considerable variations across provinces, with the rate of stunting highest in Makira (at 46 percent) and lowest in Guadalcanal (at 33 percent).

Childhood undernutrition arises from immediate factors such as poor nutrient intake and diseases, as well as underlying factors including food insecurity, poor access to sanitation and unhygienic environments, and poor access to reproductive, maternal, and child health services. Low access to improved water and sanitation and the poor quality of diets are thought to be contributing factors to the high prevalence of stunting in Solomon Islands. Only 27 percent of households have access to improved sanitation and 76 percent to an improved water source, factors reflected in high rates of diarrhea. However, the extent of variations in access to improved sanitation between rural and urban areas and within urban areas is far greater than the variation in stunting rates between rural and urban areas and across quintiles, suggesting other factors are also important. The quality of diet is generally poor (mostly cereals and starchy root vegetables). In addition, complementary feeding practices among children aged 6–23 months are poor, with inadequate frequency and dietary diversity (indicative data shows that only 37 percent met recommended dietary practices). There is a high anemia rate among women of reproductive age (40 percent), potentially resulting in maternal mortality and poor delivery outcomes including intrauterine growth retardation. Low birth weight, indicating the in utero origins of growth faltering, is high at 13 percent and is associated with young maternal age, short birth intervals, and poor maternal nutrition. Teenage pregnancy rates are relatively high, at 12.3 percent for 15–19 year olds, and there are low rates of met family planning needs.

Evidence-based interventions to improve early childhood nutrition and development have much higher rates of return than interventions aimed at addressing skills and capacities in later life. To date, the Ministry of Health and Medical Services (MHMS) has not adopted or consistently implemented interventions proven to prevent and treat undernutrition. There has also been little progress with implementing donor-supported programs in the MHMS to increase access to improved water and sanitation. However, these are only aspects of the problem: all factors that contribute to low levels of empowerment for women (endowments in health and education, economic opportunities, and voice and agency) contribute to high levels of undernutrition in children.

Source Lorgelly et al. 2015, FAO 2014, World Bank staff analysis of the 2012/13 HIES.

59. Solomon Islands is facing sharply increased morbidity and mortality from NCDs. NCDs now account for 66 percent of the total disease burden (see Table 5), and this is expected to continue to rise. The five top health risk factors, all of which are on an increasing trend, are dietary risks, high body-mass index, high fasting plasma glucose, high systolic blood pressure, and tobacco smoke. Thus,

the higher life expectancy achieved in Solomon Islands is coming with expanding periods of chronic illness and disability for an increasing proportion of the population, with indirect social costs in the form of unpaid care work by family members, principally women and girls—with some girls being taken out of school for this purpose.

Table 5: Top ten causes of disease burden, by disease/conditions, 1990–2015

Rank 2015	Top Ten Diseases/Conditions	Disability Adjusted Life Years (DALY) Lost Share			
		1990	2000	2010	2015
1	Cardiovascular diseases	15%	17%	20%	21%
2	Diabetes, urogenital, blood, and endocrine diseases	6%	9%	11%	12%
3	Diarrhea, lower respiratory, and other common infectious diseases	18%	12%	10%	8%
4	Other non-communicable diseases	5%	6%	7%	7%
5	Neonatal disorders	10%	9%	7%	6%
6	Neoplasms	4%	5%	5%	6%
7	Chronic respiratory diseases	6%	6%	6%	6%
8	Musculoskeletal disorders	3%	4%	4%	4%
9	Mental and substance use disorders	3%	4%	4%	4%
10	Nutritional deficiencies	3%	3%	3%	3%

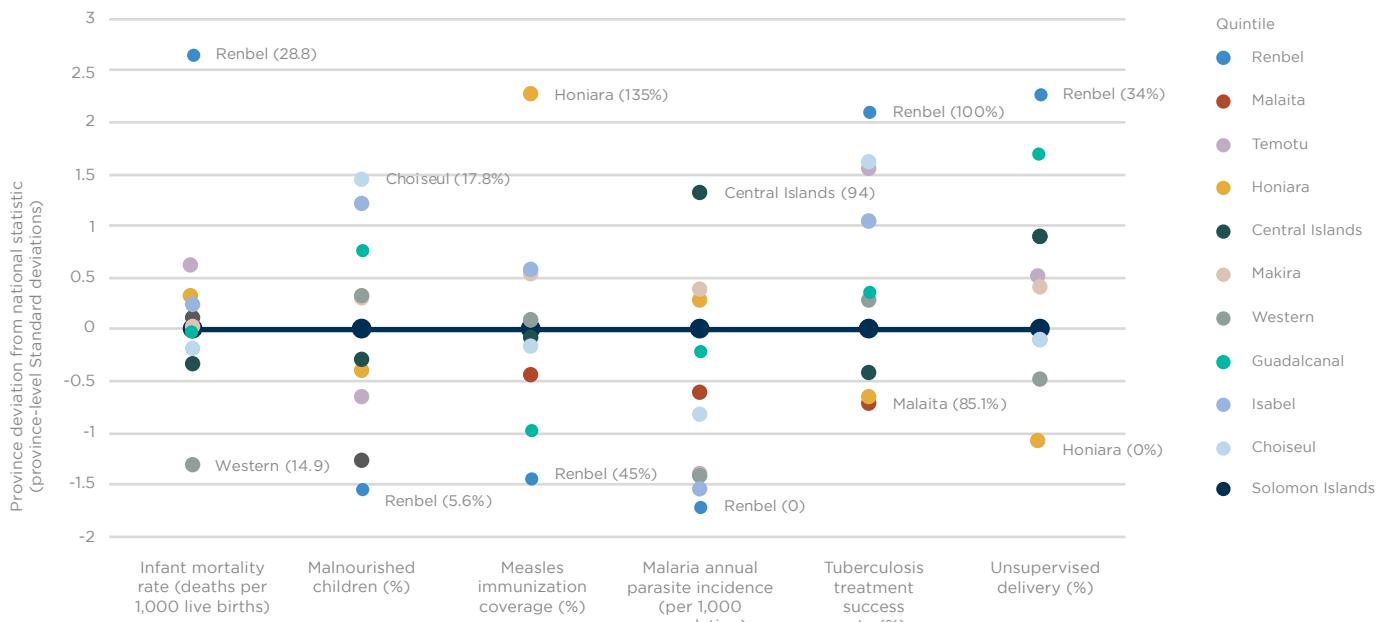
Source Institute for Health Metrics and Evaluation (IHME) database.

60. Few indicators of health status in Solomon Islands can be disaggregated by income group, but most of the ones that can show better health with higher socioeconomic status. HIES data on the height, weight, and age of children show that rates of stunting and wasting tend to be higher among the poorer quintiles and in rural areas. The prevalence of cigarette and alcohol consumption is significantly higher among men than women, and while smoking rates vary little by quintile, the prevalence of drinking rises with income. The last Demographic Health Survey (DHS) for which the data are available (2006/07) disaggregates indicators of health status on the basis of educational level, with a fairly consistent pattern of generally improved indicators with higher levels of education (for instance, lower infant and child mortality, higher child immunization rates, lower anemia among women, and higher rates of mosquito net use among pregnant women). On the other hand, being overweight or obese appears positively correlated with education. Indicators of health status—and health services—also vary by province (see Figure 20), with some large differences between the best and worst indicators. For example, for 2013–2015 the under-5 mortality rate (not shown in the chart) in Western Province was 21 deaths per 1,000 live births, but in Rennell and Bellona Province was 47.

61. Disparities in access to health services remain a significant challenge in Solomon Islands. On the positive side, health services are largely publicly provided and free. At less than 0.2 percent of total household expenditures, out-of-pocket (OOP) health expenses in Solomon Islands are one of the lowest regionally and globally. However, OOP expenses do not include indirect costs such as transport (or time), which are significant for rural and remote areas in the country. The World Bank's *Health Equity Analysis* based on the 2012/13 HIES shows that on average people in the bottom two quintiles take 1 hour and 20 minutes to reach a health facility, compared to those in the top quintile who take only 20 minutes. With the exception of Honiara, households report they would access the closest health facilities to them rather than area health centers or provincial hospitals that are significantly further away. For the majority of households, that means nurse aid posts and rural health clinics that are a half hour walk away on average. These facilities are often understaffed and under-resourced. As income increases, households are less likely to report that they would access nurse aid posts and rural health clinics and more likely to report that they would access area health centers, provincial hospitals, the national referral hospital, and private services.⁵³ The World Bank's analysis thus suggests that transport is a binding constraint on access to health services—only with urban proximity and/or wealth (and vehicle use) does the quality of services affect decisions.

⁵³ The 2006/07 DHS shows a similar pattern of generally improved indicators of access to health services with higher levels of education (for instance, lower unmet needs for family planning, higher rates of birthing in hospitals or health facilities, and higher rates of access to qualified personnel for postpartum care).

Figure 20: Provincial variation in selected health and health service indicators, 2013–2015



Source MHMS 2016.

Note Marker labels report maximum and minimum provincial statistics in parentheses.

Outlook and Opportunities

62. Going forward, a number of challenges need to be addressed in the health sector to support improved health outcomes, particularly for the poor and those living in rural areas. After half a decade of increasing real per capita public expenditure on health, the trend is now reversing as the government's overall budget resources tighten, financial support from the Australian Department of Foreign Affairs and Trade (DFAT) declines, and some development partners are reducing or graduating out of parallel health programs with the expectation that the capacity and resources required can be provided by government. The health sector is thus faced with the challenge of doing more with less, at the same time as the burden of disease is becoming increasingly complex. Over the last decade, there have been significant improvements in the MHMS in planning, management, and financial systems, with progress in tackling fragmentation and in moving more health programs on plan, on system, and on budget. There have also been notable improvements in the supply side of service delivery—for instance pharmaceutical supply availability improving not just in Honiara but in provincial centers (from 50 percent in 2007 to 90 percent in 2016) and across rural health clinics (from 40 percent to 82.5 percent). Further improvements tackling bottlenecks in the system are in prospect. More needs to be done to improve the efficiency of spending, targeting both large expenditure areas and areas with a large return on investment (typically, equity-enhancing measures).⁵⁴ There are also more opportunities to exploit in other sectors to support health concerns—for instance on

family planning, gender-based violence, and other aspects of women's empowerment in components of education, skills, and public works programs.

63. While improvements can continue on the supply side, their sustainability is likely to remain limited in the absence of demand-side pressures.

To date, executive interest in the functioning of health systems has been minimal, significantly undermining the strength of vertical accountability relationships. It is donors, rather than the executive, that have applied the main pressure for improved system performance and service delivery—but as continuing weaknesses in governance and accountability show, this is not a full substitute. There appears to be scope to better align public health priorities with political interests—particularly given the demonstrated interest of at least some MPs in clinics in their constituencies. The MHMS is developing a Role Delineation Policy (RDP), defining specific service delivery packages for each tier of the system to match health needs at each tier—including clear roles, responsibilities, and reporting lines at all levels of the health sector.⁵⁵ The RDP reflects a more deconcentrated approach to health service delivery, and while it will not necessarily be more affordable, it may provide a platform for better integrating MPs' interests with health system functioning (rather than CDFs building facilities without staff or supplies, for instance, they could support local service delivery packages). By defining service standards, the RDP may also provide a platform on which greater citizen accountability for health service delivery could be built, though to be sustainable it would need to be reinforced by vertical linkages to public authority. However, some of the

⁵⁴ For details and options, see the World Bank's *Health Financing System Assessment: Spending Better*.

⁵⁵ By being defined around health needs in each tier, the RDP has the potential to better support primary care, including the provision of prevention and early testing services for NCDs (crucial if Solomon Islands is to avoid having its scarce health resources captured by the treatment of NCDs in the more advanced and costly stages) and communicable disease prevention and control (particularly given increased risks of diarrheal and vector-borne diseases with climate change). To be successful, among other things, the MHMS will need to resolve the difficulties it has had to date posting qualified personnel to the provinces and getting them to remain there.

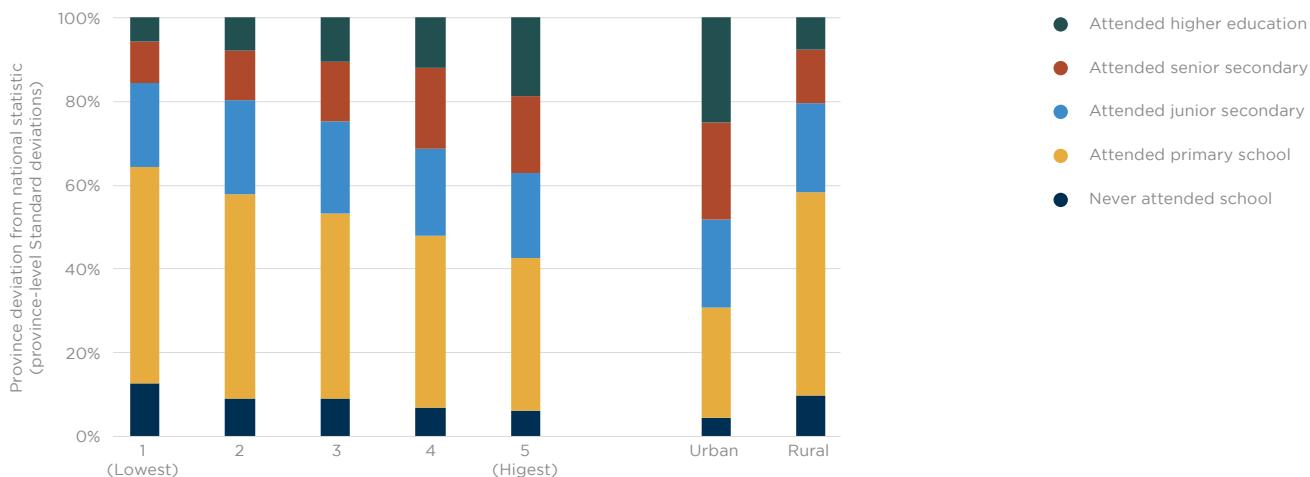
more entrenched health challenges faced—like child undernutrition—require coherence and coordination not just across the health sector but across a range of government institutions covering agriculture and fisheries, education, the status of women, transport, water, and sanitation. The prospects for achieving this kind of policy commitment and state capacity are not strong, so development partners may well need to consider the public good justification for providing ongoing, extensive support on such issues, effectively supplementing the state.

4.3 Education

64. In combination with good health and nutrition, basic education—including early childhood education (ECE)—contributes to cognitive and social development and learning.

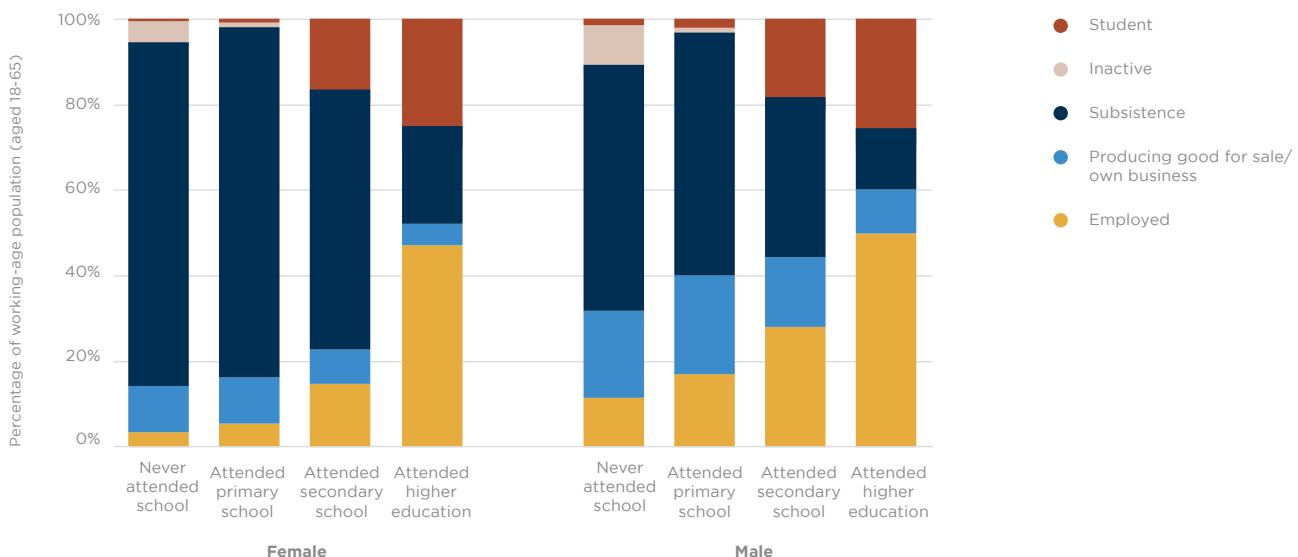
A key component of human capital development, education contributes to a person's productive capacity and income-earning potential. The HIES shows the clear pattern of higher levels of education among higher income quintiles, as well as in urban areas (Figure 21). It also shows the close association between higher levels of education and greater access to paid employment (Figure 22). While at an individual level education is a key determinant of the type of job a person can secure, at an aggregate level education is an important determinant of the types of industries the economy can support. Given, as we saw above, that wealth disparities in reading, language, and cognitive performance emerge before primary school, universal fee-free basic education—including ECE—is of disproportionate importance to the poor, providing a critical opportunity to address inequality and break cycles of poverty.

Figure 21: Shares of household education by quintile, and by urban and rural area



Source World Bank staff analysis of 2012/13 HIES data.

Figure 22: Shares of economic activity by education level, disaggregated by gender



Source World Bank staff analysis of 2012/13 HIES data.

Note 'Subsistence' includes individuals producing goods for own household consumption, unpaid domestic family workers, homemakers, and volunteers; 'Producing goods for sale/own business' includes unpaid workers in family businesses; 'Inactive' includes those who are retired, too old to work, and others who did not pursue any activity.

Current Conditions and Constraints

65. Access and quality challenges in education in Solomon Islands begin in ECE. Gross enrolment in ECE is limited by a combination of limited centers and places and the distance some children would need to walk to reach the nearest center (see Table 6).⁵⁶ The lower net enrolment rate is an indication of the high proportion of overage children in ECE, seemingly due to late enrolment—which then contributes to overage enrolments throughout the rest of the system (see Figure 23). This is no gender disparity in ECE, but HIES data suggest that attendance rates and age-appropriate attendance rates are higher in urban areas.⁵⁷ On quality, indicators of learning resources, teacher

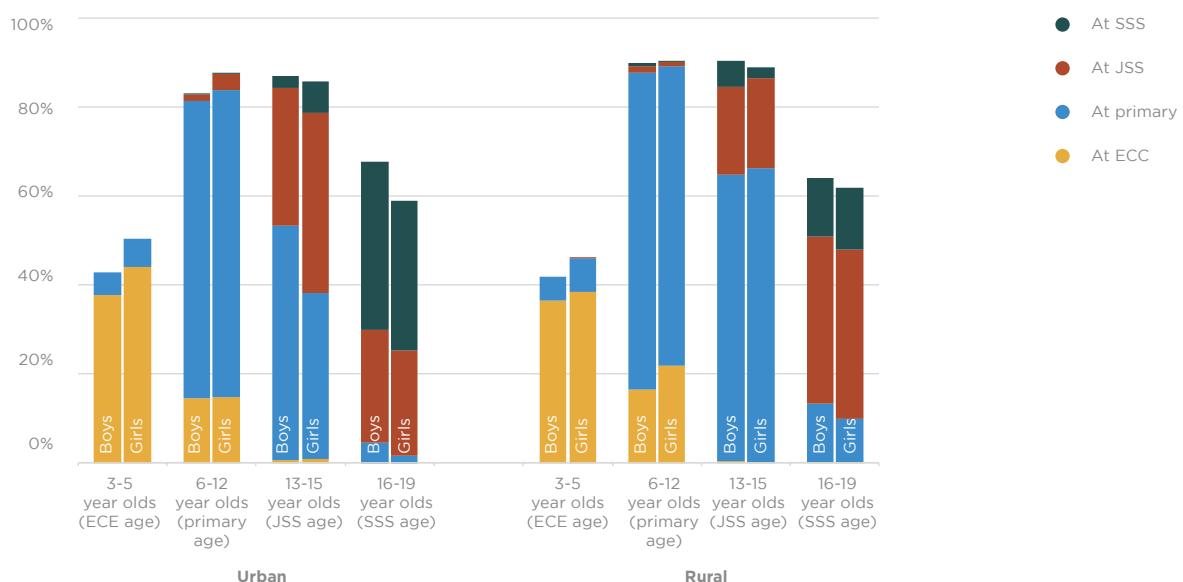
performance, and learning outcomes are not available. However, the proportion of ECE teachers who are certified to teach has been improving over time, to now be just under half. The Ministry of Education and Human Resources Development (MEHRD) has been piloting mother-tongue ECE and early primary materials and teaching in two areas, with good results in learning and in the subsequent transition to English. The MEHRD consider this approach worth expanding, but with 70 distinct languages in use, the challenge would be immense. Aside from these pilots, education materials tend to be in English, whereas the language of instruction is typically Pijin, in some combination with English, depending on the teacher and level.

Table 6: Gross and net enrolment by school level, and gender parity, 2014

	Gross Enrolment Rate (GER)	Net Enrolment Rate (NER)	GPI (of the GER)	GPI (of the NER)
ECE	49.9	34.3	1.0	1.0
Primary	113.0	88.4	1.0	0.97
Junior Secondary	77.2	42.2	1.0	1.1
Senior Secondary	34.2	28.6	0.9	1.0

Source MEHRD 2015a.

Figure 23: Age-level school attendance by gender and rural and urban areas⁵⁸



Source World Bank staff estimates based on the 2012/13 HIES.

Note JSS= Junior Secondary School; SSS= Senior Secondary School.

⁵⁶ Unless otherwise stated all figures are for 2014 from MEHRD's *Performance Assessment Report: 2010-2014*.

⁵⁷ The HIES records attendance, rather than enrolment, so HIES-based figures will not match official enrolment statistics. Age-appropriate attendance from the HIES has been calculated using the official age groups.

⁵⁸ These survey data on attendance compare to official nationwide net enrolment rates in 2013 of 89 percent at the primary level, 42 percent at the junior secondary level, and 29 percent at the senior secondary level.

66. Access to primary education is now good, but its quality is a significant concern. Gross enrolment is now well over 100 percent, but net enrolment is below 90 percent (and its recent trend is declining—meaning a rise in the proportion of out-of-school children). The large gap between gross and net rates is due to a combination of overage entry, grade repetition, and dropouts. Almost one in five students in primary school is overage and the survival rate in 2013 (the proportion of students entering Prep and reaching Year 6 without repeating or dropping out) was only 63 percent (67 percent for boys, 60 percent for girls). The net enrolment rate for girls is slightly lower than for boys. While there are no school fees for primary education, schools charge ‘voluntary’ levies which can be a barrier for poorer families. A quarter of rural children have to walk more than half an hour to school, and although this does not appear to lead

to lower age-appropriate attendance in rural areas overall, it may contribute to the lower net enrolment rate for girls. With respect to quality, although the numeracy standards achieved are quite strong, the literacy standards achieved—particularly for writing—are weak (Table 7).⁵⁹ Teacher quality is a likely contributor to poor outcomes—with only 64.4 percent of primary teachers certified to teach (though the proportion is rising). Students in urban areas outperform their rural counterparts, despite overcrowded classrooms (60 per classroom in Honiara versus about 20 percent elsewhere), higher student-teacher ratios (42.5 versus about 38), and higher student-textbook ratios (32.5 versus about 7). Teacher absenteeism and ineffective use of school grants is reportedly significant, but difficult for the MEHRD to detect, with parents and communities typically not holding teachers and principals to account (perhaps because of their social status).

Table 7: Proportion of primary school children achieving adequate literacy and numeracy standards, 2013–2015

	Literacy (Reading)		Literacy (Writing)		Numeracy	
	2013	2015	2013	2015	2013	2015
Year 4	66.6	75.6	32.3	15.2	66.7	76.3
Year 6	62.4	61.5	61.1	31.0	86.6	90.5

Source MEHRD 2015b.

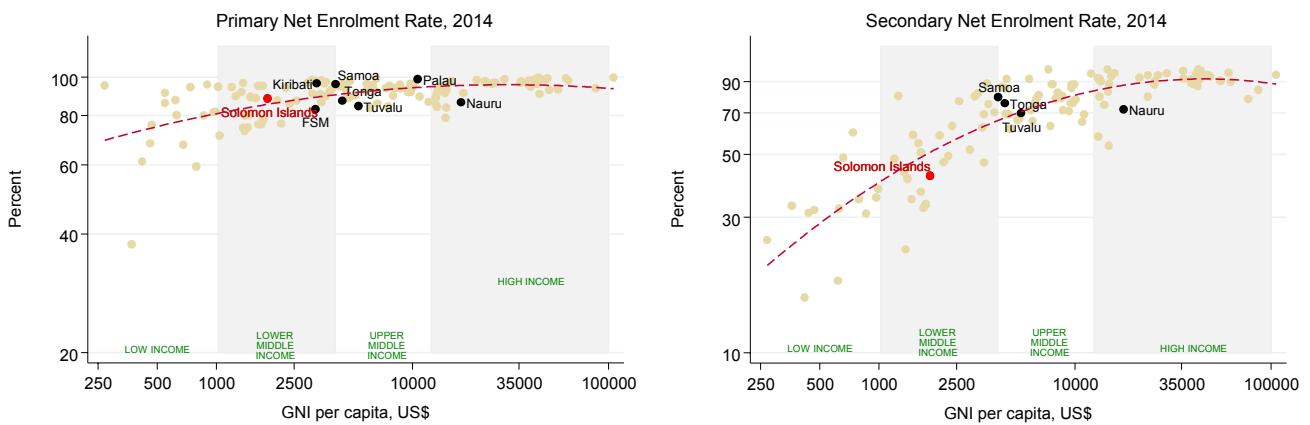
⁵⁹ Estimates of the adult literacy rate vary substantially, from 89 percent for males and 79 percent for females based on self-reports from the census in 2009, to only 17 percent based on a functional literacy test administered to a sample of the population. The latter reinforces what the primary school tests show: a fundamental problem with the quality of basic education.



67. Access is a fundamental problem in secondary education, particularly for rural children. Though rising, net enrolment rates for junior and senior secondary education are below global averages based on GNI per capita (Figure 24). Overage entry and grade repetition drive the large gap between gross and net enrolment at the junior secondary level. The thinly dispersed population is critical to access, with high costs imposed by the need for half of secondary students from rural areas to live away from home. Levies pose an additional barrier to access, together with school fees at the senior secondary level. However, even so, there is unmet demand for places in secondary schools, with exams at the end of Year 6, Form 3, and Form 5 playing a role in the rationing of places. At each of these transition points, dropout rates increase. Strikingly, the survival rate in 2013 (the proportion of students entering Prep and reaching Form 7 without repeating or dropping out) was just 5.7 percent. Gender differences become more pronounced at the secondary level, but in complicated ways.

There is no gender difference in gross enrolment at junior secondary school, but the girls who attend are less likely to repeat grades, so the GPI is 1.1. At the senior level, gross enrolment for girls is lower,⁶⁰ but their reduced repetition brings the GPI up to 1.0. Across the transition from Form 5, only 85 girls who were in the previous grade are placed in Form 6, for every 100 boys. This figure conceals a significant rural-urban disparity, with a lower placement rate for girls in rural areas partially offset by parity in Honiara. HIES data suggest that although school attendance at secondary level are not significantly different between rural and urban areas, age-appropriate school attendance in rural area is only about half that in urban areas. Secondary schools in Honiara are overcrowded (78.5 per classroom versus about 35 elsewhere) and have higher student-teacher ratios (50.5 versus about 28), but learning standards are typically better. The proportion of secondary teachers who are certified to teach has now risen to 77.1 percent.

Figure 24: Primary and secondary enrolment rates by GNI per capita, global comparison



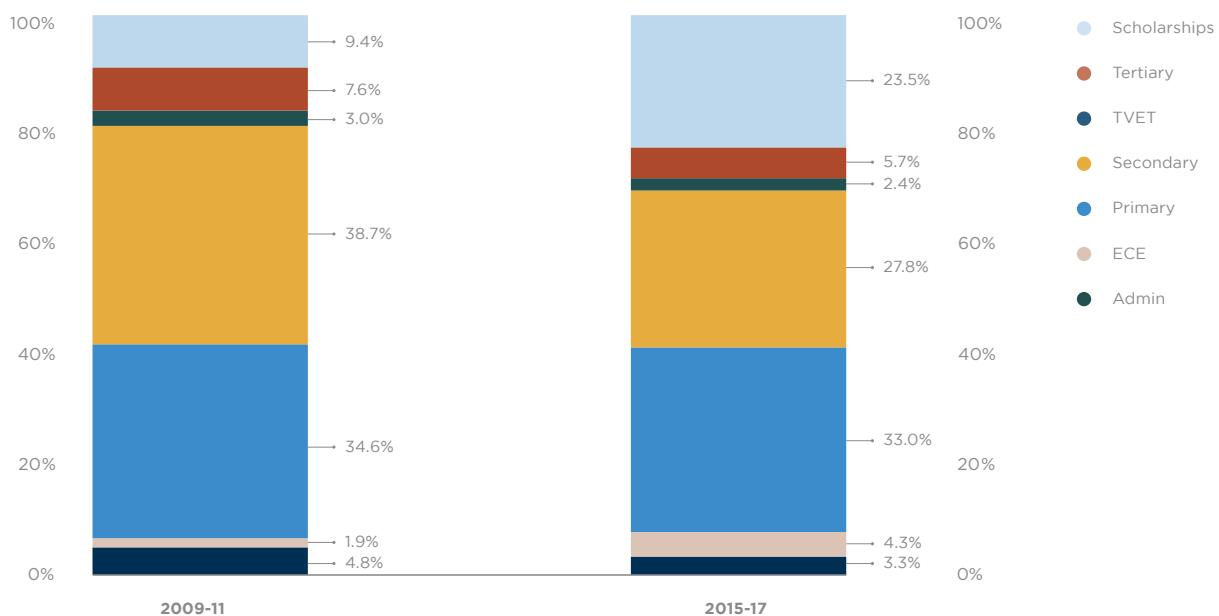
Source WDI; WHO Global Health Observatory.

68. While the National Education Action Plan (NEAP) recognizes the weaknesses in basic education and the high dropout rates at secondary level, public education resources are increasingly skewed toward tertiary scholarships. As Figure 25 shows, the budget for tertiary scholarships has risen substantially over the last decade, from 9.4 percent for 2009–11 to 23.5 percent for 2015–17, primarily at the cost of the secondary education budget. Both from budget allocation choices and from MPs' engagements with the MEHRD, it is evident that tertiary scholarships are MPs' primary focus in education. Labor market surveys do show shortages in numerous technical skills requiring tertiary education, and the government has an established system for identifying the areas that tertiary scholarships should be allocated to, but even the high budgets allocated for tertiary scholarships are regularly overspent and there is a degree to which MPs are able to personally allocate scholarships,

irrespective of the merit of the student or area of study. The current transfer of the management of scholarships to a separate body is unlikely to reduce their budgetary cost or political involvement with them, but it might enable MEHRD management and staff to focus fully on basic education—rather than being diverted to the very difficult area of scholarship administration. Meanwhile, the capacity of technical and vocational education and training (TVET) centers is very limited. The network of Rural Training Centres (RTCs) and TVET centers has fewer than 2,500 places. Only 22 percent of enrolments are secondary school age (less than one percent of secondary school age children)—indicating the limited extent to which these serve as second-chance opportunities for those not in secondary school. Also, only 26 percent of RTC and TVET enrolments are female.

⁶⁰ Reportedly, girls who become pregnant are frequently denied places at secondary schools.

Figure 25: Education budget allocations



Source MoFT, World Bank staff estimates.

Outlook and Opportunities

69. In considering possible avenues to strengthen education outcomes, the hybrid nature of authority in this sector and its wider political economy must be accounted for. The MEHRD is mainly responsible for policy, curriculum, materials, and the payroll for established teachers, while provincial authorities and an array of church and other authorities operate nearly all of the schools (see Table 8). In addition, the New Zealand Ministry of Foreign Affairs and Trade and DFAT have played significant roles in policy, planning, financial management, and infrastructure financing in recent years and numerous other donors and

nongovernmental organizations (NGOs) are involved in particular aspects of the sector, such as ECE and adult literacy. Clearly, the MEHRD cannot control the actual provision of education. For it to be effective, it must work with the active involvement of the provincial, church and other authorities that do control educational provision. Overlaying this hybrid system of authority is a political economy where patronage opportunities from scholarships are of greater interest to political elites than the provision of quality universal basic education. Even with major donor engagement in the sector since the tension and deductions from budget support due to overspending on scholarships, this political economy has proven impervious to influence.

Table 8: Total number of schools by authority type, 2014

	Church	Province	National	Other	Total
Kindergarten	93	357	-	5	455
Primary School	143	361	-	3	507
Community High School	53	167	-	3	223
Provincial Secondary School	-	14	-	1	15
National Secondary School	10	-	2	-	12
Rural Training Centres	35	7	-	1	43

Source MEHRD 2015a.

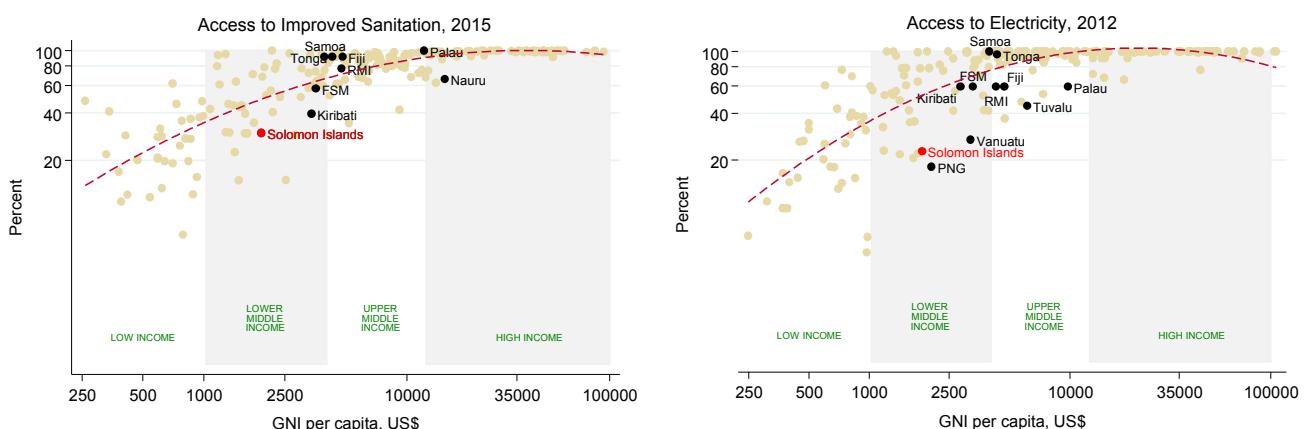
70. Given this context, it is likely to be extremely difficult to improve the quality of basic education through existing systems. The general absence of political interest in the quality of basic education undermines the scope for building vertical accountability linkages in the sector. Without such vertical linkages, attempts to build community-level accountability for school management and teacher performance are likely to be difficult to reinforce and sustain. It may be possible to foster such linkages with provincial and church authorities, if their capacity for management and monitoring is expanded—but again, it is unclear where the pressure for performance on those authorities will come from. Though very challenging, this does not mean that no progress on educational quality can be achieved until the context changes. In the similarly challenging context of Papua New Guinea (PNG), for instance, the World Bank's 'READ-PNG' project has yielded significant improvements in literacy results from interventions increasing the availability of books and learning materials and promoting reading through professional development, professional teacher networks, and public reading campaigns. Assessing contextual similarities and differences and the potential applicability of this approach to Solomon Islands, as well as the sustainability of the original outcomes in PNG, would appear well worthy of consideration. At the same time, work under the NEAP should continue to improve educational access and potentially quality, through additional investment in schools, classrooms, and teachers, increasing the proportion of certified teachers, updating curricula, and improving learning

materials. Social safety nets for education costs (levies, fees, and boarding costs) for the poorest groups and expanded second-chance opportunities (in basic literacy, numeracy, and livelihoods training, not only TVET), would also be beneficial.

4.4 Essential Services

71. Essential services (water, sanitation, waste disposal, and energy) are inherently important to people's well-being, including their health and the health of the environment in which they live. These services also provide a critical foundation for social service delivery (for instance, electricity for vaccination programs or studying after daylight hours). In addition, essential services provide a critical foundation for private sector development. In their absence, for instance, rural households cannot refrigerate perishable farm and fisheries products for later market sales, productive activity is largely confined to daylight hours, and industries cannot establish unless they develop their essential services. The thinly dispersed population and divided terrain of Solomon Islands poses particular challenges for essential services, because the unit costs of infrastructure are frequently prohibitive. In global terms, the scarcity of essential services in Solomon Islands is striking (Figure 26).⁶¹ Improving access to essential services would bring important benefits to women, because they tend to bear a disproportionate burden of increased household work in the absence of these services, and their safety is more at risk when sanitation facilities are not available within reach of their homes.

Figure 26: Access to essential services by GNI per capita, global comparison



Source WDI.

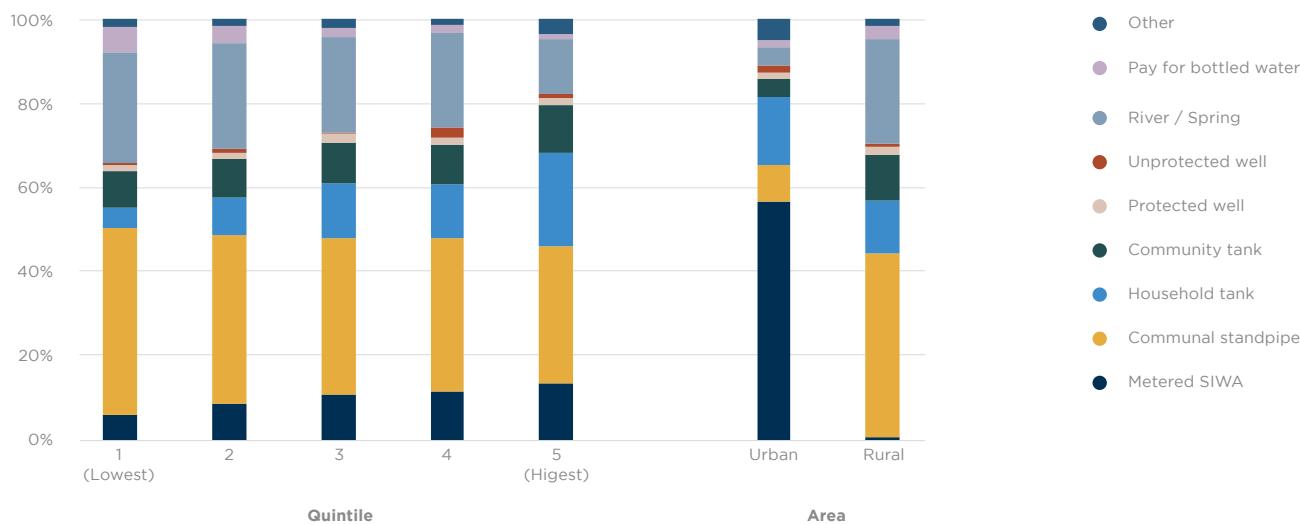
⁶¹ The situation with access to an improved water source is better than other essential services, on par with GNI.

Water: Constraints and Opportunities

72. **Rural or urban location is the primary determinant of water access in Solomon Islands, with income playing a secondary role.** In rural areas, households and communities arrange their own water supplies, and most rural households depend on communal standpipes (Figure 27). Those without an improved water source rely on surface water, rainwater, or hand-dug wells. A key problem with water supply in rural areas is maintenance: many communities have had multiple water systems provided for them by MPs (through CDFs), donors, or NGOs, who have all demonstrated a strong interest in supplying the small-scale infrastructure but who have done much less to ensure it can be properly maintained. It is estimated that half of rural communal standpipes are not fully operational. The Solomon Islands Water Authority (SIWA) operates in Honiara and four provincial urban areas,⁶² providing water derived from resources it leases from landowners.⁶³ Although access to an improved water source exceeds 90 percent in urban areas, piped water is only universally available in formal areas. At the time of the 2009 census, only an estimated 40 percent of households in informal settlements around Honiara had access to metered piped water, with communal standpipes serving most others. Rapid urban development, aging infrastructure, and leakages make the supply and quality of water by SIWA unreliable, especially in informal settlements (wealthy residents can turn to private water tanks). Across Solomon Islands, women usually bear the time and physical burden of collecting water—with the burdens highest in rural areas and for the urban poor. Water quality and scarcity is likely to become more challenging with climate change impacts.

73. **Reforms to SIWA offer potential for better water access and quality in Honiara and other urban areas, but the situation in rural areas remains challenging.** The reform of SIWA began in 2011, with donor support. It focused on putting SIWA on a commercial footing through improved metering, billing, and collections, reduced non-revenue water, basic operational and maintenance improvements, strengthened management, and investment in infrastructure needed to improve the efficiency, reliability, and quality of water service. The improved financial and operational performance of SIWA now means it has the capacity to expand access to water in already served urban areas, but actually achieving this is likely to be hampered by the lack of a title for many residents in informal settlements. There is anecdotal evidence that higher user fees now charged for water—following a tariff review allowing water prices to be adjusted upwards so SIWA could pay its bills and arrears—are resulting in the disconnection of some poorer households. For rural areas, donors and NGO projects continue to replace or upgrade water supply infrastructure, and the emphasis on strengthening capacity to operate and maintain local water systems is increasing. It is less clear how incentives could be provided for CDFs to support community structures and resources for operations and maintenance, not just infrastructure supply. But there could be ways a program like the World Bank's Rural Development Program could play a complementary role, working in conjunction with CDFs to support the establishment, training and resources of community groups who could secure the water infrastructure they require through CDFs.

Figure 27: Water source by quintile and by urban and rural areas



Source World Bank staff analysis of 2012/13 HIES.

⁶² Provincial governments are responsible for the water supply in other urban areas.

⁶³ Water supply disruptions often arise from disputes about late payment for water leases, disagreements over land tenure, or attempts by landowner claimants to obtain higher payments for these water resources.

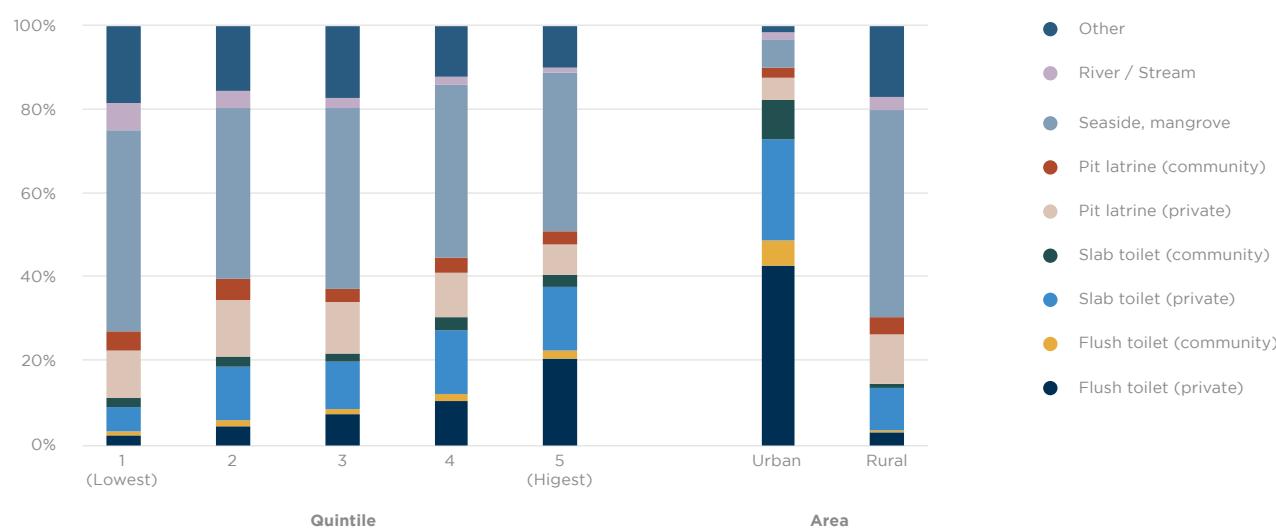


Sanitation: Constraints and Opportunities

74. While the key determinants of access to sanitation mirror those for water, the level of deprivation for sanitation is far more acute, in turn posing a threat to water quality. Access to improved sanitation in Solomon Islands is the lowest in the Pacific. In rural areas, only 16 percent of households have access to improved sanitation—virtually all through pit latrines (Figure 28)—and the rate of open defecation is reported as 66 percent.⁶⁴ The contrast with urban areas is stark, where 68 percent of households have access to improved sanitation and the rate of open defecation is reported as 9 percent. Access varies considerably between formal and informal settlements, however, with a private flush toilet typical in formal areas, but a pit latrine or reliance on community facilities more common in informal settlements. While the greater

level of access to improved sanitation in urban areas is important for human health, the systems underpinning it are not protecting environmental health. SIWA's piped sewerage system covers only half of Honiara, and the sewage is piped untreated into the ocean through 12 outlets around the city. Septic systems and pit latrines in urban and rural areas are often poorly constructed and maintained, and fecal sludge collection and treatment is not widely available, leading to water and soil contamination. Low levels of access to safe water and sanitation lead to considerable health problems, with an estimated 200 deaths per year attributable to diarrhea and other water-and sanitation-related problems. The risks of drinking water being contaminated by sewage increase with heavy rains and flooding, events likely to become more frequent with climate change.

Figure 28: Sanitation facilities by quintile and by urban and rural areas



Source World Bank staff analysis of 2012/13 HIES.

75. As with water, reforms to SIWA are likely to support increased access to improved sanitation in Honiara, but the situation in rural areas remains very challenging. While the improved financial and operational performance of SIWA better positions it to increase the rate of sewerage connections, that outcome depends on whether households can afford SIWA's connection fees and—in informal settlements—provide adequate title. Even if access expands, without better sewerage treatment and fecal sludge management for septic systems and pit latrines, wastewater will become an increasing environmental and human health hazard in Honiara. In rural areas, several donors are working to provide or upgrade sanitation facilities. However, community engagement to create demand for behavior change, as well as supply chains for sanitation equipment and the labor skills needed to install and maintain that equipment in the context of such small, spread-out communities, is likely to remain a significant challenge.

Waste Disposal: Constraints and Opportunities

76. Like wastewater, solid waste management poses a considerable environmental health hazard, one likely to increase with climate change impacts. There are no solid waste disposal services in rural areas, with rubbish building up on land, burned, or pushed into the sea. The HCC is responsible for solid waste collection and management in Honiara,⁶⁵ but public collection services tend to be patchy in both coverage and regularity. Wealthier residents typically pay for private waste collection services. Wealthier residents typically pay for private waste collection services. Otherwise, littering is prevalent, and solid waste is dumped openly in public areas, burned, or pushed into the sea. Where it blocks drains and streams, solid waste contributes to localized flooding after heavy rainfall. There is a landfill site serving Honiara, which has been upgraded in recent years with donor support to reduce the pollution emanating from it—which is exacerbated by heavy

⁶⁴ This estimate, from UNICEF and WHO (2015), may overstate the rate of open defecation, because not all of the response options in the 2012/13 HIES enable open defecation to be distinguished from other forms of sanitation.

⁶⁵ Provincial governments are responsible for solid waste management in the other urban areas.

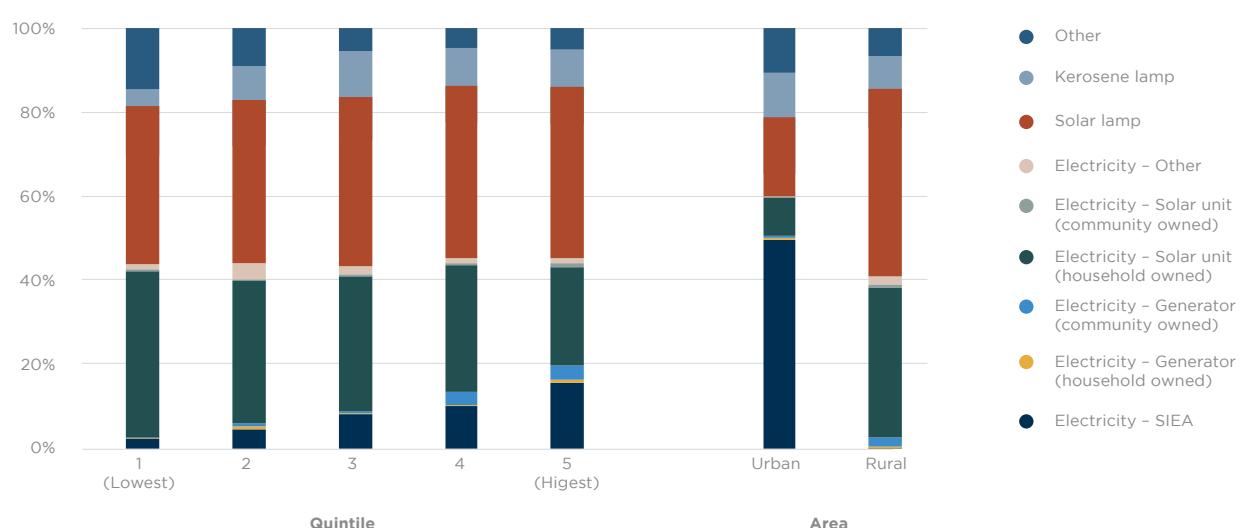
rains and flooding—but the site is rapidly reaching capacity, so a replacement is required. As well as comprehensive provision of reliable services—perhaps beginning with more concentrated urban spaces, significant investment in behavior change would be required.

Energy: Constraints and Opportunities

77. Access to electricity is improving in both rural and urban areas, though the type of service is very different. As we saw earlier in Table 3, in contrast to other essential services, there were significant increases in access to electricity for lighting between the 2005/06 and 2012/13 HIES, particularly in rural areas. For rural households with sufficient electricity for lighting, the vast majority use solar units owned by the household or solar

lamps (Figure 29).⁶⁶ This equipment has mostly been supplied by MPs (through CDFs) and donor and NGO projects. In contrast, the major source of electricity for urban households with sufficient electricity for lighting is the grid run by Solomon Islands Electricity Authority (SIEA). Most other urban households rely on solar units or lamps (more usual in informal settlements). A lower-tiered access for households in rural areas and in informal urban settlements may be appropriate initially, when consumption is low, but it does provide a different level of service (including with respect to continuous supply) and has limited adaptability for scaled-up use for productive purposes. As effective demand increases in progressively more areas of Solomon Islands, higher-grade, scalable or grid-connected electricity access will be required.

Figure 29: Source of energy for lighting by quintile and by urban and rural areas



Source World Bank staff analysis of 2012/13 HIES.

78. Following successful reforms to SIEA (see Box 4), it is embarking on ambitious grid expansion plans. Its objective is to double its number of customers to 30,000 by 2021, through the expansion of the Honiara grid and establishment of new ‘outstations’ (mini-grids) in other provinces.⁶⁷ Since Solomon Islands uses a national uniform tariff, and given the weight of Honiara (where 90 percent of electricity is produced and consumed) in determining that tariff, the higher costs of service delivery in the outstations are effectively cross-subsidized by consumers in Honiara. This, in turn, means that the profitability of its operations in Honiara have an important influence on the resources available to SIEA to improve electricity access in other provinces. In provincial urban areas, SIEA plans to build new outstations, potentially increasing the proportion of households with a grid connection (albeit concentrated in more densely populated areas initially). Securing access to land for the planned outstations is proving a significant

obstacle in some instances. In Honiara and selected outstations, SIEA—with World Bank support—is expanding access for low-income households, both in already served areas and in new areas which the distribution network is being extended to cover. This involves a significant subsidy, to cover the extremely high cost of new electricity connections—equivalent to around 15 percent of the median annual household income in Honiara.⁶⁸ While the initiative is being met with significant interest, it is facing some difficulties because SIEA requires evidence of land title to lay connections to houses, and many low-income households have no formal title as either owners or tenants (a particular problem in informal settlements).⁶⁹ In most rural areas, where small population densities make mini-grids unviable, MPs (through CDFs) remain a key source of electricity infrastructure for households.⁷⁰ There are also a number of small-scale donor-funded renewable energy initiatives in rural areas.

⁶⁶ Similar patterns are evident with the types of energy rural (and informal urban) households use for cooking.

⁶⁷ This objective is reflected in *Solomon Islands National Energy Policy* (SINEP), but is SIEA's initiative.

⁶⁸ The cost exceeds US\$1,000 per connection, due primarily to the high cost of having in-house wiring installed by the limited number of licensed electricians (a safety precondition set by SIEA).

⁶⁹ There is a current government initiative to offer FTEs to households in some informal settlements, but not all have the savings to pay the SI\$ 2,000 premium. Among the few who obtained an FTE previously, those who did not pay the SI\$ 200 rental annually thereafter are also unable to furnish good title.

⁷⁰ While SINEP has rural electrification objectives, the only significant government program operates via CDFs.

THE SUCCESSFUL REFORM OF SIEA

In the last decade, there has been a remarkable turnaround in the performance of SIEA. At the end of 2007, SIEA's performance was poor—on average, customers had their power interrupted at least twice a day and were without power for nearly 2.5 hours a day, largely due to lack of generation reserves and network outages. SIEA's poor financial position was due to a low collection rate, significant customer arrears (including government ministries and other SOEs), high fuel costs, significant non-technical losses, poor billing and accounting systems, and weak internal controls. The frequent and lengthy power-outages reduced household and business productivity and raised costs through damage from power fluctuations and (for businesses and wealthy households) the need to maintain generator-based backup systems. By 2011, SIEA had reached a point of financial crisis. It was close to insolvency, with severe cash-flow problems, and faced the threat of curtailed fuel deliveries, risking power rationing across urban areas. Subsequently, SIEA has increased generator efficiency and improved maintenance arrangements, improved reserve margins by overhauling cooling systems and boosting available capacity, improved fuel supply competitiveness, addressed metering deficiencies and fraud at large commercial customers, shifted to pre-paid meters for the majority of customers, improved customer service, and reformed its financial management and internal audit systems. After two decades of underinvestment due to the previous poor financial position, SIEA has commenced a significant program of capital investment in generation, transmission, and distribution infrastructure—including to expand the reach of its services. The capacity and reliability of the power system has improved and the collection ratio is now high (Table 9), though significant work remains to further reduce system losses.

A number of factors contributed to this turnaround. The government provided an opening for the World Bank to assist SIEA through the Solomon Islands Sustainable Energy Project (SISEP), approved in 2008. Initial progress was slow, however. A vital complement to SISEP was the 2007 SOE Act and 2010 SOE Regulations (supported by the ADB), which provided a new framework for SOE governance, accountability, and performance, and also reestablished a mechanism for community service obligations. A new board was appointed in 2010 under the new regulations, with members selected on the basis of professional and technical expertise, in contrast to the previous practice of political appointments. The effective implementation of the act and regulations at SIEA resulted in improved corporate governance and closer oversight of management performance and guided the design and implementation of a restructuring plan. The near insolvency of SIEA in 2011 then catalyzed action by MoFT to broker a new deal to have SIWA's debts to SIEA paid (SIWA being its largest customer, with debts accumulating from 2008), and to implement fundamental reforms at SIWA (including replacing its board, appointing new management, and allowing water tariffs to be indexed to allow for electricity price pass-through). The electricity bills of other government entities were also to be paid on time, with MoFT making them on behalf of the other ministries. After years of accepting a norm of constant problems with SIEA and poor quality electricity services at high prices, the near crisis at SIEA catalyzed sufficient government commitment—including the interest and involvement of the Minister of Finance—to enable the reforms to proceed. The influence of donors was also important, with expatriate advisers holding important roles in MoFT and the restructuring of SIWA's debt to SIEA being included in the joint policy matrix for budget support. Donors supported reforms and investments at SIWA that were instrumental to improving the situation at SIEA. The remarkable turnaround of SIEA provides a powerful demonstration of how well SOEs can work—a demonstration of benefits that may strengthen the hand of those in government arguing for similar reforms in other SOEs.

Table 9: Changes in SIEA operational performance, December 2007–September 2016

	2007	2016
System average interruption duration index (SAIDI) (minutes per customer per year)	51,840	3488
System average interruption frequency index (SAIFI) (interruptions per customer per year)	816	47
System losses - commercial (percent)	16	11
System losses - technical (percent)	11	11
Collection ratio (percent)	72	92

Source World Bank staff.

79. The extent to which the increased availability of grid connections will translate into increased access will depend critically on the price of electricity. At present, the retail price of electricity of about US\$0.65 per kWh is one of the most expensive in the world. This is mainly due to the high cost of generating electricity from diesel generators using imported fuel and the relatively high fixed costs of establishing and maintaining electricity grids for such small customer bases. Given the uniform tariff, reducing the cost of generating electricity for the Honiara grid is critical to improving electricity affordability across the country. The Tina River hydro scheme has the potential to reduce the tariff to US\$0.33 per kWh in 2022, its first year of operation. It would also facilitate a cost-effective increase in solar generation capacity. Together with planned conversions of existing diesel outstations to solar photovoltaic-diesel hybrids (with support from the Asian Development Bank (ADB)) and new hybrid outstations, Tina River is expected to contribute to a renewables share of 83 percent by 2046. SIEA needs to attract back onto the grid large customers that have opted off it in recent years (in favor of generating their own electricity from diesel) due to the high cost of electricity and ensure that it supplies future large customers, to spread the fixed cost of supply and thus also more affordable prices.

4.5 Disaster Risk Management and Climate Adaptation

80. DRM and climate adaptation are critical to the lives and livelihoods of Solomon Islanders, particularly the poorer quintiles who tend to be the most vulnerable. As articulated in its Intended Nationally Determined Contribution, “For Solomon Islands..., where climate change threatens the very existence of the people and the nation, adaptation is not an option—but rather a matter of survival.” At the micro level, risk reduction and adaptation are vital to the physical health and safety of people, as well as to the protection of household, community, and environmental assets that are essential to their livelihood opportunities. At the macro level, risk mitigation, preparedness, and financial protection are vital to reducing the extent of growth shocks from natural disasters and increasing the extent to which scarce resources can be used to expand the capital stock, rather than constantly being required to rebuild capital lost as a result of disasters. Risk mitigation covers an array of measures and institutions, from better coordination and governance, through effective land use planning and resilient housing and infrastructure, to operational early warning systems and emergency response plans.



Current Conditions and Constraints

81. The geographic location and characteristics of Solomon Islands make it highly prone to natural hazards. It is among the 20 countries with the highest economic risk exposure to two or more geological, hydrological and climatic hazards that include tropical cyclones, volcanic eruptions, earthquakes, tsunamis, landslides, floods, and droughts. Over the past 36 years there have been eight major disasters triggered by natural hazards, resulting in loss of life and severe adverse economic impacts. Modelling suggests that due to natural hazards and climate change pertaining to earthquakes/tsunamis and cyclones alone, over the next 50 years Solomon Islands is likely to incur annual average direct losses equivalent to 3 percent of GDP, has a 50 percent chance of experiencing an event causing a loss exceeding 35 percent of GDP and casualties larger than 1,650 people, and has a 10 percent chance of incurring a catastrophic event causing a loss exceeding 77 percent of GDP and casualties larger than 4,600 people. Key disaster risks related to climate change include drought and flooding from periods of more extreme rainfall, more intense (but less frequent) cyclones, and increased impacts of storm surges and coastal flooding from sea level rise. Sea level rise in Solomon Islands is almost three times the global average, and has already claimed five islands.

82. Rural and urban populations are both highly vulnerable to disaster risks. A substantial share of the rural population lives on or very near to the coast, with livelihoods dependent on nearby agricultural land and nearshore fisheries. In urban areas, especially informal settlements, residents are highly vulnerable to flooding and landslide events, in addition to cyclones and earthquakes. This is due in part to the location of informal settlements within the city boundaries, which in many cases are on land deemed unsuitable for development due to it being adjacent to rivers and streams or consisting of steeply sloping terrain. It is also due to inadequate or poorly maintained infrastructure, including poor or non-existent drainage systems, and road and footpath access that become impassable with heavy rain. Vulnerability is heightened by the quality of housing, with an estimated two-thirds of housing in informal settlements made of temporary or semi-permanent materials—including traditional materials such as are used in rural areas. The vulnerability of the urban poor to natural disasters was starkly illustrated during the April 2014 flash floods, triggered by extreme rainfall hitting a steep and small catchment, increased river sedimentation, and developments downstream that impeded river flow. While early warning is difficult in the event of flash floods, the weather alerts that were issued did not result in the people in vulnerable areas evacuating to higher ground. Some 22 people died and approximately 675 houses were destroyed, primarily from the settlements around the Mataniko River. Housing has since been reconstructed on the land that was affected by these floods. Aside from extreme events, increasingly heavy rainfall is now triggering annual, widespread flooding of human settlements in Solomon Islands.

Outlook and Opportunities

83. Solomon Islands has brought climate and DRM together in a single policy and institutional structure to establish a more effective and integrated approach to climate and DRM, but it has been slow to build the capacity needed in this area. The budget for specific DRM activities across government is relatively small, averaging 0.4 percent of the consolidated budget over the last five years (unchanged from the five years previously). Small numbers of staff with limited skills are a significant constraint, and attention has tended to be focused more on DRM than disaster risk reduction (DRR). In addition, some staff recruited for placement in provincial governments to provide more effective disaster response at the provincial level remain in Honiara, reportedly due to lack of office space and housing in some provincial centers. At the same time, there is a substantial degree of fragmentation in the climate and DRM portfolio, resulting from numerous individual projects supported by different donors, further eroding the potential for the adoption and implementation of a coherent and strategic framework. The World Bank's Community Resilience to Climate and Disaster Risk in Solomon Islands Project is geared at assisting the government to take a more coherent and strategic approach to climate and DRM and DRR, including early warning systems. Priority areas include community-level water supply and sanitation, disaster risk and climate adaptation planning, and evacuation centers, infrastructure, and coastal protection in the most vulnerable communities (for instance, on low-lying islands or other vulnerable human settlements).

84. While donor support may, in some instances, succeed in increasing the attention of policy makers to the importance of DRM and DRR, citizen engagement also has the potential to change the policy dynamics in Solomon Islands. Given both the rapid rate of urbanization and the extreme vulnerability of the urban poor to disaster events, there is some potential for popular pressure to increase the interest of political elites in DRM and DRR. This might be particularly true if accurate information about the causes of disasters—both regular events and extreme events like the 2014 floods—is widely shared, to galvanize commitment to addressing the underlying problems. Further loss of agricultural land in rural areas might also spur wider public discontent that could provide more of an impetus for efforts to build agricultural resilience to climate variability and climate change. However, at their core, climate adaptation and DRM will inevitably intersect with land issues: government acquisition of land for the relocation of vulnerable services (including the national referral hospital) and infrastructure; rural communities who need to negotiate access to alternative places to live, farm, or fish; and urban and peri-urban settlements that are highly exposed to disasters but cannot be relocated in the absence of access to alternative land spaces. Climate change is thus likely to expose the weaknesses of current land systems and force a reckoning with them much sooner than would have been the case otherwise.



PILLAR 2: ACHIEVING INCLUSIVE AND SUSTAINABLE GROWTH

85. Under this pillar, the SCD focuses on challenges and opportunities for inclusive and sustainable growth and their implications for macroeconomic stability and risks. The section begins by outlining the sectors in which Solomon Islands can potentially be globally competitive, consistent with its economic geography. It then analyses the growth potential, inclusiveness, and sustainability of each sector. Following the sector-specific analysis, it outlines the macro-fiscal challenges Solomon Islands is likely to face over the medium term, given the current macro-fiscal position and the outlook for different sectors of the economy.

86. As the country context section has laid out, the sectors in which Solomon Islands can potentially be globally competitive are highly constrained by its economic geography. In 2010, the World Bank undertook a detailed analysis of its economic geography and identified the sectors where there is significant growth potential

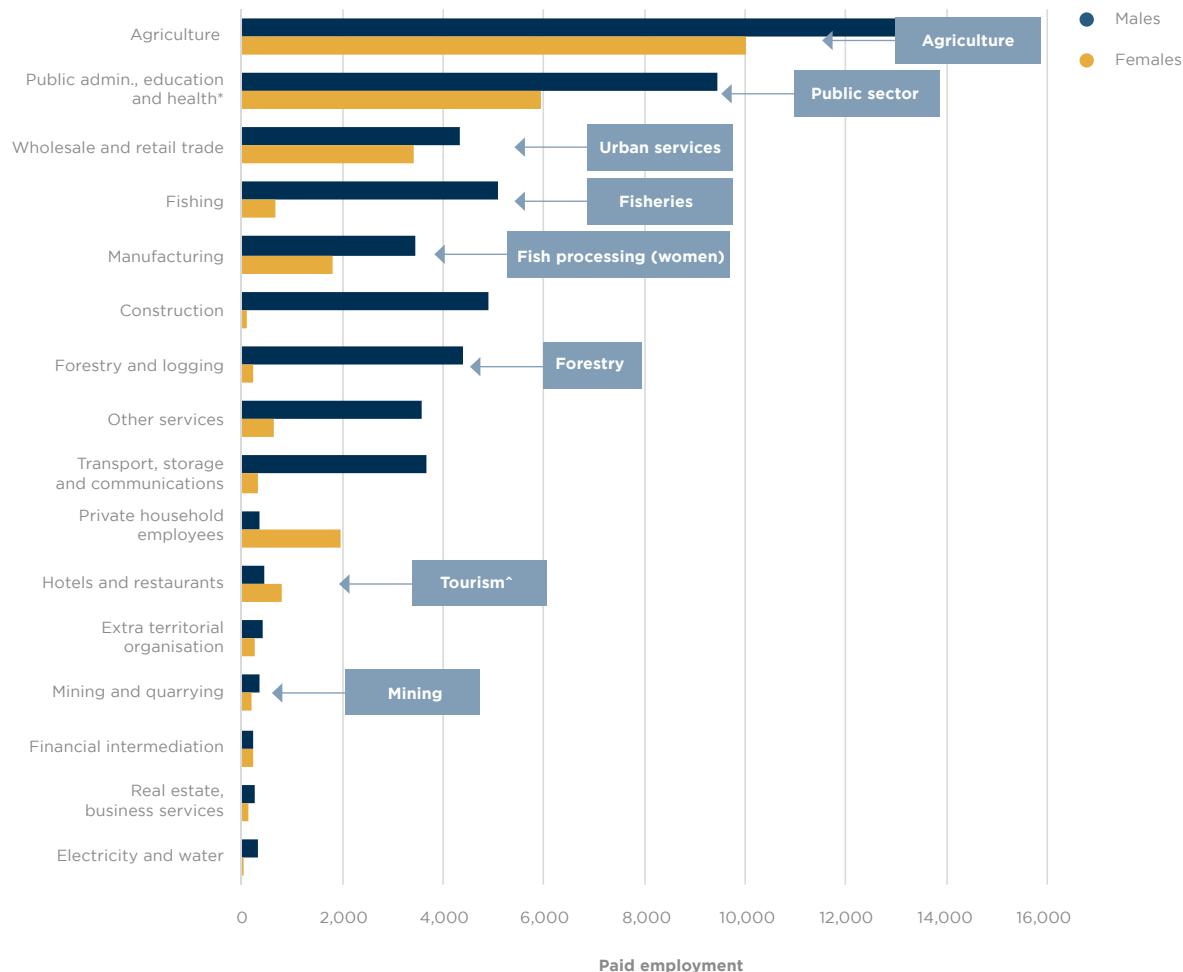
(see Box 5). This SCD builds on that analysis, by focusing on the constraints and opportunities for inclusive and sustainable growth in each of those sectors. Of the sectors identified in that earlier work, agriculture and fisheries, logging and urban services—driven by the public sector—already represent significant shares of the economy (as presented earlier in Figure 9) and/or make significant contributions to growth (as shown in Figure 10). The remaining sectors—mining, tourism, and labor mobility—are yet to be developed to any significant extent (though in the case of mining, it has been in the past). While the job intensity of these sectors varies, the existing dominance of agriculture and fisheries, the public sector and other urban services, and logging in the distribution of jobs is clear in Figure 30. The potential of different sectors for job creation is particularly significant for poverty reduction, with HIES data demonstrating that households whose head has paid employment (especially a public sector job) are less likely to be in poverty (Figure 31).

BOX 5

SOLOMON ISLANDS GROWTH PROSPECTS: CONSTRAINTS AND POLICY PRIORITIES

The World Bank undertook this analysis in 2010 in response to a request from the government to investigate future growth prospects for Solomon Islands. At the time, post-conflict growth had been driven by the rapid expansion of logging (with commercially exploitable stocks then expected to be exhausted by 2014) and large increases in international aid flows (which, with the improving security situation, were then expected to flatten out). The World Bank analyzed the growth experiences of small states that had achieved high levels of growth since 1970 and showed that the bulk of these depended on natural resource-based industries and tourism, with remittances and economic reform in the wake of major economic shocks playing a role in a few growth experiences. Taking into account both the particular economic geography of Solomon Islands and its weak governance with limited capacity for regulatory and economic policy reform, the World Bank identified four key sources of economic growth: a vibrant smallholder agriculture sector, natural resource industries that benefit Solomon Islands, an internationally mobile workforce, and international partnerships that recognize the central, long-term role of aid in supporting public service delivery and providing an added stimulus to the local private sector. In recognition of the fact that growth from the identified sources would not be distributed equally across the country, the World Bank also identified two key enabling requirements: building efficient connections between centers of economic activity and to surrounding populations and facilitating the concentration of population and production in urban centers. These issues are taken up in this SCD under the third pillar on managing uneven development.

Figure 30: Employment by sector and gender

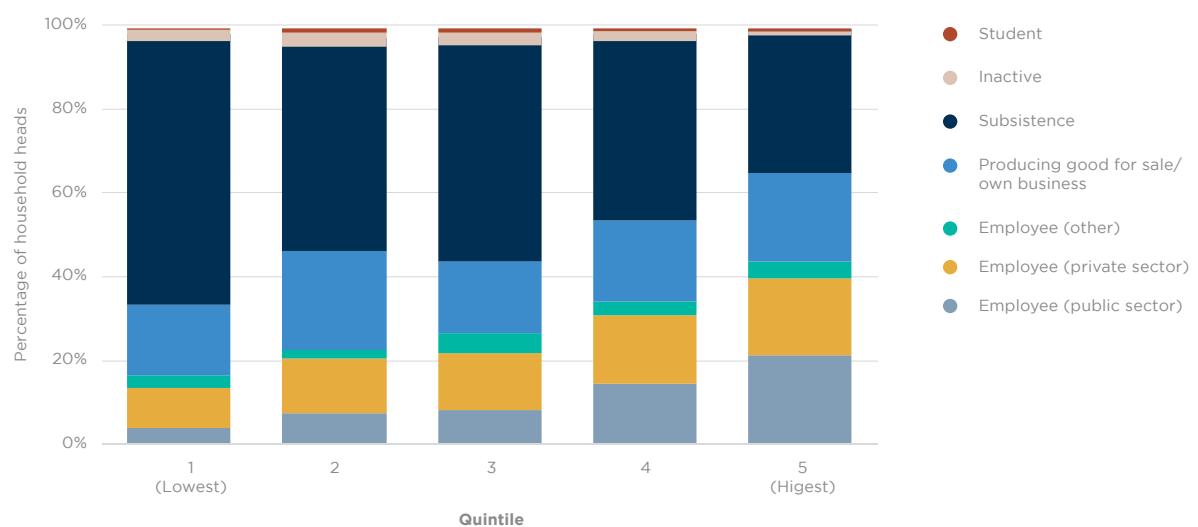


Source World Bank staff analysis of the 2009 census.

Note *Includes direct wage employees as well as established staff;

^Other categories, like transport and trade, are also key to the tourism sector.

Figure 31: Employment status of household head by quintile



Source World Bank staff analysis of 2012/13 HIES.

5.1 Agriculture and Fisheries

87. The agriculture and fisheries sector is the most important sector of the economy for livelihoods. Almost all rural households have a vegetable garden, and subsistence production for household consumption is the primary economic activity of 53 percent of working-age women and 42 percent of working-age men in rural areas (and a secondary economic activity for an additional 14 percent of women and 17 percent of men). On average, 51 percent of rural household income is derived from crops (29 percent), fisheries (12 percent), and livestock (10 percent). A further 5 percent is derived from home production activities, some of which (such as weaving mats) are based on agricultural inputs. In urban areas, just under half of households have a vegetable garden, and crops, fisheries, and livestock contribute 6 percent of urban household income.⁷¹ The non-logging agriculture and fisheries sector now constitutes 20.7 percent of GDP, and its contribution to GDP growth since the end of the tension has been roughly in line with that, accounting for 20.2 percent of the growth between 2003 and 2014. The state obtains a fairly limited share of the returns in the sector through taxation, with only the larger formal enterprises involved in the export of cash crops falling within the tax net. The state does, however, obtain significant revenue from access fees to the oceanic fishery—now nearly 10 percent of domestic revenue (see Box 8).

thus result in higher prices, or in selling higher-value products). Men tend to dominate cash crop production, which typically occurs on the prime agricultural land. It is estimated that 30 percent of the value added in the copra industry accrues to the approximately 40,000 smallholders, while for cocoa some 20 percent of the value added accrues to the 24,000 smallholders and 57 percent to the 2,000 processors.⁷² The only large-scale agriculture is an oil palm plantation on alienated and customary land on Guadalcanal.⁷³ The plantation provides some 1,500 jobs, 60 percent of which are held by men, and there are now 233 out-growers on surrounding customary land.

89. The ability of the agricultural sector to continue to support the livelihoods of such a large number of people in the near future is subject to a number of risks. The availability of land suitable for agriculture is very limited, due both to the mountainous topography and to the weather—with mean rainfall in many areas excessive for most agricultural activities (Bourke et al. 2006). Soil fertility is reportedly declining due to more intensive land use, the impact of deforestation, and in some areas also the impact of mining. Critically also, the sector is highly vulnerable to the impacts of climate change. Higher temperatures, more intense and shorter periods of rainfall, more intense and longer periods of drought, more intense storms (with high winds, flooding, and coastal erosion), salt water intrusion, and coastal inundation (most agriculture occurs in coastal areas) are all anticipated to reduce yields, change established patterns of pests and diseases, and increase the volatility of output.⁷⁴ Sea level rise or extended periods of inundation are also expected to result in the permanent loss of agricultural land. The potentially negative impact on food security and nutrition is a serious concern. At the same time, the evidence suggests that agricultural producers in Solomon Islands are very responsive to price signals, suggesting their potential receptiveness to adopting higher yielding or more robust varieties and practices. There are now also several relatively large commercial agricultural operations, which have adopted innovative ways of overcoming key constraints in the sector—including high internal transport costs, the challenges of smallholder land tenure, access to finance, and lack of extension services (see Box 7).

Agriculture

88. Consistent with the nature of the land tenure system, most agricultural activity consists of smallholder production and the sector is highly inclusive. In rural areas, most households engage in food and cash crop production on customary land (see Box 6). They produce a variety of root crops, vegetables, and fruits for own consumption and for sale in domestic markets, livestock (mainly poultry and pigs), and cash crops for export (primarily copra and cocoa, to a limited extent coffee, with nascent exports of other crops). Typically, smallholders engage in some combination of food and cash crop production. Women tend to dominate the production and marketing of food crops and small livestock (and, near Honiara, flowers), but occupy more limited roles in cash crop production (typically not in tasks regarded as more physically demanding, in the post-harvest practices that add value and

⁷¹ All previous statistics in this paragraph are based on World Bank staff analysis of the 2012/13 HIES. The income statistics reflect the (democratic) average of the composition of income across households, excluding imputed rent and the income-equivalent of goods produced for home consumption.

⁷²Young and Pelomo (2014); Vadnjal and Pelomo (2014).

⁷³The other large-scale agricultural activity, Russell Islands Plantation Estates Ltd coconut plantations, has been inactive since the tension. The plantation in Central Province could potentially be redeveloped.

BOX 6

LAND AS A FACTOR OF PRODUCTION

Both land that is under customary ownership and land that has been alienated serve as factors of production in Solomon Islands. The former is used mainly for subsistence and smallholder agriculture and or is forested. The latter includes urban land, the land used for large-scale agriculture and forest plantations, and the land for the fish cannery. Secure access to customary land for commercial use—as well as for the development of infrastructure—is frequently cited as a major constraint to private sector development in Solomon Islands.

The customary landholding system undoubtedly constrains commercial development, but whether it is a binding constraint is less clear. It is evident that some investors are able to negotiate benefit-sharing arrangements that secure the support of local landowning groups, enabling their access to land for commercial purposes. The government has also been able to do this with land for infrastructure (though at times senior male landowner representatives succeed in demanding extraordinary payments for the use of their land or the water from it). It is also evident that the existing system for registering customary land (rather than the fact that land ownership is widely distributed among local landowning groups) poses a number of risks. The trusteeship system risks unscrupulous ‘representatives’ effectively usurping the rights of members of landowning groups, by negotiating the commercial use of land without necessarily consulting or securing the consent of the whole landowning group or sharing the rents with them. This disadvantages women and youth in landowning groups, whose interests are often marginalized, and is risky for investors, whose lease may not be seen as legitimate. The large backlog of land-related legal disputes also raises the risks to landowners and investors.

The government is currently investigating alternative models to the existing system, including making landowning groups (rather than ‘representatives’) corporate actors. If this can be done in such a way that it secures the rights of all members of landowning groups, it might improve the equity of and reduce the reservations of landowners over the commercial use of their land. The government is, for instance, interested in aspects of Vanuatu’s approach to dealing with gender issues in title transactions. Just as there are risks with the present system, so there will be with any reforms. Given the complex and contested nature of land ownership and access and that customary landholdings are currently unmapped, systems that define exclusive ownership once-and-for-all may provoke inter- as well as intra-group conflicts along generational and gender lines, as commercialization processes have in the past (Allen 2017).



90. A number of initiatives are currently underway to tackle the challenges facing the sector and enhance its capacity to meet food and nutrition needs in the face of population growth, and climate change should be viewed as a high priority. The agricultural sector is described as a priority in the NDS, and there is a specific agriculture and livestock sector policy in place. However, the ability of the state to provide effective research and extension services, pest and disease control, and the like to improve agricultural yields (in the face of population pressures) and resilience (in the face of climate change) is limited. Basic data on agricultural production is lacking, core research facilities destroyed in the tension were never rebuilt,

the recurrent agriculture budget is scant, and the state has a limited ability to reach rural populations. The UN Food and Agricultural Organization (FAO) is supporting an agriculture survey and financing pilot agriculture and climate change adaptation activities for potential scale-up. There is further space to supplement or substitute for research and development capacity to improve yields, strengthen resilience, and account for nutritional needs, and there is a complementary need to explore the potential of innovative and collaborative modes of delivering agricultural support to smallholders—including through the private sector, churches, RTC network, NGOs, or community-based organizations with a strong presence in rural areas.

BOX 7

AGRICULTURAL VALUE ADDING

The virgin coconut oil (VCO) industry in Solomon Islands demonstrates a number of market-based solutions to the challenges of economic geography. Operating since 2004, Kokonut Pacific is a social enterprise creating sustainable livelihoods for rural communities. Typically, manual presses are operated by family units, producing organically certified VCO from dried coconut meat supplied from their own or surrounding small-scale coconut farms. Residual coconut meal supplements livestock feed, increasing protein supply, and coconut shells serve as fuel for the drier, mitigating the need to use forest resources. There are now about 60 active operators, each with the capacity to employ 6–8 workers. Unlike the male-dominated copra industry, women account for about half the employment in the VCO industry and are not confined to particular, gender-specific roles. Kokonut Pacific effectively provides agricultural extension services for the industry, with training in VCO production and business skills accompanying the setup of new presses. Through partnership arrangements, financial literacy training and mobile banking are also provided to operators. Differential pricing gives operators the incentive to produce high quality oil, with women-led operations typically more consistent with the quality of supply. The high-value, low-volume VCO minimizes freight costs for shipping to the warehouse in Honiara, and the company reimburses producers for these shipping costs up to a ceiling, to ensure all producers receive the same price for their VCO, facilitating a degree of geographic spread in supply. At present, Malaita and Guadalcanal account for over 80 percent of production, with Isabel dominating the remainder.

Most of the VCO is exported to niche markets. While the VCO generates a net return for operators that is significantly higher than traditional copra production, during periods of peak copra prices it is hard for operators to obtain sufficient coconuts. The costs of acquiring and setting up a press are prohibitive for most Solomon Islanders—at around SI\$ 150,000 per unit—with access to finance a key constraint. Thus, only a few units have been purchased privately. Some have been established by development partners or provincial governments, but most have been funded by MPs through CDFs. As such, most of the capital equipment of smallholders in the industry was free to the smallholder. (A favorable relationship with the relevant MP or provincial authority would have been a prerequisite for its supply.)

The expanding palm oil industry demonstrates another set of market-based solutions to economic geography and political economy challenges. Guadalcanal Palm Oil Plantation Ltd. (GPPOL), part of the PNG-based New Britain Palm Oil Group owned by Malaysian conglomerate Sime Darby, manages plantations on 6,700 hectares of alienated land and registered customary land, with 233 out-growers on 700 hectares of adjacent non-registered customary land. It purchased the plantations in 2005, redeveloped them after widespread destruction during the tension, and secured Roundtable on Sustainable Palm Oil (RSPO) certification. Consistent with RSPO certification, GPPOL and its associated out-growers cannot, since 2005, develop land that is primary forest or where development affects one or more High Conservation Values. GPPOL has a zero-deforestation policy. Mitigating the extent of soil erosion and land degradation, most of the planted land is flat, not surpassing a 9-degree incline. GPPOL is now the second largest private employer in the country, with about 1,500 workers in its core operation, 40 percent of whom are women working in a variety of roles.

GPPOL operates in accordance with a Memorandum of Understanding (MOU) with an association of the landowners who lease their land for its plantations. GPPOL gave this Guadalcanal Plains Resource Development Association (GPRDA) a 20 percent stake in GPPOL—with lease payments, royalties, and other benefits set out in the MOU. These benefits are controlled by a small number of trustees, usually senior men, but the out-grower scheme provides more opportunities for women and youth (Allen 2012). GPPOL appears to have widespread community support, though there have been occasional grievances over its land leases and employment conditions. Given the history of the plantation and the tension, GPPOL agreed with GPRDA to prioritize employing people from the surrounding area, with 60 percent of its workforce Guale and only 2-3 percent Malaitan (compared to over 90 percent before the tension). GPPOL provides amenities and the equivalent of public services in the company area: housing for workers, water and electricity supplies, sports facilities, school buses, market venues and health centers (employing medical staff and procuring its own medical supplies). Outside the company area, GPPOL supports surrounding schools with teaching materials, regularly grades access roads, provides minor infrastructure projects, and allows free access to its health facilities to all members of surrounding communities. Effectively, GPPOL substitutes for the state in the area, as some large-scale mining operations do in other country contexts.

GPPOL plans to expand operations to cover a further 7,000 hectares of customary land. This relies on donors financing the road and bridge infrastructure to reach the new production areas. It also relies on GPPOL securing the registration and lease of enough customary land on Guadalcanal Plains—the largest tract of arable land in the country—for the nucleus plantation. Having a higher share of the new area under out-grower production might help to balance the interests of senior men who typically benefit from lease and royalty arrangements with women and youth who have more to gain from out-grower participation. With its out-grower scheme, GPPOL can effectively secure the use of customary land without it being alienated or registered (GPPOL advances credit to an out-grower on the basis of a company form signed by a relevant chief indicating recognition of the out-grower's tenure (Allen 2012). This process is not seamless, with disputes occasionally arising over the use of customary land by out-growers. In-grower models might also be worth considering, to make the registration and lease of land more attractive to a wider set of members within landowning groups. To address the constraint of access to finance for out-growers, GPPOL provides interest-free loans for out-growers to purchase seedlings, tools, and fertilizers, with repayments deducted from future harvest payments (typically three years from planting). GPPOL also provides extension services to out-growers to maximize yields and ensure compliance with RSPO standards.

Fisheries

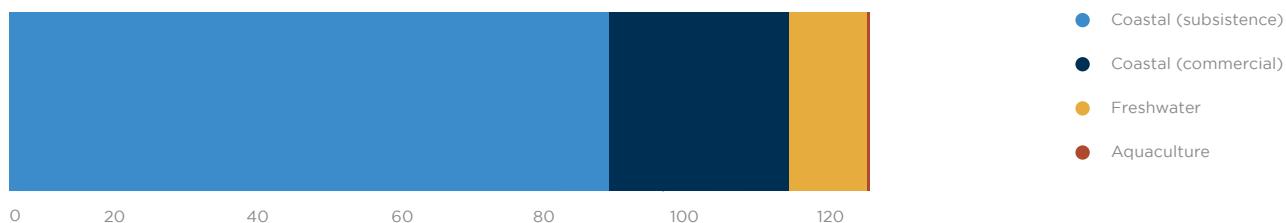
91. Coastal fisheries in the Solomon Islands is dominated by subsistence activity and—like agriculture—is highly inclusive. Households fish primarily in in-shore areas close to their customary lands for subsistence (with similar freshwater fisheries activity in rivers and lakes). The main products are finfish and shellfish, either for own consumption or sale in domestic markets. Fish and seafood provide 92 percent of the animal protein intake in the Solomon Islands, 64 percent of which is from subsistence fishing.⁷⁵ There is also a modest coastal commercial fishery supplying finfish for domestic consumption from small-scale vessels operating in lagoons, reefs, and archipelagic waters, supplying baitfish to National Fisheries Developments (NFD) for its two pole-and-line vessels operating in archipelagic waters, and supplying bêche-de-mer, trochus, and shark fins for export. In addition, there is a nascent smallholder aquaculture industry, primarily seaweed for export (see Figure 32). Men dominate the sector (with 90 percent of men participating in some form of fishing activities), tending to do most of the coastal reef fishing and using diverse methods and equipment. Women still play a major role however (with 50 percent of women participating in fishing activities) and are estimated to take half the subsistence catch—primarily from in-shore areas. They also collect bêche-de-mer and shellfish to generate income (including from handicrafts). Women play a major role in the local marketing of by-catch from oceanic fishing vessels. There are reports that sex work is sometimes undertaken on these vessels in return for fish to sell.

92. The ability of coastal fisheries to continue to support the food needs and livelihoods of Solomon Islanders is under imminent threat. While data are scarce, coastal fisheries are broadly recognized as being fully exploited or overexploited, due to the high dependence on fish to meet the food needs of the rapidly growing population and the demand from Asian markets for key highly valued species. These two forces, together with the disconnect between customary management and a ‘western’ state-based regulatory framework and mindset,

have seen customary limits on fishing access and effort overwhelmed. The fisheries are also being adversely affected by degradation of essential fish habitats. Logging-induced sedimentation, sewage and solid waste pollution, mangrove clearing, destructive fishing practices, and coral mining degrade the productivity of nearshore fisheries. Climate change poses additional threats, including changing spawning behavior and fish stock locations and damage to reef ecosystems from more intense storms, increased sea-surface temperatures and acidification, and coral bleaching. However, even in the absence of climate change-related threats, projected population growth is likely to overwhelm coastal fisheries, leading to resource collapse. As well as the damage to livelihoods, the food fish gap is projected to widen over the coming decades.

93. For coastal fisheries to become a sustainable source of food and livelihoods, it is critical that existing efforts to develop community-based resource management (CBRM) be accelerated and complementary measures put in place. Given historical patterns of localized resource control and the limited capacity and reach of state authority over fisheries, ‘western’ state-based regulatory approaches to managing coastal fisheries are very unlikely to work. The Ministry of Fisheries and Marine Resources Development (MFMRD) is supporting CBRM for coastal fisheries, as part of a regional initiative of the Melanesian Spearhead Group, with technical assistance from the Secretariat of the Pacific Community (SPC). To be effective, MFMRD will need to spearhead the provision of support services—through provincial governments and/or non-state actors—to interested local communities and networks of communities to enable them to maximize the value of their resources in accordance with their needs. This may include analysis of fish stocks status, facilitation of management plans based on customary rights but at an ecologically-relevant geographic scale, and capacity building for local decision making, goal setting, planning, and enforcement. Given the different roles men and women typically play in coastal fisheries activity, it will be critical for approaches to CBRM to be gender inclusive. With some 4,000 coastal villages in the Solomon Islands, this will require significant budgetary resources over a long period.

Figure 32: Annual fisheries harvest by value (SI\$ m), 2007



Source World Bank staff analysis of 2012/13 HIES.

⁷⁵ Govan 2013.

The local plans and access rules that communities set (including long-term marine reserves, to help rebuild stocks and increase catches in fishing zones), will also need to be codified and enforced at the local and provincial level with support from the MFMRD. As more effective local management helps to restore nearshore fish stocks, food needs will need to be supplemented through greater

access to oceanic fisheries, other sources of protein (such as poultry), and aquaculture. Aquaculture can also generate income if focused on high-value nearshore resources such as bêche-de-mer. Great care is needed with policies on commercial nearshore fisheries, to ensure these do not drive over-exploitation and are instead developed within local management systems.



BOX 8

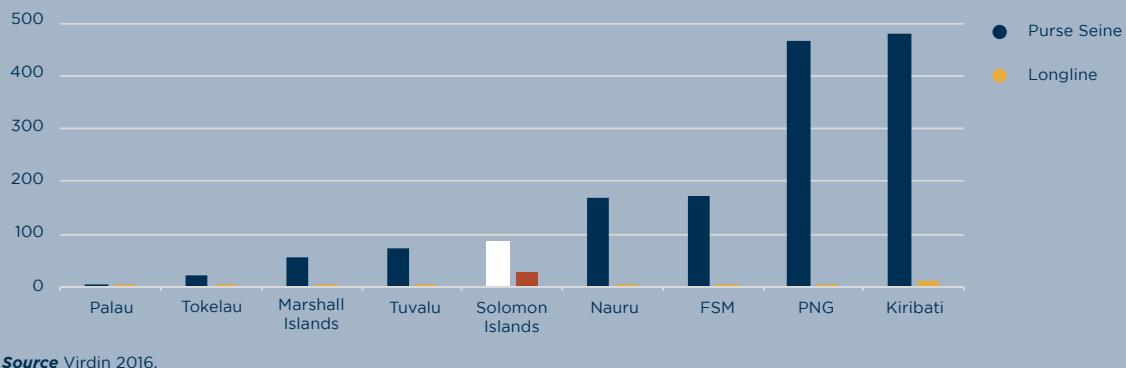
SOLOMON ISLANDS' ARCHIPELAGIC AND OCEANIC FISHERIES

Solomon Islands has traded off access to its archipelagic tuna fishery for local jobs in on-shore processing. Licenses for archipelagic fishing are reserved for domestic vessels landing tuna for local processing. In effect, NFD has exclusive access to the archipelagic tuna fishery, with its domestically flagged fleet of five smaller purse seine vessels and two pole-and-line vessels holding virtually all the fishing days (NFD is minority owned by the government, with Tri Marine the majority owner). NFD can thus use less fuel and spend less time travelling to fishing grounds than other operators (including purse seine and pole-and-line vessels) who are restricted to the Exclusive Economic Zone (EEZ) or high seas. NFD does not own any long-line vessels, but it holds 30 of the total 100 long-line licenses available, leasing them to other operators to diversify revenue and attract more raw material for its processing facility. This tuna loining and canning operation at Noro in Western Province (SolTuna) is supplied primarily by NFD's purse seines (and to a lesser extent by the long-liners it leases licenses to, fishing in the EEZ). SolTuna provides about 1,800 jobs, two-thirds of which are held by women (though women are underrepresented in higher wage, supervisory, and senior jobs). The loss of European Union (EU) preferences with future least developed country-graduation is likely to be problematic for SolTuna, because its exports of cooked loins to the EU are barely profitable. The recent Marine Stewardship Council certification of Solomon Islands' pole-and-line and purse seine fishery as well as the lifting of the 'yellow card' by the EU provide some incentives for sustainable management and may allow for product differentiation along with a modest price premium in that market.

Solomon Islands manages access to its oceanic tuna fishery through a regional partnership aimed at maximizing the returns and safeguarding the sustainability of the resource. The Parties to the Nauru Agreement (PNA) operate a Vessel Day Scheme (VDS) which establishes limits on fishing days for purse seine vessels in the EEZs of participating states, underpinning both the price they can get for selling access to their oceanic fisheries and the sustainability of those fisheries. Solomon Islands is also implementing the new longline VDS, primarily to improve the sustainability of the oceanic fishery through the control of fishing effort by long-liners (rather than for revenue purposes, since the price of longline vessel days is likely to remain low relative to purse seine days, largely because long-liners are much less dependent on access to EEZs to ensure their profitability). While the Solomon Islands is a relatively small player in the purse seine industry (targeting skipjack), it is the largest player in the region's longline industry (targeting albacore, yellowfin, and bigeye) (Figure 33).

Solomon Islands is fairly successful at extracting benefits from its oceanic fishery. In 2016, the price it obtained for purse seine vessel days was the highest in the PNA. It could extract even more of the rents from the fishery, however, if it and the other participating states operated transparent, competitive tenders for allocating vessel days, rather than working through bilateral negotiations. The grant of exclusive access to NFD to operate within 30 miles of territorial waters of the Main Group Archipelago provides about 150 jobs for local men, including in senior roles. The attractiveness of Solomon Islands for additional fish processing operations is largely dependent on access to the fishery, with the government potentially able to trade off government revenue from the VDS for more local jobs in on-shore processing. Transparent, competitive processes will be critical if it is to achieve least cost concessions (like discounted vessel day prices) for these jobs. Solomon Islands' adherence to fishing effort limits under the VDS is regarded as strong, though illegal, unreported, and unregulated fishing could be further reduced if all participating states restricted vessel days to operators in good standing under the Pacific Islands Forum Fisheries Agency's Vessel Monitoring Scheme. Notwithstanding these efforts, climate change is likely to reduce the tuna stocks in Solomon Islands' waters over the coming decades, adversely affecting government revenue. The widening food fish gap will likely require redirection of part of the tuna catch from the oceanic fishery to domestic markets.

Figure 33: VDS tuna catch (tonnes, thousands), 2014–15



Source Virdin 2016.

94. **Given both how critical agriculture and fisheries are to livelihoods and how fragile they appear to be now, in the face of rapid population growth and climate change, a high priority should be placed on securing the ability of the sector to sustain livelihoods.** As WDR2008 showed, GDP growth generated by agriculture in low-income countries is significantly more effective at reducing poverty than growth generated by other sectors. In the absence of effective measures to improve agricultural productivity and resilience and build sustainable coastal fisheries, we are likely to see the progressive breakdown of rural livelihood possibilities and the acceleration of migration to urban areas. Without the job opportunities or essential services to accommodate the new arrivals, this would intensify the risk of conflict. There are some promising government and donor programs in place to support subsistence agriculture and fisheries, particularly the FAO's pilot adaptation program in agriculture and the MFMRD's CBRM program in fisheries. Supporting the implementation of these kinds of measures on a sufficient scale to have a significant impact could prove critical to the sector.

5.2 Extractive Industries

95. **Extractive industries have an important—though perilous—place in the macro-economy.** As well as constituting 17.1 percent of GDP and contributing 26.5 percent of overall GDP growth since the tension, logging accounts for 60.1 percent of exports, and duties on log exports provide 17.0 percent of domestically-sourced revenue. Logging companies are mainly Malaysian, and over 95 percent of log exports go to China. The industry provides perhaps 5,000 jobs, predominantly male.⁷⁶ Logging is chiefly of native forests, and its rate is unsustainable—with a sharp decline expected within a decade. To date, mining has largely been limited to the now-closed Gold Ridge gold mine on

Guadalcanal, informal alluvial gold mining around Gold Ridge, and modest bauxite mining on Rennell. But large-scale mechanized mining could be developed in the near term, given Solomon Islands' world-class nickel deposits. The estimated nickel export values of SI\$ 3,700 million per year in the 2020s are well above the value of log exports in 2016 of SI\$ 2,400 million, and operations are expected to create around 1,000 full-time jobs. Whether that will occur—and whether it will occur soon—is not clear, also making unclear whether mining will replace logging in macroeconomic aggregates before logging declines. The political economy of logging and mining could be very different, potentially opening opportunities under mining that have not existed under logging. But even with a more positive political economy context, large-scale mining will be inherently risky.

Forestry

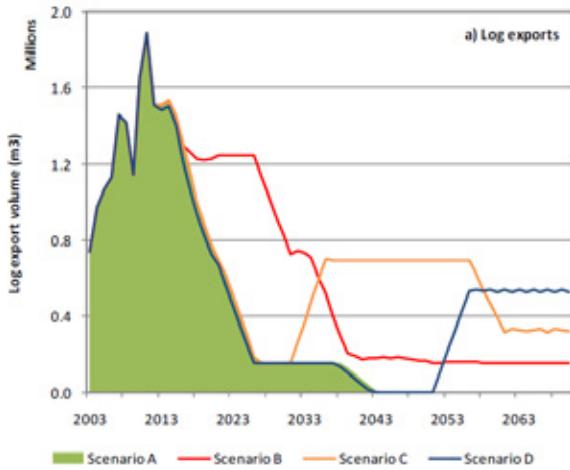
96. **The logging industry is a critical component of Solomon Islands' political economy.** Native forests are owned by ascribed timber rights holders, usually—but not necessarily—connected with landowning groups, frequently with chiefly status, and always male. Deals with logging companies are often brokered by local men fluent in written and spoken English, usually to the exclusion of non-elite men and women in landowning groups who may depend on forest areas for fuel, construction materials, and marginal food gardens (see Box 9). There are major asymmetries of power between the local players and the foreign companies, and while promises of royalties, in-kind benefits (like new buildings), and direct payments to local leaders make the deal appealing to those making it, the share of the rent secured locally is generally regarded as very low.⁷⁷ The deals struck may also bear little relation to what happens afterwards when the logging occurs, with few opportunities for locals to do anything about this disparity. Logging usually

⁷⁶ This is based on the 2009 census, so the number of jobs in the industry is likely to have increased since then.
⁷⁷ Allen and Porter (2016); Allen (2017).

takes place very quickly, proceeding if logging companies are successful in patronizing local power holders for long enough to get the logs out. Problems underplayed during deal making—such as intergroup conflict, domestic violence (exacerbated by disputes and royalty-funded drinking), sexual exploitation of women with very limited options, and child trafficking—often turn out to be much bigger than communities can handle. Power holders within landowning groups and MPs are frequently included as directors of local front companies for the loggers, to secure duty exemptions. Analysis by CBSI finds that the determined prices for logs (a system that establishes a regulated price for each species and grade of log, as means to tackle undervaluation) are set significantly below global market prices. Loggers and their political allies have significantly weakened state capacity to regulate the industry. Governments attempting to regulate the industry or increase determined values have faced the threat of (or actual) stockpiling logs, interrupting the generation and distribution of logging rents, with policies then retracted or governments brought down (Allen 2011).

97. While the timing is uncertain, logging is expected to decline sharply. The last forest assessment was undertaken in 2011 and projected that under a business-as-usual scenario, log exports could be maintained at a little over 1.2 million cubic meters until the mid-to-late 2020s—but doing that would involve logging all remaining primary commercial forests and all secondary forests, however prematurely. (This is shown as the red line ('Scenario B') in Figure 34, which includes the one-off logging of all primary and current secondary commercial forests (shaded green, 'Scenario A') plus premature logging of all subsequent secondary forests.) Instead, log export volumes have grown year-on-year to record levels and have been above 2 million cubic meters since 2014. Figure 35 illustrates the significantly higher forest rents generated since the tension and the corresponding greater levels of forest depletion. The absence of updated information on forest stocks prevents any certainty over the timing of the decline, but it is widely anticipated to be imminent. In addition, the short rotations that must now be occurring make it likely that forest productivity will diminish to very low levels in future.

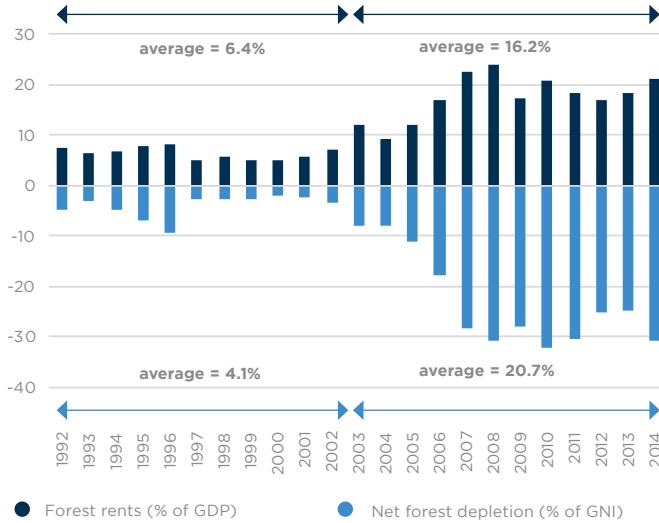
Figure 34: Possible scenarios for log exports



Source SKM 2012.

Note Figure 34 - Scenario A is a one-off utilization of the primary and current secondary commercial forest area; Scenario B is market driven business-as-usual logging (with premature logging of all secondary forests); Scenario C is later re-entry into recovering forests; and Scenario D is logging on a sustainable rotation. Figure 35 - Forest rents are calculated from round-wood harvest, average prices, and a region-specific rental rate; Net forest depletion is the monetary value of the difference between the rate of timber harvest and the rate of natural growth.

Figure 35: Forest rents and forest depletion



Source World Bank staff estimates using WDI.

98. The decline of logging is expected to have significant macroeconomic and political economy ramifications, with considerable environmental damage done in the meantime. The decline of the industry will affect growth, government revenues, and foreign exchange earnings, which may provoke fiscal and/or balance of payments crises depending on whether alternative sources of growth have been developed in the interim. The decline of logging will be very significant for provincial governments, which typically derive a substantial amount of

revenue annually from logging business licenses. In addition, it is likely to destabilize the political economy, as it did with the Asian Financial Crisis in the late 1990s. There may also be groups of newly unemployed men with significant grievances. In the meantime, logging methods are damaging the soil and exacerbating soil erosion, with increased sedimentation of waterways contributing to the flash flooding of Honiara in 2014 and increased sedimentation of coastal areas damaging in-shore fisheries and environmental assets important to



tourism. Logging is also degrading food gardens, disadvantaging women in particular. More extreme weather events from climate change are likely to intensify the environmental damage.

99. In considering whether there are ways to improve the current trajectory, it is critical to understand the hybrid forms of power operating in the sector. Logging is largely under the control of foreign logging companies and local timber rights holders, with operations occurring in numerous relatively small areas for relatively short periods of time, often quite remotely from urban centers. The power of the state in this sectoral context would anyway be quite limited, but the extent to which political elites have been captured by the logging industry makes it unlikely a concerted effort will be made to increase it even to the extent possible.⁷⁸ While customs officials expend considerable effort assessing duties at the places logging is occurring, the extent of underreporting (as indicated by the vast difference between export values recorded in the Solomon Islands and import values recorded by China noted in the latest *Trade Policy Review* by the World Trade Organization) and the low determined values indicate an accommodation between the state and the industry.⁷⁹ Numerous attempts to strengthen the governance of the sector have been unsuccessful (Hughes et al. 2010), and nothing suggests that similar attempts in future would fare any differently. The government's recent decision to restrict logging licenses to members of the Solomon

Forestry Association (SFA), which has closed its membership, is only likely to strengthen the hand of the industry relative to both the state and landowners. Historically, SFA has contested determined values and led resistance through log stockpiling (where non-members have continued exports) and put ceilings on payments to landowners (which non-members have not been bound by, reportedly benefiting landowners). The Ministry of Forestry and Research, development partners, and NGOs have attempted to work at the community level to promote inclusive decision making over forest resources and build consensus in favor of longer-term returns from sustainable management, but typically logging deals with large short-term returns are struck anyway. Some community-managed plantations have been established on previously logged land, however, and some of these are now mature—so viable means to harvest and market the timber for the benefit of the communities need to be identified. There are two commercial plantations in operation, but both are on large areas of alienated land, so are not necessarily a guide on the viability of smaller-scale plantations. If viable, there would be value in providing support services to communities interested in sustainable forest management (as planned under the FAO Global Environment Facility project, for instance). There would also be value in mitigating the worst of the environmental damage that logging is likely to continue to do to subsistence agriculture and fisheries, as well as to tourism assets.

⁷⁸ Strictly speaking, logging licenses must be issued by the Ministry of Forestry and Research for logging to occur, with environmental impact assessments undertaken and cleared by the Ministry of Environment, Climate Change and Disaster Management, but in practice these provisions do not amount to real regulatory control.

⁷⁹ There is some potential to increase the effectiveness of income taxation on individual logging companies if planned information sharing between customs and revenue occurs, but attempts to secure a greater share of the rents through measures affecting the industry as a whole are unlikely to be mounted or succeed if they were.

EXTRACTIVE INDUSTRIES AND GENDER IN SOLOMON ISLANDS

While Solomon Islands is frequently described as a patriarchal society, gender relations are subject to substantial regional variation and are continually being contested and renegotiated, as women seek new avenues for empowerment. Global and regional evidence shows that extractive industries (especially when led by foreign investors) can distort gendered power dynamics throughout communities, almost always at the expense of women and girls.

To date in Solomon Islands, men have tended to monopolize the benefits of logging and mining development. Decisions about land are typically made by men and negotiations with logging and mining companies are led by men, even in areas where matrilineal systems of customary ownership prevail. As a consequence, rents and royalties are typically paid to men. Employment associated with logging and mining development is also male-dominated and heavily gendered, further skewing the distribution of benefits (internationally, women's jobs in mining—when they exist—are typically in cleaning and cooking and are much lower paid). Power asymmetries between genders are also affected by access to equipment—and sometimes firearms—for men engaged in extractive industries and in ancillary services like security.

Women—on the other hand—tend to bear a disproportionate share of the costs of logging and mining, with flow-on impacts to children and broader communities. Because women have limited input to negotiations over land access, outcomes seldom reflect the concerns and knowledge of women. Land deals rarely reflect women's land use, including for livelihoods and for child nutrition—with logging and recent mining activities leading to the destruction of women's food gardens and long-term soil damage. With rents and royalties paid to men, cash is often used to purchase alcohol—fueling domestic violence—rather than to invest in household and child welfare. Land disputes lead to increased conflict and violence within communities, with disproportionate costs borne by women. The influx of outside workers to logging and mining camps can fuel trade in sex with associated negative impacts, including the spread of sexually transmitted diseases and some forms of exploitation, including sex trafficking. There are reports of very young girls and boys trading sex for small amounts of money. In some cases, families see their daughter having a 'mining baby' as an economic asset, reflecting perceived obligations of a father to a mother and child, that are often left unmet.

Protecting the interests of women during the potential expansion of Solomon Islands' mining sector will be vital if negative gender outcomes and associated social costs observed in logging are to be mitigated. This may require (a) arrangements for negotiating access that allow women's voices to be heard, including in the 'Development Forum' (see below) provided for in the new mining policy; (b) skills and livelihoods training to ensure women can access benefits from mining development, both within the mining sector and through backward linkages between the mining sector and sectors within which women are already active (see Eftimie, Heller, and Strongman 2009); and (c) attention to ensuring the equitable distribution of benefits within and across communities to reduce risks of contestation, conflict, and violence.

Mining

100. Solomon Islands holds mineral resources of significant value, which could form the basis for mining to become an engine of economic growth, but the associated macroeconomic, political economy, and conflict risks would be high. The fundamental basis for prospective nickel mining to play a different role in the economy—and political economy—of Solomon Islands than extractive industries have to date, is the nature of the operations. If the license is for a wide area and is granted to an operator whose interest is in extraction over the long-term with heavy upfront investment, rather than in extraction from only the richest and most accessible deposits over the short time with modest investments in mobile equipment, the prospects are very different. The latter type of operation would be akin to the bauxite mining currently underway on Rennell—which in itself is not dissimilar to logging—with extraction occurring fairly quickly across shifting tracts of land by relatively mobile operators who do not invest in backward linkages, over whom the state can have very little hold, and whose operations are causing extreme environmental degradation (removing the island's only arable land). The former type of operation offers a greater prospect of investors with an interest in maintaining a long-term social license to operate and over whom the state can have some hold. Under the right conditions, such large-scale, long-life mining projects can contribute to local development outcomes, not only through corporate social responsibility (CSR) mechanisms, but also by improving infrastructure available for public use and generating linkages to local suppliers of goods and services, thus creating additional jobs and giving a broader section of the community a stake in the mining operations.⁸⁰ Such projects can also contribute to macro-fiscal outcomes through foreign exchange earnings and domestic revenue (though the state needs to develop the capacity to manage volatile foreign exchange and revenue flows) and to broader economic growth through public expenditure on human and physical capital funded by mining revenues. None of these potential benefits is guaranteed, however.

101. A number of factors will affect whether large-scale mining does actually provide growth and development benefits in Solomon Islands, critical among which will be the nature and implementation of the mining regulatory framework. Global and regional experience suggests that large-scale mining contributes to intensified contests at multiple levels of scale: within and between surrounding landowning groups; between mining and non-mining areas within the

island or province; between the province or island and the central state; and between national parties and the foreign investors. Because these contests can overlay salient social identities at the local or island/provincial level, they have greater potential for scaling-up into widespread conflict and violence. Investments in capable public-serving authorities to manage these contests are critical. This pertains to effective institutions for: consultation and consent that incorporate all relevant stakeholders at all levels of scale, and which are sufficiently dynamic to incorporate changing stakeholders over time; revenue sharing between local, provincial, and central authorities; the taxation of mining; the environmental regulation of mining; the sharing and use of returns to landowning groups, including from CSR-type mechanisms; and the investment of returns to provincial and central authorities in human and physical capital across the province and country, to share the benefits of the mining and to diversify the asset base of the economy to support wider economic growth. Other important factors affecting the growth and development benefits of large-scale mining include the management of mining-related infrastructure development and the cultivation of backward linkages. With the former, it is critical that mining-related infrastructure be developed so as to also serve the needs of broader users and thus spur broader economic opportunities or provide broader social benefits (see Box 21, in Section 6). With the latter, it will be critical for state or non-state actors to partner with mining operators to develop suppliers capable of meeting their requirements and for attention to be paid to gender-inclusive supply chains, to balance more male-dominated jobs in the mining itself. While the limited potential for economies of scale in Solomon Islands, with at most a small handful of mining operations, will constrain avenues for backward linkages, there will still be opportunities in areas like agricultural and catering supply, which have the double advantage of also being transferable to tourism.⁸¹

102. The experience of mining in Solomon Islands to date does not engender much confidence that the state will invest in capable public-serving authorities to manage the contests that large-scale mining will inevitably create.⁸² In the past, ministers have intervened to subvert attempts to build such institutions, for instance by excluding all the main minerals existing in Solomon Islands from the coverage of provisions for a special fund for mining royalties, retaining ministerial discretion to undermine the institution of the Minerals Board, interfering in the granting of mining licenses by the Minerals Board, signing agreements with mining operators to reduce their revenue obligations in breach of existing legislation, and allowing the kind

⁸⁰ McMahon and Moreira (2014).
⁸¹ McMahon and Moreira (2014).

of mismanagement that leads the state to forego revenue (as is currently the case with bauxite mining).⁸³ To date, the state has shown little resolve to safeguard human and environmental health in areas affected by mining (see Box 10). It has also left mining operators to take on policing and security functions at mine sites, in the case of Gold Ridge

to the detriment of the local women and children seeking to earn their livelihoods through informal alluvial mining. There is a very real risk in the current difficult fiscal context, a context which the decline of logging is likely to exacerbate, that ministers will continue to subvert mining regulation because they feel a pressing need to secure mining deals.

BOX 10

MINING AND THE CHALLENGE OF ENVIRONMENTAL PROTECTION

The history of the Gold Ridge mine is replete with examples of just how challenging environmental protection is in relation to mining in Solomon Islands. To date, mining has polluted waterways, degraded food gardens (particularly disadvantaging women), and possibly also damaged inland river fisheries. The potential for these kind of impacts to increase in future is high, due to the rising risk of heavy rains and flooding with climate change. Foremost among the environmental risks attached to the Gold Ridge mine is the tailings dam, which has long been a subject of controversy with downstream users claiming it has adversely affected their health and the productivity of their land. During the heavy rains preceding the flash flooding in 2014, the tailings dam flooded with a serious risk of it breaching the dyke and overflowing. In early 2015, the foreign company that owned the mine sold it—along with legal liability for the tailings dam—to a small set of local ‘landowners’, reportedly for SI\$ 100. This occurred despite the fact that the buyer lacked the resources to either invest in the proper management of the tailings dam or compensate those who would be affected if the dyke broke. It also occurred despite opposition from two of the mine’s three landowner associations.

These events have starkly illustrated that issuing mining licenses to reputable companies based in jurisdictions that have stringent environmental standards is no guarantee of the conduct of those companies in Solomon Islands. Their conduct is instead determined by the environmental regulatory authority of the state in Solomon Islands, and to date it has fallen short on its responsibility to protect people and the environment from the risk of environmental catastrophe. The government reportedly refused to purchase the Gold Ridge mine itself in 2014 because of its concerns over the liability for the tailings dam, but lacked either the power or the will to take on both the foreign company and the handful of ‘landowners’ involved, to prevent the sale to them. The government has now approved the redevelopment of the mine by the ‘landowners’ (whose corporation holds 10 percent of the shares in Gold Ridge) in partnership with another foreign company (holding 90 percent of the shares). The key concerns to government appear to be jobs, tax revenue, growth, and perhaps also returns to the handful of ‘landowners’ holding an ownership stake. With the Ministry of Mines, Energy and Rural Electrification and Ministry of Environment, Climate Change, Disaster Management and Meteorology continuing to act in a disconnected and rival manner with respect to mining, a situation mining companies are ready to exploit, it does not seem likely that the environmental regulation of the operation will be any stronger in the future than it has been in the past. Given local state allowance of the kind of corporate conduct that has occurred at Gold Ridge, as well as that currently occurring with bauxite mining on Rennell—and indeed across the logging industry—it is important to consider whether foreign states or foreign corporate regulators should take more responsibility for holding these foreign corporations to account for their conduct abroad.

⁸² For a detailed discussion of these prospects, see Allen and Porter (2016).

⁸³ While the royalty is fixed by legislation at 3 percent, the means for determining the gross value of bauxite is not stipulated, and the value proposed by the mining companies is disputed as unduly low by MoFT. Instead of resolving this problem, mining operators are proceeding with exports at the disputed low value.

103. While there is good reason for concern over the likelihood of the state investing in the regulatory capacity needed for mining, Cabinet approval of the National Mining Policy (NMP) in March 2017 is a positive development. The NMP was informed by the need to manage the types of risks highlighted above, including governance and conflict risks. The World Bank provided technical assistance for the development of the NMP. Its key features are:

- Clarifying the functions and power of the Minerals Board, with an independent Chair, for more efficient and less discretionary decision making;
- Greater revenue transparency and accountability, including the flow of all mineral revenue into one fund with multi-stakeholder oversight;
- Inclusion of landowners and communities in the negotiation of land access and community development benefits—with an independent advisory center to enable that participation to be effective, through legal advice and financial management support;
- Introduction of a multi-party Community Development Agreement framework for each mining project before mining development, spelling out the rights and obligations;

- Openness and transparency in all agreements affecting landowners and communities, with all key agreements and environmental impact assessments publicly available; and
- Companies will no longer be involved in landowner identification—this will be a government-led activity with participation of provincial authorities and custom bodies.

A number of aspects of the NMP, including the establishment of a ‘Development Forum’ (see Box 11), hold the promise of giving provincial-level authorities—typically excluded in the past—a seat at the table. This is critical, because they tend to be the level at which concerns over conflict risks (between communities that do and do not benefit from mining within a province) and environmental costs are projected, and this level overlaps salient island/province identities. Importantly, the NMP proposes that the benefits of mining must accrue to all members of mine-affected communities (not just landowners), and all communities in the province where the mine is located (through infrastructure, for instance), and also provides a default share of royalties for provincial governments.⁸⁴ It is also worthy of attention that the NMP covers seabed mining—significant exploration has occurred to date (with around 90 exploration licenses issued) and mining applications have even been received, without any regulatory framework in place.⁸⁵

BOX 11

MINING AND THE ‘DEVELOPMENT FORUM’ MODEL

Informed by the tensions that led to the civil war on Bougainville, PNG has established a ‘Development Forum’ for its mining and oil and gas sectors. This opens up the negotiation process over extractive industry developments to a wide range of stakeholders at different scales (local, provincial, national, and global), who have various levels of political and technical capability and draw upon different kinds of legitimacy. It provides a forum for bargaining over the distribution of the costs and benefits of extraction among the different stakeholders. It recognizes that the absence of negotiating rights for all stakeholders systematically excludes particular actors (for instance, landowners and local and provincial governments, from deals struck between national governments and global mining companies) and potentially contributes to grievances, disputes, and violence. The Development Forum provides for negotiations over Memoranda of Agreement that are to be reviewed every five years. To date in PNG, it has led to steadily increasing flows of resources to landowners and local and provincial governments, including secure (rather than discretionary) transfers from the national government.

Solomon Islands’ NMP includes provision for a Development Forum, modelled on PNG. This is a promising development, to the extent that it signals a recognition of the risks that mining can pose if actors with a stake in mining development are excluded from decision making and a willingness to adopt new approaches in an attempt to address these risks. The proof, of course, will be in whether such an institution is actually established in Solomon Islands, how it is constituted, and how it and the relevant stakeholders access the resources they need to participate effectively in the Development Forum. As an institution with the potential to enhance contestability in the policy arena pertaining to mining, its success should be treated as an important concern by development partners. Historically, in Solomon Islands, there has been a high level of mining company subsidization of Mines Division-mandated activities, a pattern that would entail particular risks that would need to be managed if repeated here.

Source Allen and Porter 2016.

⁸⁴ Unlike forests, mineral resources are state-owned – but default royalty shares perhaps indicate the relatively weak power of the central state (50 percent) vis-à-vis landowners (40 percent) – with the province at 10 percent.

⁸⁵ Stanley and Arin (2016) discuss seabed mining in detail, and recommend precautionary management and regional cooperation, given the limited capacity and resources of individual Pacific Islands.

104. For the NMP to have effect, its main features need to be translated into legislation, regulations, and institutional mandates and to take root in actual implementation. The government is planning to revise the Mining Act accordingly, but a wider set of legislation covering, among other things, fiscal, environmental, and provincial government arrangements forms part of the overall regulatory framework for mining and also needs amendment. Implementation will also require careful institutional design and capacity development, for which donor support will be a necessary but not sufficient condition of success. Long-term capacity supplementation could well be required in complex areas like transfer pricing and audit in mining taxation, but could also be valuable to support the state and other local entities in negotiations with powerful global mining corporations. However, all of the institutions involved in regulation may need support over the long term, in particular to ensure they can continue to adapt to the changing contests over local, provincial, and central state authority that mining will trigger. The key factor opening up the possibility for Solomon Islands to have a different future in mining than its past is the different political economy of large-scale, long-life nickel mining (in the first instance). That prospect allows for an investor with an interest in maintaining a long-term social license to operate, and thereby with potential interests in supporting both local community development and forms of public authority capable of containing conflict. Such interests could also be leveraged to secure mining-related infrastructure developments that provide broader economic opportunities and social benefits and support the cultivation of backward linkages and local supply chains. This prospect also allows for institutions like the Extractive Industries Transparency Initiative (EITI) to have some effect—whereas in the past Solomon Islands’ EITI membership has had little impact, with the industry not having an interest in cooperating and state support for the initiative not extending much beyond a few officials. While the risks of large-scale mining are high, the alternatives over the medium term are extremely limited.

5.3 Urban Services

105. Honiara’s service economy is one of the engines of economic growth in Solomon Islands, with the public sector at its core. As a whole, the public sector constitutes 9.5 percent of GDP and has directly contributed 9.2 percent of overall GDP growth since the tension. The central government provides about 16,000 jobs, SOEs have an estimated 2,000 employees, and there are additional jobs in provincial governments about which information is not readily available. The majority of these jobs are in Honiara, where the salaries of public sector workers combine with public procurement—and the salaries and procurement of the international public sector—to drive an urban services economy of wholesale

and retail trade, banking, transport, hotels, bars and restaurants, real estate, and professional services. This makes it a vibrant hub of activity, the national center for innovation, entrepreneurship and private sector operations, as well as the national center for education and civil society activism. Of the 41 percent of the working-age population in urban areas whose primary economic activity is paid work, one-third of them have jobs in the public sector and two-thirds in the private sector.

106. Rapid growth of public sector employment and spending occurred in both a post-conflict context of international intervention and state building and in the context of a logging boom.⁸⁶ That is, while public sector employment and activity was growing as part of efforts to rebuild the state and improve service delivery, these same processes were serving as means to redistribute the aid and logging revenues received by the state. At its peak in 2010, development assistance constituted 49 percent of total revenues and was the equivalent of 31 percent of GDP. That understates the extent to which international engagement contributed to the domestic economy, because it excludes the other spending associated with the presence of the international public sector and its public servants in Solomon Islands. The very high levels of development assistance have since subsided, to 26 percent of total revenues and 12 percent of GDP in 2015. It is difficult to discern the economic impact of this steep decline. From 2010 to 2013, domestic revenue increased strongly in real terms and as a share of GDP, enabling the government to offset part of the impact of declining assistance and keep expenditure roughly constant in real terms and as a share of GDP. From 2014 to 2016, while domestic revenue grew in real terms, it did not expand as a share of GDP, with the government running down its cash reserves while increasing expenditure in real terms (though it remained roughly constant as a share of GDP). Central government employment continued to grow from 11,492 in 2010 to 15,263 in 2013, but remained constant thereafter (and thus has been falling slightly as a share of the population). Perhaps because of the limited extent to which declining aid has translated into declining public expenditure since 2010, the service sector as a whole has continued to expand over this period.

107. Both as it captures and redirects rents from natural resource-based industries, and as it receives and spends development assistance, the public sector will continue to underpin the growth of Honiara’s service economy. If aid now stabilizes as a share of GDP, as is expected, then in addition to the growth that aid supports through human and physical capital investment, it will remain an important economic stimulus, especially in Honiara. Similarly, if the government continues to capture and redirect a share of the rents from natural resource-based industries—or increase that share, as there is

⁸⁶ See Haque and Greig (2011) and Haque (2013).

significant scope for it to do—that will also support the role of the public sector in underpinning the growth of Honiara's service economy. Natural-resource based industries also contribute directly to the urban service economy, with rents accruing to urban residents funding their expenditure and investment in urban businesses. The greater the extent of local backward linkages that can be developed in the supply chains for public procurement and for the goods and services public servants require, the larger the direct economic impact of public spending (and thereby of aid and natural resource rents). The same is true of the direct procurement and employment of the international public sector in Solomon Islands.⁸⁷ The public servants who are the immediate beneficiaries of public sector jobs are typically already quite privileged, in terms of their levels of education (although their earnings are shared fairly widely among kin). An important point, however, is that public service employment is one of the key sources of formal sector employment of women (whereas in aggregate about 30 percent of formal sector jobs are in the public sector,⁸⁸ for women nearly 50 percent of the formal sector jobs they hold are in the public sector).

108. The business enabling environment is an important factor in the extent to which local backward linkages from the public sector can develop, as well as in facilitating the broader growth of the urban services economy. As Box 12 explores, many key constraints to private sector development reflect underlying governance or broader political economy issues, including corruption, access to land, and law and order or court system weaknesses. Consultations with the private sector suggest that these problems are most constraining for foreign investors. Whereas local investors have the knowledge, networks, and time to negotiate their way around bureaucratic impediments and to work through the complexities of accessing land, foreign investors—particularly new foreign investors—do not. Outside natural resource-based industries, the incentives to build the necessary knowledge and networks are scarce. For access to finance (see Box 13), the roles appear to be reversed, with local investors typically more disadvantaged. With respect to specific impediments affecting informal businesses, little is known—a key knowledge gap for private sector initiatives targeting the poorest quintiles.

⁸⁷ On the gender inclusiveness of the aid economy in Solomon Islands, see Haque and Greig (2011).

⁸⁸ Haque and Packard (2014).

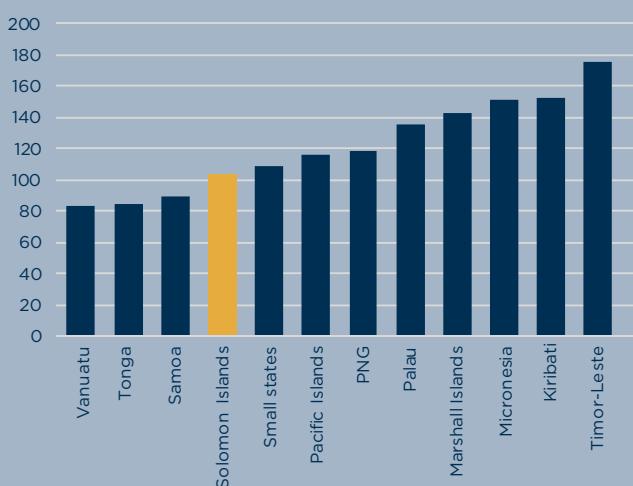


SOLOMON ISLANDS' BUSINESS ENABLING ENVIRONMENT

Changes to business regulations have delivered important gains. Solomon Islands' ranking in the World Bank Group's Doing Business indicators has risen over the last decade, to 104 of 190 countries. This places it higher than many other Pacific Islands and on par with the small states average (Figure 36). Foreign direct investment processes, business licensing and tax administration have all improved. Solomon Islands now performs very well on paying taxes and dealing with construction permits and quite well on getting electricity and getting credit. The time taken to register a business has declined from 55 days in 2010 to 9 days in 2017. Commercialization of SOEs and telecommunications liberalization have improved infrastructure services vital to firms. Between 2010 and 2017 the time taken to get electricity declined from 160 days to 53 days, while between 2009 and 2015 mobile network coverage increased from 8 percent to 89 percent and mobile subscriptions increased from 6 percent to 66 percent.

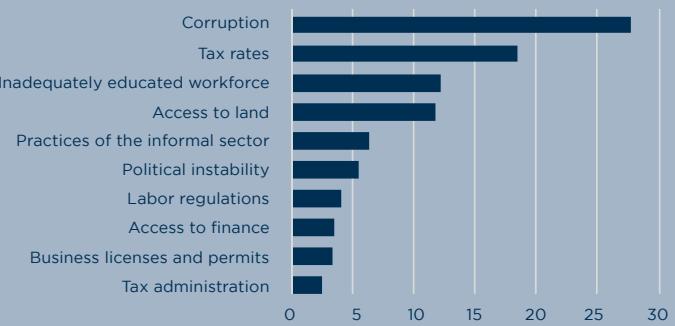
However, broader constraints that are often more difficult to address appear binding. In the absence of an established strategy or dialogue mechanism, the government's approach to private sector issues is perceived as ad hoc. Firms cite corruption as the main constraint to investment (Figure 37). More than 80 percent of firms report having to pay bribes to get things done, compared to 53 percent in the broader East Asia and Pacific region. Cultural networks of reciprocity can constrain the growth of firms, with Solomon Islanders sometimes finding it difficult to accumulate and reinvest capital in the context of strong social pressures to distribute resources. Weaknesses in law and order and the court system are also major problems. More than one-third of firms have experienced losses due to theft and vandalism, while more than 70 percent of firms pay for their own security (compared to less than half of firms in the East Asia and Pacific region). Enforcing contracts is difficult, and around 17 percent of firms identify the court system as a major constraint. There are important mismatches between skills provided through the education system and those sought by firms, often forcing firms to rely on skilled migrant workers from overseas. Women are underrepresented in senior and middle management positions, and most large and medium businesses are owned by men. Businesses report the relatively high burden of taxation falling on compliant businesses, the scarcity of urban land for business expansion, and the high cost of providing housing to professional and technical staff as major constraints. These issues are not easily addressed through further changes to formal rules and systems and reflect underlying governance and political economy constraints.

**Figure 36: Doing Business index
(1 = most business friendly)**



Source: Doing Business.

**Figure 37: Business Enterprise Survey
- main constraints to business**



Source: Business Enterprise Survey.

ACCESS TO FINANCE IN SOLOMON ISLANDS

Access to finance has improved considerably in recent years, with the rapid spread of mobile banking services and establishment of rural banking schemes providing micro-loans and savings in some provinces. There are now 170,000 mobile banking customers, an expansion that has been particularly important for women, who previously represented only about 40 percent of the banked population (roughly in line with their representation in formal employment). But with commercial bank loans focused on formal sector enterprises and formal sector workers, the urban poor—and sometimes even middle-income earners—are generally precluded from access to credit. Current reforms to the national payment system to increase its financial stability are expected to facilitate access to finance for the bottom quintiles, and the planned shift to positive reporting for the credit bureau should also help, including by bringing a greater range of credit and payment data into the system. Access to financial literacy programs (like those the International Finance Corporation (IFC) supported for workers at SolTuna) have shown significant positive impacts on the ability of relatively poor people to arrange their finances to cover regular expenditures. Financial literacy programs might have wider value too, with informal moneylenders in many workplaces in Honiara—especially the public sector—lending to colleagues at 20–30 percent payable next payday, keeping borrowers in a constant cycle of debt. ‘Savings clubs’ backed by credit institutions are common among the poor, particularly women, but are not always as benign as they seem—with members becoming de facto debt collectors in the event of unpaid debts and debtors vulnerable to having their property raided by the group to avoid penalties falling on the group (Evans 2017). This can result in community division and disharmony.

A key issue in access to finance remains the ‘missing middle’—firms that are neither part of the formal sector nor microenterprises for which mobile-banking services might be sufficient. The commercial banks are effectively not interested in these firms, because of the transaction costs of catering to them and the relatively high credit risk involved. So, even when liquidity in the banking sector is extremely high, suitable access to credit is not available to small and medium enterprises (SMEs). Partly as a result of this, commercial bank credit to the private sector is low (at 21.6 percent of GDP in 2015) compared to the average for other Pacific Islands (55.2 percent) and small states (67.2 percent). In addition, over a third of credits in 2015 were personal loans, with loans to the productive sectors (agriculture, fisheries, manufacturing, mining, forestry, and tourism) together accounting for less than a fifth of loans. The credit bureau reforms should support access to finance for SMEs, but financial risk mitigation tools and techniques are also needed to enable banks and finance companies to lend to this sector at a reasonable interest rate and repayment schedule. The IFC Tourism Impediments Diagnostic found that although SMEs theoretically have access to loans from commercial banks, few in the tourism sector can secure them, due to lack of equity or land security and lack of business planning skills. The situation with agriculture seems similar. The World Bank’s Rural Development Program provides a good example of the risk mitigation approach, with grants supplementing SMEs’ equity so they can secure credit from banks (and technical assistance also provided).

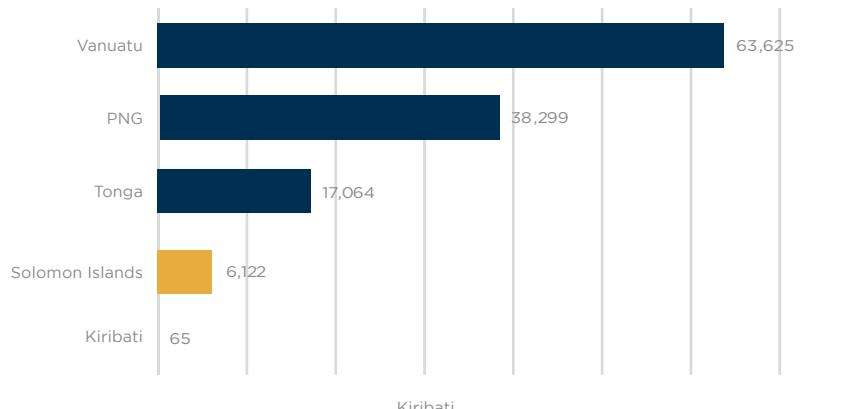
Solomon Islands is also facing significant impacts from de-risking in the banking sector. Solomon Islands has seen the largest decline in correspondent banking relationships in the Pacific Islands and a resulting increase in concentration of correspondent relationships with the exit of a major regional bank. Several small money-transfer operators have also ceased operation. The loss of competition can lead to reduced banking services and increased costs—with the cost of remittances now higher in Solomon Islands, affecting seasonal workers.

5.4 Tourism

109. Over the longer term, tourism offers Solomon Islands a potentially critical engine of economic growth. Its potential stems from the natural, cultural, and historical assets that enable the industry to secure premium prices to cover its relatively high production costs. These assets include its tropical climate, coral reefs, beaches, lagoons and surf breaks, its rich and unique cultural heritage, and its many World War II sites—raw tourism assets that IFC analysis indicates are regarded highly by travel trade representatives in key source markets. However, the direct contribution of tourism and travel to GDP at present is only about 4 percent (WTTC 2015), with some 2,000 jobs in tourism businesses (DFAT 2016). Even these figures overstate the extent to which Solomon Islands is tapping into its global market opportunities in tourism, because of the relatively small share of leisure visitors among visitor arrivals. The six major hotels in Honiara, for instance,

which account for over a fifth of the national room inventory, obtain 80 percent of their turnover from business rather than leisure guests. Outside hotels, virtually all restaurant business in Honiara is from locals, expatriates in Honiara, and business visitors. A number of other tourism ventures—including some dive operators—also derive their core business from Honiara-based expatriates. While these are important backwards linkages from the urban service economy—and international public sector within it—this is not tapping global tourism market opportunities. There were only about 6,100 leisure visitors to Solomon Islands in 2015—tiny by regional standards (Figure 38), and only marginally above numbers before the tension. Market surveys indicate the key types of tourism leisure visitors engage in are sun and sea, cultural heritage, adventure, and eco-tourism. In the short term, the rapidly growing segment of the tourism sector is cruise tourism, with over 10,000 cruise ship visitors to Solomon Islands in 2016, compared to none just three years earlier.

Figure 38: Number of visitor arrivals by air for leisure/vacation purposes, 2015



Source National statistics offices.

110. Developing the tourism sector is crucial, as one of the few economically viable ways for Solomon Islands to tap into the global economy and because of the industry's potential for relatively inclusive growth. A number of neighboring Pacific Islands have demonstrated the potential of tourism for generating significant numbers of jobs: jobs that are generally appealing—including to young people—and that are often in the formal sector. These paid employment opportunities are typically of disproportionate importance to women (see Box 14). Tourism's potential for gender-inclusive employment is already evident in Solomon Islands, with women estimated to be responsible for 90 percent of the income in the industry, working as micro or small entrepreneurs or as employees primarily in hotels and

restaurants—whereas men dominate diving, fishing, transport, and maintenance operations (DFAT 2016). Linked to this, there is a need to mitigate the risk to women of sexual exploitation in the sector. The tourism industry's potential for backward linkages is extensive, including—critically—in agriculture and fisheries. The major hotels in Honiara, for instance, have developed significant direct local agricultural supply relationships over the last five years. While the potential geographic spread of tourism may be larger than for mining, tourism assets are by no means evenly distributed and tourism development will further concentrate around assets where facilitating infrastructure exists—so development is likely to be quite uneven.

TOURISM AND WOMEN'S ECONOMIC EMPOWERMENT

Globally and in many Pacific Islands tourism is a major employer, particularly of women.

Globally, the tourism industry provides an estimated 1 of every 11 jobs worldwide. Data from the UN World Tourism Organization shows that women make up a majority of the global tourism workforce, while women-owned businesses are significantly more prevalent in the tourism industry than in the broader economy. In the Pacific Islands that have developed their tourism sectors, women are visible across the industry as both employees and entrepreneurs. Women comprise a significant share of staff in hotels and restaurants, for instance, providing the bulk of staff in areas such as housekeeping. Although women owners or general managers are seldom seen at larger tourism properties, women progressing from entry-level positions to middle management is a standard career trajectory in the Pacific Islands.

Tourism development can be an important tool for enhancing the economic position of women, as it provides employment and earning opportunities directly in the communities where women live. In the relatively new but fast-growing cruise ship markets in PNG and Solomon Islands, several women-owned tour operators have already tapped into the emerging opportunities, providing tours and transport to cruise passengers in port. Smaller-scale women entrepreneurs are also participating in the cruise market by retailing local crafts, clothing, and food, as well as providing services such as spa services and hair braiding. To support further expansion of the roles of women entrepreneurs and employees in the tourism industry, a better understanding of gender-specific barriers to advancement is required, along with development of appropriate training and mentorship opportunities and promotion of women role models.

111. **For the tourism industry to become an engine of growth, the significant constraints that have impeded its development to date will need to be overcome.⁸⁹** The rapid growth of cruise arrivals offers an immediate opportunity for public and private sector learning on the supply of public amenities, tours, handicrafts, and market produce in a relatively simple context. Experience from Vanuatu suggests microenterprises—particularly women—can be the main beneficiaries, with a complementary role for financial literacy and financial products to smooth consumption from the intermittent income. The relative simplicity of cruise tourism stems from its enclave nature, but this also entails limited dispersal of yields and considerable risk (with arrivals highly dependent on destination decisions by cruise operators). Developing the tourism industry for air arrivals is a very different proposition, running up against complex coordination challenges, particularly the supply of domestic transport infrastructure and services, properly profiled and packaged investment opportunities (including secure access to land), and quality accommodation and tour operators. Government policy statements support addressing these challenges,⁹⁰ with many donor engagements supporting this work over time, but they typically flounder on the ineffective machinery of government—a problem that is more pronounced the greater the number of agencies that need to be involved, as with tourism sector development.

112. **Development partners have the potential to play a critical role in catalyzing wider tourism industry development in Solomon Islands.** Trying to build the capacity of the state to solve the complex coordination challenges and marshal the significant resources required for major tourism development in Solomon Islands has not proven successful so far, and there is no reason to expect that to change in the near term. It is likely to be more effective for a capable development partner to take on the weight of coordination challenges and to marshal the requisite resources, working in high-level support from the state. The initiative could target an area of significant tourism potential, such as Western Province. Public sector entities would need to take responsibility for addressing land access for tourism businesses and infrastructure developments and allowing the necessary reforms of SOEs in the transport sector. The lead development partner would need to coordinate overall infrastructure and industry development requirements. It would bring in other donors and the private sector for infrastructure development both for tourism businesses and for the broader regional growth opportunities these could spur and also work with the transport and utility SOEs that could use the baseload demand from tourism businesses to establish and expand their services in the area. This could then provide the foundation for private sector investment opportunities in tourism businesses. Solving these complex, resource-intensive, and risk-

⁸⁹ See, in particular, the 2009 IFC Tourism Impediments Diagnostic, which remains relevant today.

⁹⁰ See, for example, the *National Tourism Development Strategy 2015–2019*.

laden coordination problems would require long-term commitment—with the industry development likely to have a lead time of 8–10 years if successful. If successful, the catalytic effect on the broader tourism industry in Solomon Islands could be significant. It might also help to

provide a critical minimum industry weight to influence the state to invest in the public sector capabilities needed to enable the industry to generate future rents—particularly by protecting raw tourism assets (see Box 15).

BOX 15

THREATS TO TOURISM ASSETS

Solomon Islands' primary tourism asset is its natural environment—ocean, beaches, reefs and their marine life, dive sites, and lagoons—but this is under considerable threat. These assets are threatened by more intensive use of agricultural land (with potential fertilizer runoff), over-exploitation of the coastal fishery, logging-induced soil erosion causing sedimentation of coastal areas, pollution of waterways and coastal areas from mining operations, and the mining of coral for construction purposes. Tourism assets are also threatened by the contamination of waterways and the ocean caused by the absence of treatment for sewage or fecal sludge from improved sanitation facilities, open defecation, and solid waste that is pushed into waterways and the ocean or stored on land without proper containment. Climate change threatens tourism assets directly, through rising sea levels and temperatures, coral bleaching, and damage from more extreme weather events like cyclones and storm surges. Were the tourism sector to grow, the additional demands it places on drinking water together with the additional wastewater and solid waste that it would generate (including wastewater from cruise ships, which is difficult to monitor and control), and potentially also the increased overfishing, destruction of corals, destruction of mangrove systems, and extraction of aggregates from coastal areas, could threaten the assets that attract tourists to Solomon Islands, if not effectively regulated.

These threats are currently increasing in intensity, due to the continued expansion of logging, relatively rapid population growth, and the effects of climate change. As well as the direct effects of climate change mentioned above, climate change is also threatening tourism assets indirectly, for instance by increasing the frequency of heavy rains that worsen soil erosion from logging and pollution from solid waste, wastewater, and mining sites. However, although the threats to tourism assets are intensifying, the prospects for their protection do not appear to be very strong. Particularly with economic growth rates that are only a little above population growth rates, the state seems unlikely to regulate logging, mining, or agricultural and fishing practices to protect the natural environment. For as long as the tourism industry remains small, it will have relatively little political weight. It might take a fairly extensive push in the development of the sector, to alter this political economy dynamic.





5.5 Labor Mobility

113. Migration and remittances offer a further avenue for sustained improvements in the well-being of Solomon Islanders. In some Pacific Islands, remittances are an extremely significant source of consumption and investment expenditure,⁹¹ but to date this has been less true of Melanesian countries, including Solomon Islands (Figure 39). Solomon Islanders have very limited access to labor markets abroad and relatively low levels of education, English literacy, and work-ready skills to secure skilled work visas or to be competitive in temporary migration programs (primarily New Zealand's Recognized Seasonal Employer (RSE) program and Australia's Seasonal Worker Programme (SWP)). In addition, Solomon Islands lacked the first mover advantage of some of its neighbors in securing initial supply relationships with employers in the temporary migration programs and continues to lack a large diaspora abroad to facilitate these relationships. It also had inadequate institutional arrangements for labor-sending at the outset of the SWP, with the first intake causing reputational damage among employers that has been difficult to overcome. Solomon Islands has, however, secured modest levels of participation in the RSE (Figure 40), and very high return rates for its workers attest to the suitability of Solomon Islanders for temporary employment opportunities abroad, where adequate recruitment, selection, and pre-departure training systems are in place.

114. A step-change in migration and remittances opportunities for Solomon Islanders would largely depend on significant changes in access conditions in the Australian labor market. At present, Solomon Islands has limited opportunities to expand its participation in temporary migration schemes, because the RSE is capped (so Solomon Islanders would have to displace very competitive workers from other Pacific Islands), and even though the SWP is now uncapped, employer demand for labor under it is effectively limited by the dominance of backpackers in seasonal agricultural work that results from the specific visa provisions applying to them. Australia is, however, currently piloting a multi-year low/semi-skilled work visa for Pacific microstates, which would be an uncapped scheme with no regional location requirement and no sector limits. If all Pacific Islands could be covered by a scheme like that, it could be extremely important to Solomon Islands because Solomon Islanders could fill roles in the agricultural sector currently filled by workers from more competitive Pacific Islands, whose skill levels would enable them to shift to higher-skilled jobs in other economic sectors.⁹²

Figure 39: Extent of emigration and remittances

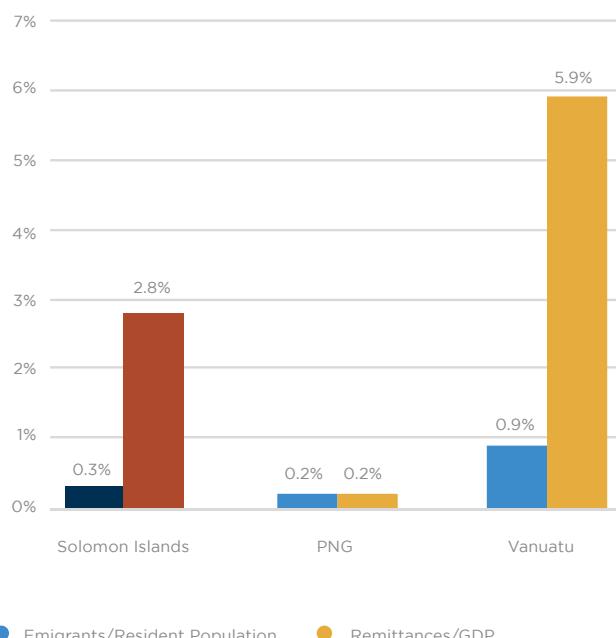
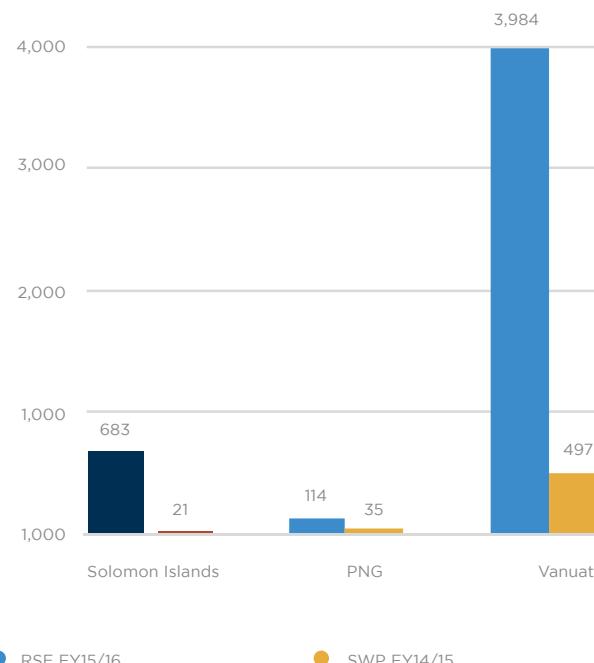


Figure 40: RSE approvals and SWP participants



Source Curtain et al. 2016.

⁹¹ For an overview, see Curtain et al. (2016).

⁹² Breaking into non-traditional markets (like Korea) is likely to be harder for Solomon Islands than for the Pacific Islands that have been successful in New Zealand and Australia, because the language barriers and cultural differences make success in Korea more challenging than in New Zealand and Australia.

115. **To take advantage of any emerging opportunities for labor mobility, Solomon Islands would need to strengthen its institutional capabilities for labor-sending.** These extend from the market abroad back to recruitment at home, with several successful examples to follow from other Pacific Islands (see Box 16). In the absence of any step-change in access for Solomon Islanders abroad, the return from investing in labor-sending capabilities would likely remain low. If access increases significantly, these investments could be worthwhile, but it is important to recognize the likely limits to the inclusiveness of this labor mobility. First, most seasonal agricultural workers are men (in the SWP, for instance, only 17 percent are women), and this is unlikely to change, given both the preferences of agricultural employers abroad and the reluctance of families at home to allow women to migrate for work. Second, the Pacific Islands that have successfully channeled temporary migration opportunities to low-skilled workers (who are more likely to be from poorer quintiles) are those with relatively well-educated and

literate populations, so low-skilled workers still satisfy employer requirements once their work-ready skills have been built through pre-departure training. The relatively low levels of education and English literacy in Solomon Islands mean that the beneficiaries of temporary migration opportunities tend to be relatively well-educated people (more likely to be from upper quintiles). Not only does this blunt the pro-poor impact of temporary migration, it makes the opportunity cost of temporary migration relatively high, given the scarcity of the skills and experience frequently held by migrant Solomon Islanders. Significant, broad-based improvements in education would be necessary to change this over the long term. In the meantime, the strongest justification for investing in labor-sending capabilities would be the service it might provide to mitigating social stresses and conflict risks, given rapid population growth, the youth bulge, the low absorptive capacity of the economy generally, and the impending displacement of logging workers in particular.

BOX 16

INSTITUTIONAL STRENGTHENING FOR LABOUR MOBILITY

Lessons learned from the experiences of other Pacific Islands suggest the following priorities for improving institutional capabilities for labor-sending:

- *Revising the recruitment model*—the current model in Solomon Islands, which relies on private recruitment agents, has had mixed results. By outsourcing worker selection and processing to the private sector, the success of this model rests on the effectiveness of the participating agents. While some agents have helped bolster Solomon Islands' participation in the RSE, others have defrauded potential seasonal workers of earnings. With this model, there is limited quality assurance in place to ensure departing workers meet employer requirements or have been adequately prepared for their work. It has also resulted in minimal representation from disadvantaged groups in the labor market (including women and workers from remote areas). Shifting to a 'work-ready pool' model, whereby the Labor Mobility Unit manages the functions currently undertaken by agents, could help address these issues. However, this would require a significant increase in its staffing and capacity, which would take time. In the meantime, more robust agent licensing procedures need to be put in place.
- *Developing an effective marketing strategy*—Solomon Islands has struggled to increase its participation in the SWP largely because of (a) the poor reputation imparted by the first group of participating workers; (b) the lack of an active diaspora to create linkages with employers; and (c) lack of competitiveness against the main Pacific Islands participating in the scheme. A marketing strategy targeted at segments of the agricultural industry could help address these constraints. This is a priority activity for the Labor Mobility Assistance Program that DFAT is supporting.
- *Establishing effective governance and coordination structures*—ultimately, strategic and operational-level commitment and coordination across a number of government agencies will be required to underpin a significant expansion in Solomon Islands' labor-sending capacity, including the delivery of a reliable program, maintaining recruitment and training standards, solving problems as they arise, and keeping the stakeholders—particularly employers—successfully engaged.

5.6 Macro-fiscal Management Challenges

116. The above analysis provides a basis for identifying important macroeconomic management challenges facing Solomon Islands over the medium term. In the post-conflict period, Solomon Islands has depended to a significant extent on logging and aid for growth, government revenue, and foreign exchange. Those sources of revenues have underpinned the growth of the urban service economy, through public sector employment and expenditure. With the recent decline in aid and the expected decline in logging, macroeconomic challenges may become severe. While agriculture and fisheries, tourism, and labor mobility all have significant potential to support growth, the gains are likely to be only gradual (for agriculture and fisheries) or long term (for tourism and, depending on access regimes abroad, labor mobility). None of these sectors can substitute for logging in growth, government revenue, or foreign exchange over the medium term. That puts Solomon Islands in the unenviable position of depending on large-scale mining to manage the transition from post-conflict levels of aid and from logging. At the same time, recent developments in the area of fiscal discipline are concerning, especially for what they suggest of government capacity to manage upcoming macroeconomic challenges effectively. Under a worst-case scenario, macroeconomic instability triggered by the loss of logging revenues and exports and deteriorating macroeconomic management could discourage or delay the mining investment needed to manage the transition, leading to a protracted period of contraction and unsustainable fiscal and external imbalances. The provision of significant levels of aid and, as far as possible, also the extension of technical assistance in areas vital to macroeconomic management could be priorities for development partners at this time.

117. Medium-term growth prospects depend heavily on mining development, with tourism holding significant potential over the longer term. Growth is expected to remain at around 3 percent per year over the near term, driven by major infrastructure investment in road transport, telecommunications, and energy. Given high population growth, however, per capita incomes are expected to increase only marginally. Beyond the near term, growth prospects are highly uncertain. The timing of the decline of logging is unknown, but when it occurs it will drive substantial economic contraction if new sources of growth have not been developed. Given current uncertainties for potential investors and the lead time from mining approvals to the growth-creating investment activity, a sharp economic contraction between logging and mining is possible. If so, the job-intensive urban service economy would also be likely to contract, since public sector spending and logging rents are key drivers of it.

118. External balance over the medium-term is similarly conditional on mining. The current account deficit is estimated at 3.8 percent of GDP for 2016, a slight increase over 2015 due to imports associated with road construction work and weaker export growth. The deficit is expected to widen further to 7.1 percent of GDP in 2017, as energy investments commence and a decline in logging is factored in. Foreign reserves are expected to remain at comfortable levels over the near term, however. Once logging exports decline significantly, external balance will depend on whether minerals exports have developed to take their place. If not, a substantial current account imbalance or significant depreciation will ensue, with potentially disruptive social and poverty impacts—especially in urban areas. It is this risk, of whether mineral exports can develop in time to replace logging exports, rather than the risk that minerals exports will put pressure on the currency to appreciate, that is foremost at present. As things stand, the IMF regards the basket peg used by the authorities as appropriate and as having an adequate band for adjustment over time. Accommodative monetary policy to support growth is also deemed appropriate, but the weak monetary transmission mechanism means its effectiveness is limited.

119. Revenue declines resulting from declining development assistance are likely to be exacerbated by the decline of logging. As we have seen, development assistance constituted 26 percent of revenue in 2015, down from its peak of 49 percent in 2010. Domestically sourced revenue growth has also tempered, with year-on-year growth in 2016 estimated at 3.2 percent (see Box 17). Just under a third of domestically sourced revenue is derived from natural resource extraction, with log production accounting for an estimated 18.0 percent of domestic revenue and fishing license fees for a further 9.9 percent in 2015. Given long lead times for mining development to translate into government revenue (sooner, in the case of royalties, and later, in the case of corporate taxes), depending on its timing the decline of logging may drive a difficult revenue adjustment. In this context, supporting the strength of domestic revenue administration will be critical, as may be increased levels of aid during the transition to protect key public services, as well as improvements in aid effectiveness to reduce, wherever possible, costly parallel systems currently fragmenting the state. Volatility will continue to characterize government revenue due to the heavy reliance of the tax base on natural resources and thus on commodity prices. Longer term, the export of multiple minerals could provide a partial hedge relative to the past experience with only gold exports, and the development of tourism could be a critical stabilizing factor. However, for the medium term at least, measures to manage the volatility of minerals revenue will be important, if public service delivery is not to be periodically exposed to cash rationing during revenue downturns.

REVENUE REFORMS

Solomon Islands has been remarkably successful in raising domestic revenue in the years following the tension. Between 2003 and 2012, domestic revenue grew by an average annual rate of nearly 16 percent in real terms—increasing from 13.1 percent of GDP in 2003 to 33.6 percent of GDP in 2012 (Figure 41). Since then, domestic revenue has grown more slowly in real terms, with the share of GDP levelling off at about 33 percent of GDP—which is relatively high given Solomon Islands' GDP per capita (Edwards 2017). As Figure 42 shows, customs revenue, logging duties, and non-tax revenue (dominated by fishing license fees) have all grown significantly in real terms since the end of the tension, but it is inland revenue that has dominated the rising trajectory of domestic revenue until recently.

The remarkable performance of inland revenue has been due to joint work by the Inland Revenue Department (IRD) and New Zealand, which has provided the IRD with key staff. Following the tension, New Zealand provided the Commissioner as well as a number of other senior staff in in-line roles, who led the development and reform of the IRD. Since the tension, the IRD has made substantial progress in improving the efficiency of tax administration, increasing filing rates, strengthening assessment capacity, and pursuing payments. Planned moves to share information with customs may enable the IRD to better assess the income tax declarations of logging companies, given information on their log exports. To date, less attention has been paid to debt collection, with New Zealand not having provided in-line staff in that area. The overall success of revenue reforms has likely been enabled by their general alignment with the interests of political elites (in public resources for distribution, particularly through CDFs), contrasting with reforms to control the use of these resources on the expenditure side (Hameiri 2015).

Solomon Islands faces a number of major challenges on the domestic revenue front. The burden of taxation falls disproportionately on formal, reasonably large businesses (which pay relatively high rates of taxation) and formal sector wage earners. It is widely accepted that large segments of the urban business community (particularly retailers) avoid tax to a significant degree. However, far more importantly, Solomon Islands has effectively been experiencing a natural resources boom from logging for an extended period, and the state has secured an extremely small share of the rents from it. The steep decline in grants from development partners, which has been occurring since 2011, is putting increased pressure on domestic revenue raising. If the business community that is already tax compliant is targeted for additional revenue, that will significantly impede their operations, while non-compliance proceeds elsewhere. At the same time, New Zealand is winding down its support to the IRD. The Commissioner was localised in 2016, and the remaining in-line staff will complete their assignments in 2017, leaving only the kind of advisory positions provided in other Pacific Islands. This would appear to leave the IRD quite vulnerable, given the pressing fiscal challenges Solomon Islands now faces.

Figure 41: Total revenues by source (constant prices)

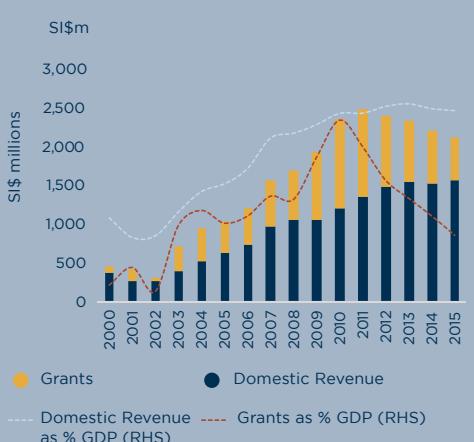
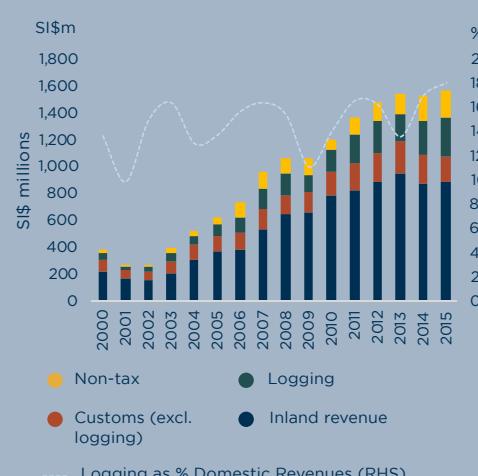


Figure 42: Domestic revenue composition (constant prices)



Source CBSI, IMF, World Bank staff calculations.

Source CBSI, IMF, World Bank staff calculations.

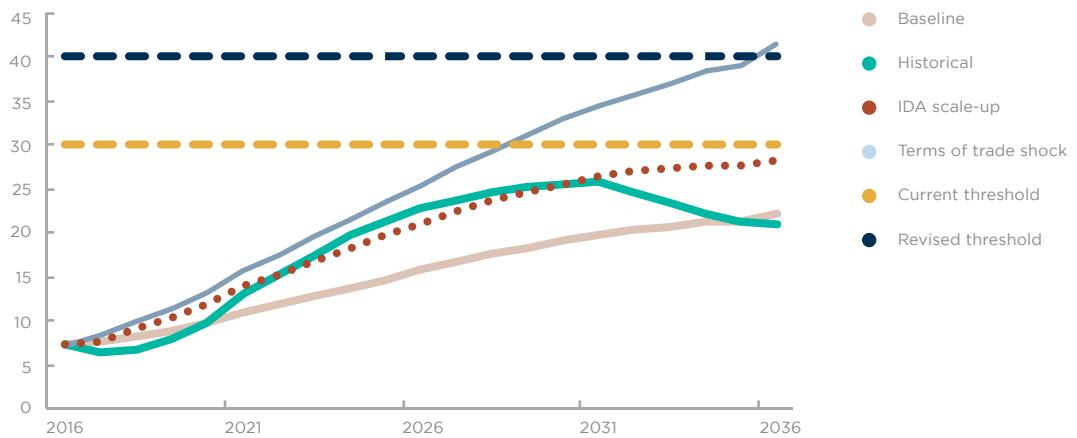
120. On the expenditure side, the government will face major challenges in the near term, with its capacity to manage these quite mixed. The government is relatively successful at allocating budget resources to what might traditionally be regarded as priority areas (as was clear in the earlier discussions of health and education), as well as to what is clearly a priority to MPs—CDFs. In general, with the exception of CDFs, it is less successful at spending those resources in accordance with the approved allocation. This applies to aggregate ministerial ceilings as well as intra-ministerial allocations (with virements used extensively to reallocate funds). In part, this reflects weaknesses in budget formulation, with approved allocations not always matching expenditure requirements. However, it mainly reflects a situation in which the approved budget is treated by MPs as a starting point for another round of bargaining over the allocation of resources—with the persistent overspending of the tertiary scholarships budget a clear example. Perhaps partially as a result of the misalignment between approved and actual budgets, but also due to the inadequacy of approved allocations for some of the tasks at hand and the inadequate performance of public sector staff and systems, there are significant challenges with converting expenditure into effective service delivery. Unsurprisingly, given the clientelist nature of the underlying political economy, accountability systems for service delivery are generally ineffective. In this context, it is likely to be difficult to protect resources for basic service delivery as the fiscal situation tightens—with CDFs likely to be prioritized.

121. Recent trends point toward the erosion of overall fiscal restraint. Allocations to CDFs currently represent around a third of total development budget allocations. Between 2014 and 2015, development budget allocations increased by 78 percent (from SI\$641.1 million to SI\$1,141 million), with the 2016 development budget maintained at a similar level. As a consequence of increased overall spending amid flattening revenues, the government has run deficits for two years and budgeted for a third in 2017. The government had budgeted for a deficit of 5.7 percent of GDP in 2015 (funded by cash reserves), but late passage of the budget and under-implementation of the development budget resulted in a deficit of only 0.3 percent GDP. A similarly high deficit target for 2016 is unlikely to have been met, but the 2016 deficit is expected to have been larger than in 2015, given the significant drawdown of cash reserves. A deficit of 2–3 percent

of GDP is budgeted for 2017. Cash reserves declined from SI\$ 880 million at the end of 2015 to SI\$179 million at the end of 2016, and the remainder will be drawn down to finance the deficit in 2017. The government revised its debt limit from SI\$300 million in 2016 to SI\$900 million in 2017. This is necessary to accommodate borrowing for the Tina River hydro project, but may also signal a broader intention to rely increasingly on debt financing over the near term. Worryingly, the government is also increasingly using the National Provident Fund (NPF) to finance its investment projects.

122. Given all of these trends, the overall macro-fiscal outlook is concerning. In the near term, growth will be supported by major infrastructure projects and logging may not decline significantly. That outlook is subject to downside risks, particularly from any contraction in log demand in China or delays in infrastructure projects. Thereafter, the decline of logging is likely to significantly reduce growth. At the same time, risks associated with natural disasters and climate change pose an increasing challenge, potentially detracting from growth and increasing the costs of resilience building, adaptation, and post-disaster reconstruction. Modelling under the Pacific Risk Assessment and Financing Initiative pilot suggests annual losses from earthquake/tsunami and cyclone hazards of 3 percent of GDP, with an estimated recurrent cost of mitigating climate change effects of 0.5 percent of GDP per year. In the last Debt Sustainability Assessment, these mitigation costs were assumed to be financed without additional borrowing (that is, displacing other expenditure), and growth was assumed to remain at 3 percent in the medium and long terms. Under these assumptions, Solomon Islands was assessed as being at moderate risk of debt distress (with public debt at around 10.2 percent of GDP as at end-2016). This trajectory is shown as the baseline scenario in Figure 43. Were climate change mitigation costs treated as additional expenditure or growth assumed to be lower in the medium or long terms, the baseline would be less favorable. At present, the World Bank is expected to substantially increase its IDA allocations to Solomon Islands (reflected in the ‘IDA scale-up’ scenario). While a combination of lower growth and increased borrowing might have seen the present value of debt breach the current debt distress threshold, enabling Solomon Islands to benefit from IDA on full grant terms is less likely with the proposed revisions to the debt sustainability framework (shown in the ‘Revised threshold’).

Figure 43: Possible trajectories of external debt under alternative debt sustainability thresholds



Source World Bank staff analysis, based on the joint IMF/World Bank Debt Sustainability Analysis.

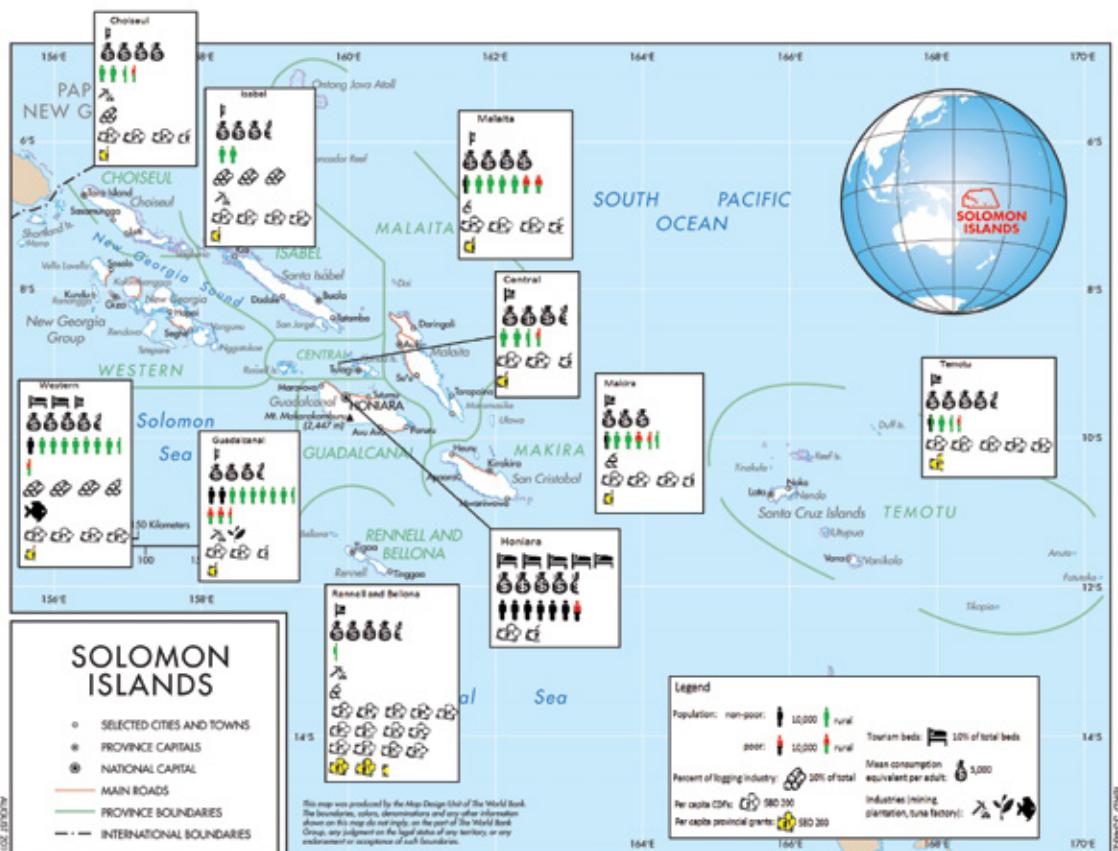


PILLAR 3: MANAGING UNEVEN DEVELOPMENT

123. Under this pillar, the SCD focuses on the key issue of uneven development across space in Solomon Islands and the measures that can mitigate the resultant inequities and risks. Spatial patterns of uneven development can be expected to intensify over time. This is partly because, as WDR2009 lays out, concentration is inherent to economic development, but in Solomon Islands these dynamics are reinforced by country-specific economic geography. With growth opportunities largely confined to natural resource-based industries (including tourism) and to the urban services economy (driven by the public sector), growth will inevitably be concentrated around locations of the underlying resources and in urban areas. At the same time, the lower unit costs of some utilities and infrastructure in urban areas leads to pronounced differences in service coverage and quality along urban/rural lines. The effects of these differences are—and have always been—mitigated by Solomon Islanders moving to take advantage of opportunities. However, inequities remain due to limits on mobility posed by inadequate connective infrastructure, by land systems, and by island-scale ethnic divisions, and these are a source of fragility. There is, therefore, an important role for redistribution systems to ensure that all Solomon Islanders benefit from natural resource-led growth and urbanization.

124. Patterns of uneven development affect the livelihood opportunities and well-being of people in different areas of Solomon Islands and thereby also prospects for poverty reduction and shared prosperity. As Figure 44 shows, poverty rates and income levels vary considerably across provinces, as do concentrations of economic opportunities in logging, mining, manufacturing, tourism, and the urban hub of Honiara. Whatever is done to facilitate economic development wherever it is viable, by providing a basic level of infrastructure and services across the country (a significant challenge in itself, as Pillar 1 showed), development will still be highly uneven. As Figure 44 also shows, per capita levels of key transfers also differ considerably and not necessarily always in ways that reflect poverty differentials. The next section details the patterns of uneven development in Solomon Islands, with a particular emphasis on urbanization, but also outlining patterns of natural resource enclave development. The SCD then focuses on key mechanisms to mitigate the potential negative consequences of uneven development: (a) connecting people to growth centers to spread their benefits; and (b) redistributing benefits from leading to lagging areas.

Figure 44: Provincial patterns of poverty, income, major economic opportunities, and key transfers



6.1 Patterns of Uneven Development⁹³

125. **The main drivers of likely patterns of uneven development in Solomon Islands over the next decade are already clear.** The first is likely to be continued rapid urbanization. Among urban areas, Honiara is the most significant in terms of numbers of people (78 percent of the national urban population) and political salience and so is the focus of this section. The second is likely to be the expansion and contraction of different natural resource-based growth centers. The biggest changes are expected to be the establishment of large-scale nickel mining in Isabel and Choiseul and the shifting locations of log extraction in an overall pattern of decline. At the same time, the possible reopening of Gold Ridge on Guadalcanal, the possible doubling of the area of land used for palm oil production for GPPOL on Guadalcanal, and any potential expansion of tourism activity—likely to be centered on Western Province—would also have spatially concentrated social and economic impacts. The way urban and other growth centers are managed is obviously important for the well-being of people within them, but their functionality also affects the extent to which they can benefit people beyond them. Before focusing on urbanization, this section briefly considers the broader internal migration and land issues that surround the expansion and contraction of natural resource-based growth centers.

Current Conditions and Constraints

126. **As natural resource-based growth centers have developed in Solomon Islands to date, who**

their workers have been and where those workers have lived have proven to be factors of great political as well as socioeconomic importance. Given the generally thin population dispersion, these industries have typically used considerable amounts of migrant labor. They have also typically been located in areas surrounded by customary land, so land to accommodate the migrant workforce has usually been part of the industry site. For logging, with its typically rapid log extraction, the loggers' camps have tended to move with the logging, and broader population movements and construction have been very limited. For mining and plantations, however, the operations have been longer standing, the workforce more permanent, and family and wider kin have generally come to join the workers and benefit from the economic opportunities these growth centers have provided. While this is essentially a process that spreads the benefits of the growth centers through backward linkages, it has posed particular political challenges in Solomon Islands, given that the migrant workforces have tended to be dominated by Malaitans and the arrival of their kin has encroached onto customary land surrounding the industries on Guadalcanal. While historically, in the context of internal population movements, practices of gift exchange that sustained webs of social relations enabled people not part of local descent groups to become members of the community and access customary land for housing and subsistence, the contemporary migration connected with natural resource-based growth centers has been very large-scale, and customary land systems have not been able to accommodate it successfully (see Box 18).

BOX 18

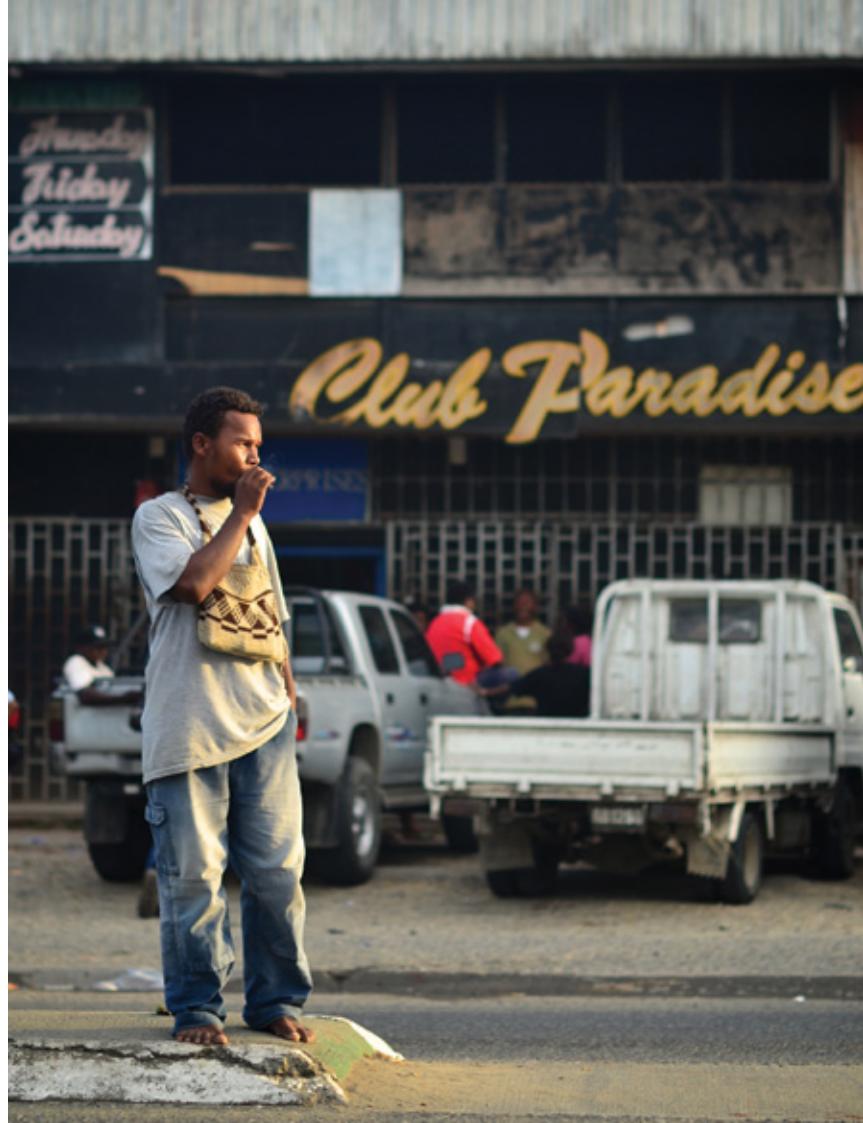
UNEVEN DEVELOPMENT, MIGRATION, CUSTOMARY LAND, AND THE TENSION

Uneven development was a key underlying contributor to the tension and remains an important source of risk today. In the years preceding the tension, growth centered on Honiara, Gold Ridge, and the forerunner of GPPOL created a contrast with the lack of development elsewhere on Guadalcanal. The jobs of the primarily Malaitan workers who migrated to these growth centers also created a contrast with the lack of employment opportunities for Guale. The increasing settlement of migrants on customary land to the west of Honiara, around Gold Ridge, and around the forerunner of GPPOL, as well as on alienated land to the east of Honiara, added to the discord. The informal and formal sale of land by senior men, often without the knowledge or approval of their matrilineal landowning groups, was a significant source of intragroup and intergenerational conflict. The younger generation of landowners resented such sales, compounding the grievances that gave rise to the tension. The younger generation of men around Gold Ridge and the forerunner of GPPOL also felt that they and their female kin had been unfairly excluded from benefit-sharing arrangements previously negotiated by senior males. Ultimately these frustrations were visited upon Malaitan settlers on north Guadalcanal.

Significantly, the Guale militants who mobilized at the outset of the tension were mainly from the remote and relatively impoverished southern Weather Coast. Around Honiara, evictions began to the west of the city boundaries, where settlements encroached on customary land, with settlements around the mine and palm oil plantation also a focus of evictions. The Malaitan militants who mobilized in response were predominantly from the more densely populated, poorer areas of Northern Malaita. After 2000, many of the Malaitans who took up arms were from Honiara, and the town boundaries became the frontline in the conflict.

Source Allen 2017; Evans 2017; Monson 2015.

⁹³ This section draws heavily on Evans (2017) and Allen (2017).

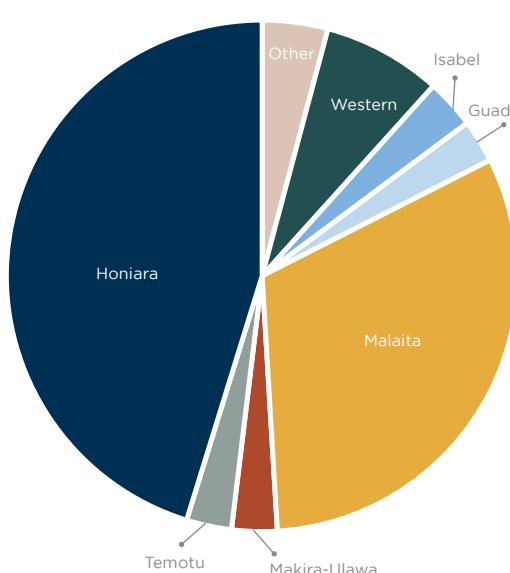


127. With respect to urban growth centers, Solomon Islands is experiencing a rapid rate of urbanization from what is—by global standards—a low base. At the time of the 2009 census, the population of the Honiara urban area—including the two adjacent wards in Guadalcanal Province—was some 54 percent larger than in 1999 (an average annual growth rate of 4.4 percent). The two adjacent wards in Guadalcanal were the fastest growing of any of the urban wards, with the Tandai ward growing at an average annual rate of 12.8 percent. Urban growth was also particularly rapid in a number of provincial centers (including Auki in Malaita—the next largest urban centre after Honiara, with 5 percent of the urban population, Kirikira in Makira, Lata in Temotu, Buala in Isabel, and Taro in Choiseul), leading to an annual average growth rate for provincial centers of 6.6 percent over this period. By 2030, urban areas are expected to contain 30 percent of the total population, up from 20 percent in 2009. The majority of the residents of Honiara who were not born there were born in Malaita, with only a very small share born in Guadalcanal—despite it being host to Honiara and the second most populous province after Malaita (Figure 45).⁹⁴ The disproportionate share of young people among migrants is evident in a pronounced youth bulge in urban areas relative to rural areas, particularly for

20–29 year-olds (Figure 46). Women and men are roughly equally represented in this youth bulge. There is little empirical evidence on contemporary drivers of urbanization, but frequently cited factors include formal and informal employment, accessing education (particularly secondary and tertiary), utilizing health services (especially the national referral hospital), visiting friends and relatives, and wanting a way of life removed from the toil, monotony, and constraints of rural life. Two further factors prompting shorter-term migration to Honiara are seeking audiences with MPs or their staff to access CDFs (given most MPs live in Honiara, not their constituencies) and dealing with natural resource development-related issues, particularly logging—in court, with government ministries or with private businesses (primarily a male pursuit). Fieldwork research suggests that a significant portion of migration is circular, with people returning ‘home’ for periods to undertake labor, visit relatives, and collect produce. The 2012/13 HIES shows that poverty is less common among households that have recently migrated across provinces, perhaps indicating that the relatively well-off are better able to take advantage of opportunities for interprovincial migration.

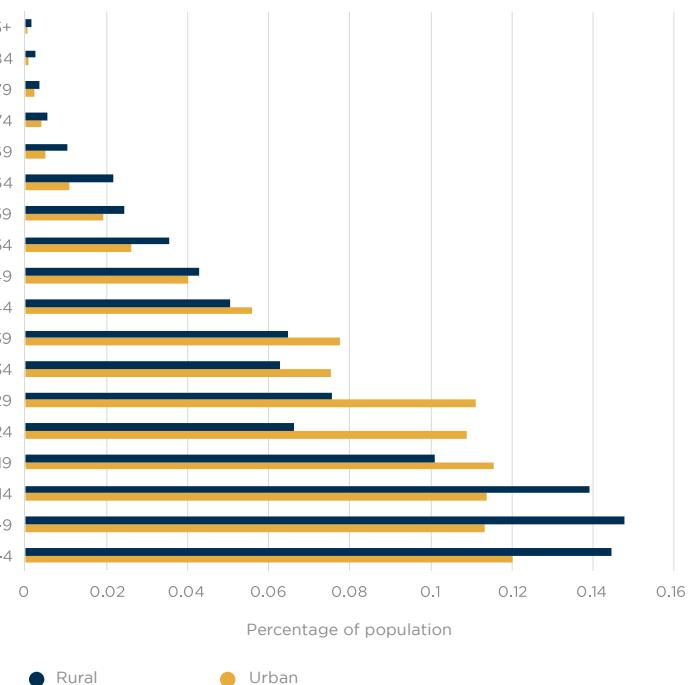
⁹⁴ The two peri-urban wards in Guadalcanal are not included in Figure 44. In the 2009 census, 39 percent of those enumerated in Guadalcanal Province but not born there were Malaita-born, with 16 percent Honiara-born.

Figure 45: Birthplace of Honiara residents, 2009



Source SINSO 2011b.

Figure 46: Urban and rural population age-structure



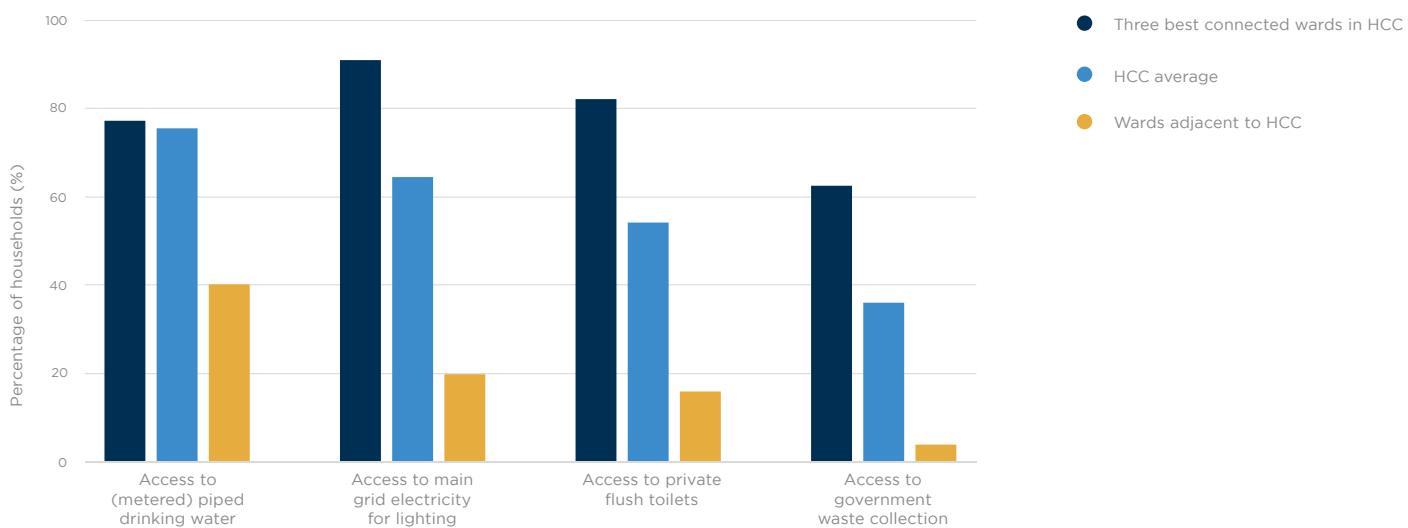
Source World Bank staff estimates based the 2012/13 HIES.

128. The nature of land tenure significantly affects patterns of urban development in and around Honiara. New arrivals typically rely on kin for housing and subsistence. These relationships are usually two-way, involving exchanges of produce, labor, materials, and cash between rural and urban kin. The urban communities that new arrivals join thus tend to depend on the location of their kin—whether in formal areas or informal settlements in and around Honiara. There is no reliable indicator of the proportion of Honiara's residents who reside in 'informal' settlements, but UN-Habitat (2012) suggests a figure of 35 percent which is widely quoted. The diversity of informal settlements is considerable: with some established for generations, others more recent; some with people of different provincial origins, others from the same province; and some within the city boundaries, others in Guadalcanal Province, and some straddling both jurisdictions. Within the city boundaries, informal settlements are mainly on public land, much of which had not already been built on because it was considered unsuitable for development. To the west and south of the city, settlements are mainly on customary land, with access generally negotiated in some form with those claiming to speak for the customary owners. To the east, settlements are predominantly on land alienated before independence, some of which is officially in public hands, some of which is officially in private hands, but all of which appears to be being sold (whether officially or unofficially) and subdivided (perhaps without official approval) in a fairly orderly fashion—though subject to long-running litigation in some

instances. This land offers reasonably accessible housing for lower-middle income residents and also contains a growing number of business developments. Its alienation is not necessarily recognized by Guales. Further expansion would encroach onto customary land.

129. Conditions within informal settlements vary widely but—relative to formal areas—are characterized by a lack of basic amenities. Most settlements in and around Honiara can be reached by road, though the poor condition of the roads and steeply sloping terrain in some areas mean these can be impassable after heavy rains. A limited number can only be accessed on foot. Within settlements, vehicle access is variable. Within the city boundaries, settlement has often outpaced road development by the HCC, with houses established where planned roads would go. In most settlements in Guadalcanal Province, road and footpath access has been established and maintained by residents themselves. Access to utilities in informal settlements is far lower than in formal areas, impeded by a combination of lack of household ability to furnish a title to their occupancy, lack of savings to cover the costs of connection, or lack of a service provider (see Figure 47). Despite the insecurity of tenure, an estimated one-third of housing in informal settlements is made of permanent materials (UN-Habitat 2012). As seen earlier, except in instances of very serious offenses, order and justice are largely matters for non-state authorities which have varying degrees of effectiveness.

Figure 47: Variations in access to essential services in and around Honiara



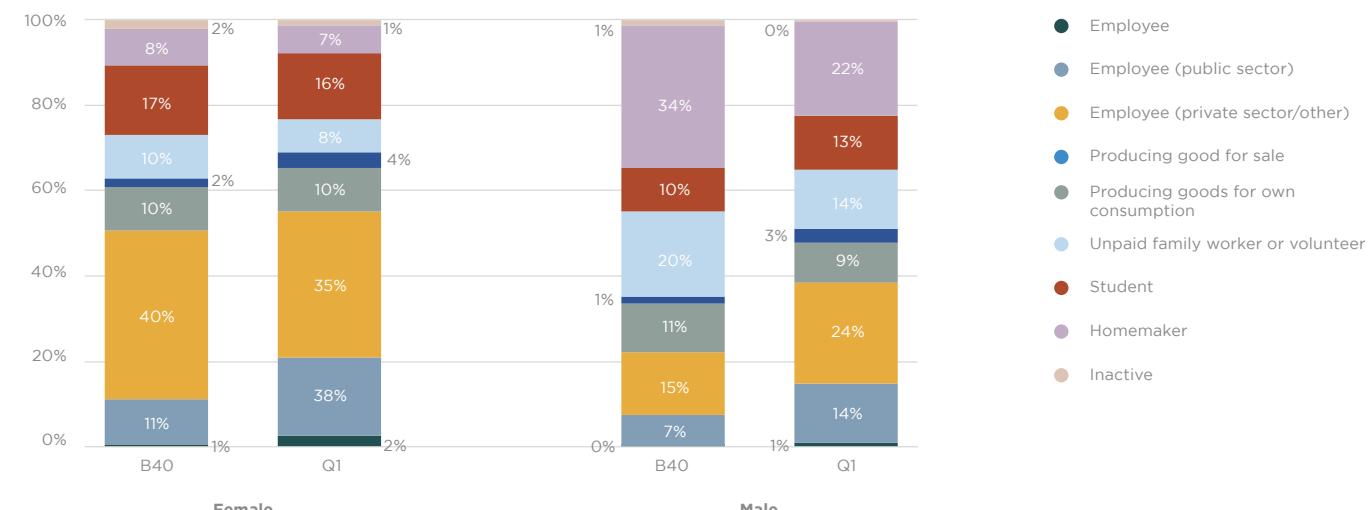
Source Source: SINSO 2011b.

Note The three best connected wards in HCC are Point Cruz, Kukum, Rove/Lengakiki; the two wards adjacent to HCC are Tandai and Malango.

130. While there is little empirical evidence, it is generally accepted that unemployment is a significant problem in Honiara, particularly in informal settlements and for youth. The 2009 census, showing unemployment rates of 15 percent for 20-24 year-olds and 9 percent for 25-29 year-olds (slightly lower for females than males), appears to significantly underestimate the problem. Other unemployment figures rarely indicate how estimates have been arrived at (with the exception of a survey in White River in 2010 by the World Bank (2014), which found that 67 percent of young people reported they had no regular source of cash employment—formal or informal—and were seeking work). Informal employment tends to be significant in Honiara (such as: selling betel nut, tobacco, handicrafts, and fruit and vegetables; construction, transport, and repair work for men; and house cleaning and child care for women). The work is often highly episodic, including short-term work paid cash-in-hand or in-kind, as well as donor-supported cash-for-work programs. In addition, research in informal settlements suggests that illicit employment is significant. The bulk of

informal enterprises appear to operate more as survival mechanisms than as means of accumulation. Stalls and canteens, for instance, often operate intermittently to raise income for small household expenses or one-off items. Betel nut, tobacco, and mixed goods sellers tend to remain small, unable to accumulate sufficient capital for expansion. Instead, profits are used for reinvestments in stock, immediate needs, lending, or kinship obligations that it is difficult for business owners to resist. Some Solomon Islanders have managed to accumulate enough capital to operate stores in permanent roadside buildings, but there they are in the minority, with this sector dominated by ethnic Asian entrepreneurs. The incursion of ethnic Asians into sectors typically dominated by indigenous Solomon Islanders can fuel protests (as, for instance, over bus transport services in 2015). Public sector employment is far less common among urban workers in the bottom two quintiles than in the top quintile (Figure 48). For women, private sector employment is also far less common in the bottom two quintiles, with domestic work and other unpaid work far more common.

Figure 48: Economic activity for working age urban residents – comparison across quintiles



Source World Bank staff analysis of 2012/13 HIES.

Note 'B40' refers to the bottom two quintiles across the national population; 'Q1' refers to the top quintile across the national population.

131. The social identity and political engagement of residents of informal settlements in Honiara varies widely, with the longevity of the settlement a key factor. In the long-established settlement of White River within the city boundary, for instance, residents are likely to consider Honiara their home and vote in an urban constituency. In the more recent settlement of Burns Creek straddling the eastern city boundary, with residents almost exclusively from northern Malaita, young residents tend to name the villages in Malaita where their fathers were born as their homes. Fieldwork research suggests a minority of Burns Creek residents vote in the East Honiara Urban Constituency (though Burns Creek is primarily located in the Northwest Guadalcanal Constituency), while the majority return to northern Malaita to vote (with transport provided by MPs). Burns Creek is not unusual in the degree of homogeneity of origin of its residents, with many settlements to the east and south of Honiara similarly homogenous. This indicates that urbanization is not necessarily being a melting pot for provincial identities. Particularly among youth with limited or no schooling, but even more broadly, many residents of these settlements have little experience associating with people outside their own language groupings during childhood or adolescence, potentially fostering lack of empathy and distrust.

132. Patterns of state authority for informal settlements are complex, but are generally characterized by lack of interest and inadequate resources. Considerable antipathy toward urban migrants is evident in political discourse, with the provision of services equated with further encouragement of migration. Instead, governments consistently articulate the objective of getting people to remain in rural areas. With respect to municipal planning, roads, and waste services, the capacity and resources of HCC and Guadalcanal Provincial Government (GPG) are highly constrained. Interest in the well-being of residents in informal settlements can also be limited. The GPG resists responsibility for service provision in peri-urban areas in Guadalcanal, arguing that the settlers do not choose to exercise their franchise in Guadalcanal and the GPG lacks the capacity and resources to even provide adequate services to its 'own people' in the rest of the province (Evans 2017). More broadly, the incentives of political elites to properly manage urbanization are undermined by the overrepresentation of rural constituencies relative to their population and the political engagement of a significant portion of urban residents in their 'home' province rather than in the urban electorates where they reside.

Outlook and Opportunities

133. While the incentives of political elites do not readily align with the proper management of urbanization, pressure points for change are emerging. As the current situation becomes more

untenable, these pressure points are likely to intensify. In recent months, for instance, in the face of forced evictions of residents of informal settlements in and around Honiara by private companies, the national government has evinced a sense of its responsibility for addressing these specific cases and the broader land tenure issues underlying them. Media, civil society, and private sector debate in Honiara over these events have raised their public salience. Political-level engagement could intersect in productive ways with work underway by the Ministry of Lands, Housing, and Survey (MLHS), development partners, and NGOs in the urban space, that need broader coordination and political leverage to bring about public-interest based solutions. The MLHS, for instance, is offering FTEs for sale to residents in some informal settlements on public land within the city boundaries, but its approach does not accommodate the public interest in security of tenure for residents too poor to afford the current scheme. Various development partners and NGOs are implementing water, sanitation, and energy programs in urban and peri-urban areas, whose effectiveness would be improved if title were no longer a precondition for access. The World Bank's Rapid Employment Project is supporting minor infrastructure development and maintenance (including minor roads) in urban and peri-urban areas, that link up with HCC and GPG responsibilities in these settlements. And a number of donor and NGO projects are also supporting greater resilience to natural disasters in urban areas, with the vulnerability of informal settlements made starkly evident in the 2014 flooding. At present, political-level engagement could also intersect with the policy work that is underway, for instance by the MLHS on housing and urbanization policies and through technical assistance by the ADB on a comprehensive urban development strategy.

134. The way the functioning of urban and other growth centers affects the benefits they provide to people beyond them may offer a stronger political impetus for addressing their management. Even if political incentives do not make the well-being of residents of Honiara a high priority, the functioning of Honiara as a central hub is critical to the growth and development of the rest of the country, where political interests more tend to lie. The greater the efficiency of the economy of Honiara, the more effective is its demand for goods from rural areas. This makes its roads and ports, for instance, of national significance. The better it works as a space for private sector development, innovation, entrepreneurship, and training, the more value it generates—which linkages throughout the country can tap into. In this way, a well-managed central hub is critical to achieving growth and development in the rest of the network of urban and rural areas. Also, in parallel, other key urban areas like Auki on Malaita, and Gizo (for tourism) and Noro (for fish) in Western Province, offer similar network growth benefits.

135. Land systems remain a key underlying issue for the functioning of urban and other growth centers. State systems for regulating the ownership and use of alienated land and for bringing customary land into the market have not kept pace with social and economic reality. This is evident in the significant portion of urban residents with no secure claim over the land and housing they occupy and whose residences are often in unsafe locations, by informal trading and subdivision of previously alienated peri-urban land and by informal means to access customary land. Until there is some reconciliation between formal and informal systems, those less able to enforce their interests privately will remain more vulnerable to exploitation in the transactions that are occurring. Ready public access to the titles of alienated land could provide a useful starting point for grappling with the disparities between ownership on paper and in practice.⁹⁵ But this would threaten the interests of those who have benefited from opaque transactions to obtain FTEs

previously (with typically low assessed values which contribute to low government revenue from this land—in contrast to the high rentals the government pays to lease the same land back again—see Box 19). For customary land, as we saw in Box 6, the MLHS is currently investigating how landowning groups could be registered as corporate bodies to be the trustees of their own land (rather than vesting this authority in individual trustees who may not act in the group's interest), as well as whether there are suitable alternatives to the current trusteeship system. By increasing the value of land, urbanization and natural-resource growth centers intensify the significance of ownership and exclusion and thus the importance of the equitable treatment of all members of landowning groups and those with historical access rights to the land. Otherwise, local-level land disputes are likely to intensify, potentially scaling-up into wider grievances and conflict.

BOX 19

PUBLIC LAND MANAGEMENT AND PUBLIC HOUSING

Constraints on the management of public land contribute to broader pressure on access to land for housing. Earlier work by the World Bank showed that private firms and individuals hold FTEs over most public land in Honiara. Lack of competitive bidding for the initial grants of these 75-year FTEs, statutory rent reviews that have been skipped, failure to maintain valuation rolls, failure to maintain proper records of current holdings, and weak revenue collection contribute to the poor returns the state receives on this land. The earlier work estimated the value of public land subject to FTEs in Honiara at US\$2.1 billion in 2010, with the government collecting just US\$2.8 million in rent from public land across the country in 2009.

At the same time, the government requires significant land for its offices and facilities, as well as for housing for public servants. A legacy of the colonial era, when the government provided housing in Honiara for expatriate and local public servants recruited from across the country, public servants are entitled to housing (a government house or a rental subsidy/rebate for housing provided by private landlords). While the government collected US\$2.8 million in rent in 2009, it was paying about US\$100 million in rent to sublease back public land for its offices and facilities and about US\$50 million in maintenance on government housing and rental rebates/subsidies to private landlords, who are tenants of public land held under FTEs.

Weakly enforced development covenants on land held under FTEs and the absence of capital gains or effective property taxes create distortional incentives that prevent the market from reallocating FTEs to more efficient uses. The inefficient allocation of land in Honiara contributes to its scarcity. The system of public service housing—and its equivalent for professional and technical grades in the private sector—entrenches a significant gulf between those with jobs in the formal sector, whose remuneration includes housing, and those without formal sector jobs who have to secure and pay for housing themselves. Anecdotally, public servants routinely refuse job offers with higher salaries (more than offsetting the rent implicit in their existing remuneration) because of the difficulty of securing housing privately.

Source Williams 2011.

⁹⁵ At present, the process for accessing land titles is not widely known and incurs a fee (which, while relatively small, is prohibitive for many—especially when accessing multiple titles).

136. Particularly if access to essential services and infrastructure does not improve, rapid urbanization is likely to continue to pose a conflict risk. As we have seen, state authority is generally limited in informal settlements in and around Honiara, and essential services and infrastructure are often equally lacking. In some cases, communities fill the gaps themselves or are assisted to do so by donor or NGO projects; in some cases, the gaps remain unfilled. Political sentiments tend to vary by settlement (particularly between longer-standing and more recent settlements), but fieldwork research suggests that it is not unusual for residents to have a thorough contempt for ‘the government’ (typically conceived in terms of Honiara-based political elites), as incompetent, apathetic, dishonest or corrupt.⁹⁶ Bleak expectations of the future are also common, as expressed in the phrase ‘*future bло Solo no bright*’ (‘the future of Solomon Islands isn’t bright’). Among young men particularly, it is not uncommon to find acceptance of resort to violence as an appropriate response to the current practice of politics—with ‘*no kaen care*’ (‘nothing to lose’) a familiar refrain. There is little sense of inclusion in a broader nation-building process. If contests over scarce land, housing, amenities, and jobs intensify with continued urban growth, rather than being relieved by better urban management, the urban protests that have occurred periodically since the end of the tension are likely to continue to give expression to deprivation, perceived injustice, and grievance in the future.

6.2 Connectivity

137. A key way to address uneven development is to connect people and their products to urban and other centers of growth to the greatest extent possible. This is important for two reasons. First, it increases economic growth itself, since the backward linkages increase the domestic value added generated by the growth center. Second, it mitigates the exclusion engendered by uneven development, by enabling a larger set of people to benefit from the growth center—whether by travelling there for labor opportunities or by marketing their goods in the growth center. In so doing, it gives a larger and more widely distributed set of people a stake in the growth center, helping to mitigate perceived inequities that might fuel grievances. This section begins with transport, outlining current conditions and constraints in maritime, road, and air transport, and then setting out the outlook and opportunities for improved transport connectivity. The section then takes the same approach to the area of communications.

Transport⁹⁷

138. Transport connections enable Solomon Islanders to link to markets for their goods and

services—including labor. They are also vital to people’s ability to access public services in provincial centers and Honiara. Through transport connections to urban centers, the rural population can access domestic markets, and through Honiara they can connect to an aggregation and onward transit point for international markets. In reverse, connections from Honiara provide imported and locally manufactured supplies throughout the country, as well as an inward transit point for tourists to Gizo, Munda, and other parts of the archipelago. Robust transport infrastructure is critical to DRM, both evacuation and response.

Current Conditions and Constraints

139. Maritime transport is the primary mode of transport for people and goods, with interisland shipping connecting various points in the archipelago to Honiara, and local boats providing important links between villages and those connection points. Interisland services vary in frequency, from almost daily between Honiara and Noro (where SolTuna is), to monthly for Temotu’s outer islands. With initial assistance from the ADB, Solomon Islands established a Franchise Shipping Scheme (FSS) to subsidize regular scheduled services on a designated set of routes assessed as being commercially unviable (replacing previous ad hoc charter services).⁹⁸ The FSS is based on a minimum-subsidy tender usually for the provision of monthly services, and the routes essentially cover places with small markets (often in remote destinations, but including the Weather Coast of Guadalcanal). The variation in frequencies of interisland services provides an indication of how a major industry like SolTuna can facilitate wider growth opportunities via the connectivity that the industry serves as a baseload customer for. People in the vicinity of Noro can establish supply links with Honiara for perishable goods that would not be possible for areas with only monthly services. For FSS routes, freight is dominated by the supply of household goods from Honiara, and what return freight there is consists mainly of non-perishable copra and cocoa. The monthly journeys are also the primary means for delivering government supplies (such as medical supplies) to these remote locations.

140. Besides the issue of frequency, there are a number of other ways the current state of domestic maritime transport constrains growth, inclusiveness, and sustainability. (Key international maritime connectivity issues are covered in Box 20.) The competitiveness of the domestic industry appears limited. Under the FSS, for instance, it has not been unusual for there to be few or even no bids, even though the revenues earned by winning operators have been significantly above their tendered revenues and their costs significantly below tendered costs (so the subsidy paid has been

⁹⁶ Evans (2017).

⁹⁷ This section draws heavily on Adhar (2017) and Weisskopf and Raj (2017).

⁹⁸ The vessels must be certified by the Solomon Islands Maritime Safety Authority and the operators have to take out insurance on their vessels, cargo, crew, and passengers.

well in excess of what is required). Competitiveness may not be helped by the very uneven playing field that provincial government shipping operations and—increasingly—constituency shipping grants create (with MPs providing boats for shipping operations, whose capital is thus free, whereas purely commercial operators have to cover the costs of their capital). Provincial divisions further constrain competitiveness: in some provinces, only operators from that province would attempt to provide shipping services there. A significant portion of maritime infrastructure must be vulnerable to damage from extreme weather events and natural

disasters, given that a third of the infrastructure owned by the Ministry of Infrastructure Development (MID) for which data are available requires heavy engineering or machinery work to rehabilitate or reconstruct.⁹⁹ The aging fleet also poses safety concerns and the accident rate is high. FSS routes do provide a degree of gender inclusiveness not guaranteed more generally, both in the choice of routes (accessing health and education facilities and markets) and in vessel facilities (cranes for loading and unloading goods and designated male and female toilets).

BOX 20

INTERNATIONAL MARITIME CONNECTIVITY

Honiara is Solomon Islands' main seaport gateway, accounting for approximately 90 percent of all freight movements (excluding logging) and fish transshipment. Noro, the other international port, almost exclusively serves NFD's fishing and processing operations. By regional standards, the port at Honiara is expensive and inefficient (see Table 10). Before 2015, container ship arrivals were steadily increasing as international shipping lines began to centralize transshipment for other Pacific ports in Honiara, perceiving it as inexpensive. This trend reversed from 2015, when there was a major revision to the structure of fees and charges in Honiara, including some significant increases. Low quayside efficiency and delays in vessel clearance were also cited as disincentives. The existence of only a single berth handling one vessel at a time, continued breakdowns of heavy freight handling stevedore equipment due to lack of preventive maintenance, lack of container terminal management systems, limited yard space for storage and handling, and industrial disputes all contributed to poor productivity.

Though it did significantly increase port tariffs, Solomon Islands Ports Authority is implementing a series of reforms to improve the productivity of the port—with vessel turnaround times down from 40 to 15 hours, reducing costs to users. These reforms include new equipment and operating systems to increase quayside efficiency and truck turnaround time for the delivery and receipt of containers and expanded hours of operation (with a planned extension to operating at night). A donor-financed second international berth has now been completed. For domestic services, the port road has been upgraded for safety and security and is to have 24-hour lighting. The second berth, perhaps in conjunction with land reclamation, should extend the life of the port in its present location by about 25 years—thereafter, it is expected to need relocation in whole or in part to service projected demand.

Table 10: Comparison of regional port charges

Port	Standard Vessel Comparison (US\$)	TEU Handling Rates Per Hour
Honiara, Solomon Islands	17,266	6
Lae, PNG	10,472	11
Lautoka, Fiji	10,157	12
Nuku'alofa, Tonga	9,278	12
Port Vila, Vanuatu	5,582	10
Apia, Samoa	5,050	12
Average (excluding Honiara)	8,108	11

Source Adhar 2017, citing Consultant Report on Regional Ports Pricing and Productivity Comparative Study, ADB TA No. 8378 REG: Private Sector Development Initiative Phase III, 2016.

⁹⁹ This does not account for the state of the numerous unimproved anchorages around the country.

141. Though not expansive, the roads network plays a critical role in linking people to maritime transport points on the coast, to nearby urban centers, and to airports. Vehicle ownership is very rare in rural areas—in contrast to ownership of boats or canoes, at 6 percent of households—and most people walk to schools and health clinics. However, roads and vehicles are critical for the movement of freight to and from the coast. In global terms, Solomon Islands' road network of 1,463 km is extremely small relative to the size of the land area, but it is not so small relative to the size of the population. An estimated 82 percent of the population are within reach of the road network (77 percent of the rural population and all of Honiara). While the existing network is vital for connectivity, there are some key gaps and weaknesses. Key gaps include the limited connectivity of Honiara with large parts of Guadalcanal (terrain, cost, and land access are significant constraints) and the limited road network of Honiara itself which is now grossly inadequate for the traffic volumes. Key weaknesses include the quality of the road network. Only 12 percent of it is sealed, nearly all of which is in maintainable condition (though it is not necessarily well maintained). The remaining roads are mostly of coronous material, with 56 percent in maintainable condition (about a quarter of which are not usable after heavy rain), and the rest in poor condition or impassable.¹⁰⁰ Thus, the quality of the network seriously constrains the connectivity it ostensibly provides. Public transport is available in and around Honiara, provided by privately owned minibuses and taxis. In rural areas, it takes the form of light trucks carrying goods and passengers. As with maritime transport, accident rates are a concern for road transport.

142. At present, air transport plays a fairly small role in domestic connectivity, with its cost prohibitive for most Solomon Islanders. The domestic network is centered on Honiara, which accounts for 55 percent of departing passengers (including domestic and international), with Western Province dominating the spokes, at 27 percent of departing passengers. Service frequencies vary from daily to weekly. A return fare to Honiara costs about 7-10 percent of annual household income in the relevant province. The propensity to fly is only 0.2 trips per person per year, in contrast to maritime transport, where the propensity is about 0.8 for interisland services alone. Airfares are highly correlated with distance (whereas in most contexts they are demand driven). Compared to Vanuatu, fares in Solomon Islands are 25-80 percent higher on similar distance routes, with many around 50 percent higher. Possible reasons for this include the non-viability of some of the domestic routes, aircraft types accommodated by runways being inappropriate to business needs, and disruptions to airfield availability caused by weather conditions

(due to surface friction, lack of navigation aids, and flooding) or by disputes between landowners and the government (with the majority of operational domestic airports on leased land, rather than government owned). The state-owned Solomon Airlines is loss making. The community service obligation CSO it receives may not be adequate, and increased competition on its international routes has squeezed its margins from that arm of its business. Domestic airports are also frequently loss-making, with low scheduled traffic volumes making them commercially unviable.¹⁰¹ There remain serious safety and security oversight issues in the air transport sector.

Outlook and Opportunities

143. While the government is paying increased attention to the maintenance of existing infrastructure and to criteria-based prioritization of new investments, the resources available are very small relative to the extent of connectivity challenges. The National Transport Plan 2017-2036 (NTP), prepared with ADB assistance, prioritizes maintenance of infrastructure assessed as maintainable (rather than in need of reconstruction). New projects are prioritized according to clear criteria set out in the NTP. Funding for maintenance and construction work comes through the National Transport Fund (NTF). Donor contributions to it are conditional on government contributions, NTF funds are unable to be reallocated back to the general budget, and expenditures are aligned with the NTP and overseen by a board that includes a donor representative. Effectively, this insulates transport infrastructure maintenance and construction from general budget pressures and from intervention by the executive. Responsibility for funding the FSS has now shifted from ADB financing to the government, with the NTP specifying that 3 percent of total public expenditure should go to shipping services. To make the FSS affordable while adding new routes to it, existing subsidies need to be scaled back to the minimum necessary for commercial viability. Five of the existing eight FSS routes are now assessed as being commercially viable, rendering subsidies unnecessary—and indicating the success of the scheme in producing viable transport routes by subsidizing their establishment for a lengthy period while sufficient demand is built to sustain them.

144. Significantly increased levels of donor financing targeted to infrastructure around growth centers is likely to be necessary to support economic growth and mitigate the risks of uneven development. At present, rehabilitating or reconstructing all existing maritime, road, and air transport infrastructure to usable standards—let alone relocating and upgrading it for climate resilience—is unaffordable (it being a stretch to cover the maintenance of maintainable infrastructure and

¹⁰⁰ Similarly, only 56 percent of bridges are in maintainable condition.

¹⁰¹ Previous analysis has suggested room for increased airport fees and charges on international services, as well as for greater efficiency of airport operations. There also appear to be some financial irregularities in the sector.

a handful of new projects). This indicates that it is not possible to provide connective infrastructure for all communities in Solomon Islands at this juncture. Prioritization is critical, and though this has been achieved to some extent in the NTP, its inclusion of a major infrastructure project in each province possibly suggests the state is not robust enough to concentrate resources around strategic priorities. On a small scale for the approved bauxite mine on

Waghina Island and a large scale if nickel mining goes ahead, development partners should place a high priority on the provision of infrastructure and services to help all proximate communities connect to mining growth, where these are not sufficiently covered by mining companies, provincial authorities, or the national government (Box 21). This is also still needed for Honiara, with respect to the parts of Guadalcanal Province that remain unconnected to it.

BOX 21

INFRASTRUCTURE PPPs FOR INDUSTRY DEVELOPMENT

New economic opportunities in mining, tourism, agriculture, and fisheries are likely to be in areas of the country where basic infrastructure needs to be established or significantly upgraded to support industry needs. This applies to essential services like water, sanitation, waste, and energy and to connective infrastructure. Some form of public-private partnership (PPP) is likely to be required for these developments to occur. If the government leaves it to industries to develop utilities and infrastructure at their own cost, the chances of the industries developing will be much reduced, and where they are developed the broader economic benefits of the utilities and infrastructure are likely to be lower, because they may cater only to industry needs. Government and SOEs, however, are unlikely to have the resources needed themselves.

PPP approaches have the potential to support the establishment and operation of utilities and infrastructure needed for specific industry and broader economic development, but they entail considerable risks. Done well, PPPs could support utilities and infrastructure that meet the specific requirements of the industries concerned as well as the broader needs of the surrounding region (for instance, a new power grid that uses a new fish processing plant as the baseload customer while it extends services to the surrounding population; road systems to link surrounding populations to mine and port developments, not just to link the mine to the port). Done well, PPPs also provide an appropriate distribution of costs and risks between the public and private partners. But PPP instruments are complex and the public and private partners negotiating them in this context are likely to have very uneven bargaining power and technical capabilities. Moreover, the underlying political economy context would suggest a significant risk of the public interest (including that of future tax payers) not being well represented by the state in negotiations. At present, there are no guiding policy principles, legislative or regulatory framework for the development and management of PPPs, and there is no unit in government tasked with developing and managing them. If the need to develop major PPPs is only occasional, it may not be cost-effective for the state to build and maintain the necessary capacity in-house.

Development partners may be able to play an important role helping the state supplement its capacity to negotiate and manage PPPs in the public interest, particularly for large industry and infrastructure developments. The costs of getting PPPs wrong—especially of foregoing the broader growth and employment benefits that could be obtained from utility and infrastructure developments—are high. Good analytical work on core characteristics of good PPPs and common pitfalls of bad PPPs, particularly in contexts of thin public sector capacity and significant power asymmetries, would be a valuable basis for a dialogue with political elites on how much more they, the government, and the people could obtain from industry developments if PPPs are done well. This may also open avenues for development partners to supplement the capacity of the state on PPPs for large industry and infrastructure projects.

145. While priority needs to be placed on infrastructure connections around emerging growth centers to spread the benefits of uneven development, the government is preoccupied with trying to make development occur more evenly across the country. A priority initiative of the current government is the development of special economic zones (SEZs) in the provinces, in an attempt to promote industry and create jobs all around the country and dissuade people from migrating to Honiara. These proposed SEZs could serve as a means to overcome land access problems, with the government planning to secure land for the sites. However, it is not clear how the government will afford the major investment or manage the coordination challenges of establishing essential services and connective infrastructure for SEZs in each province. Nor is it clear what the returns to such investment would be, if land, utilities, and infrastructure are not the binding constraints to industry development in the locations where the SEZs are established. Greater returns could be obtained from focusing these efforts on areas where there is a clear source of growth (such as from natural resources or tourism). The government also appears to see tax concessions as an essential element of the SEZs, opening up considerable risks of hollowing out the tax basis without any evidence that taxation is the binding constraint on private sector development in the provinces.

146. Air transport has a particularly important role to play in facilitating the expansion of the tourism industry. New Zealand is supporting upgrades to the domestic airports that the government owns to provide all-weather runways, which should enable Solomon Airlines to run the more efficient Dash 8 aircraft on these routes and for the services to be more reliable. At the same time, a new, experienced Chief Executive Officer has been recruited to Solomon Airlines, with a view to improving the management and operations of the airline. Internationally, Solomon Islands already has reasonable connectivity, with daily flights to Brisbane and near daily flights to Nadi, at prices that are comparable with other tourist destinations in the region. This provides a good foundation for tourism development. If the coordination challenges of developing significant new tourism facilities and products in an area with high potential—like Western Province—can be addressed, such an initiative could combine with improved domestic air connectivity to transform tourism into a driver of growth in Solomon Islands in the long term.

Communications

147. Information and communication technology (ICT) also supports Solomon Islanders to connect to centers of growth and centers of service delivery. Government-citizen and government-business engagements are typically time consuming, requiring in-person visits to government offices in provincial centers or Honiara and lengthy paper-based processes. Improved ICT access, including in rural areas where the majority of households now have mobile phones, offers prospects for improving public service delivery and accountability and enabling communities to engage more effectively with government. Critically, disaster-resilient ICT infrastructure is vital to effective DRM across the archipelago.

Current Conditions and Constraints

148. Over the last decade, the government has made major reforms to the ICT sector, with significant results. From 2008 onwards, it enacted legislation supporting liberalization and competition in the ICT sector and established an independent regulator. New service providers entered the market from 2010, with considerable reductions in prices, improvements in services, and increases in access as a result. By 2015, the mobile network covered 89 percent of the population, a remarkable achievement given Solomon Islands' economic geography. The main ICT connectivity challenges now are to reach the remaining unserved populations, for whom some form of universal access program may be required, and to reduce the remaining barriers to more widespread Internet uptake, primarily limited bandwidth and high cost. At present, access to data services is very low—limitations that most affect those in more remote areas. As well as constraining public service delivery (see Box 22), lack of access to affordable broadband Internet constrains the expansion and deepening of banking services in the country and potentially also the exploitation of new e-commerce opportunities.



ICT AND PUBLIC SERVICE DELIVERY

Given the challenges of providing access to basic public services across Solomon Islands, ICT-enabled service delivery could potentially be very significant. While the coverage of the voice network now extends to most areas of Solomon Islands, access to data services is still very low—limitations most affecting rural areas. Affordable broadband Internet could provide a platform for the development and use of ICT applications in public service delivery. Apart from websites enabling government entities to convey policy information to citizens and for citizens to engage with government services and processes remotely, there is considerable potential for ICT-based applications to mitigate some of the particular challenges of state reach and service quality in Solomon Islands. For instance, applications providing curriculum content, teaching material, and even lesson plans might help support better quality basic education than would be possible by relying on progressive improvements in the qualification base of the teaching establishment alone. Applications guiding a standard package preventative health checks and referral processes might strengthen the quality of primary care in rural areas, where fully qualified nurses may not be available. ICT-based applications might also prove useful among measures to improve the accountability of CDFs, with some MPs already using social media to communicate with constituents about how they have spent CDFs, for instance.

Outlook and Opportunities

149. **Solomon Islands is currently in the process of securing an international submarine cable, to increase the quality of Internet services.** The cost of financing the cable will be critical to its development impact. The lower the financing cost, the better the business model—enabling the cable owner to offer lower wholesale bandwidth pricing into the market. If capital costs and financing mechanisms are expensive, however, wholesale prices will have to be high, which will cascade down to the end users, suppressing demand and curtailing its impact. Also critical to the impact of the cable will be the strength and effectiveness of regulation, particularly with respect to open access and transparent, non-discriminatory pricing. Currently, the independent regulator has the capacity to develop and enforce such regulations. Widespread access to broadband Internet is not without risks, of course, if people more readily see relative deprivations and if their aspirations are raised. These risks underline the importance of the effective mitigation and management of uneven development.

6.3 Other Systems for Managing Uneven Development, Volatility, and Shocks

150. **Alongside measures to connect people and their products to urban and other centers of growth to increase and spread the benefits of uneven development, there is an important role for taxation and spending mechanisms that redistribute the gains from leading to lagging areas.** As well as being a key lesson from WDR2009, this is also clear from the experience of natural resource-

dependent economies (Gill et al. 2009). A share of returns from natural resource-based industries needs to be secured through taxation and used to invest in a healthier and more skilled workforce and in physical infrastructure nationwide. This enables a higher level of public services and infrastructure for the whole population, improving their livelihood opportunities and facilitating the development of productive activity in all the sectors and locations where it may be viable, given these higher levels of human and physical capital. This is, in effect, a way to diversify the asset base of the economy—with some of the returns from exploiting natural assets funding the accumulation of human and physical assets, which can in turn spur the development of other industries.

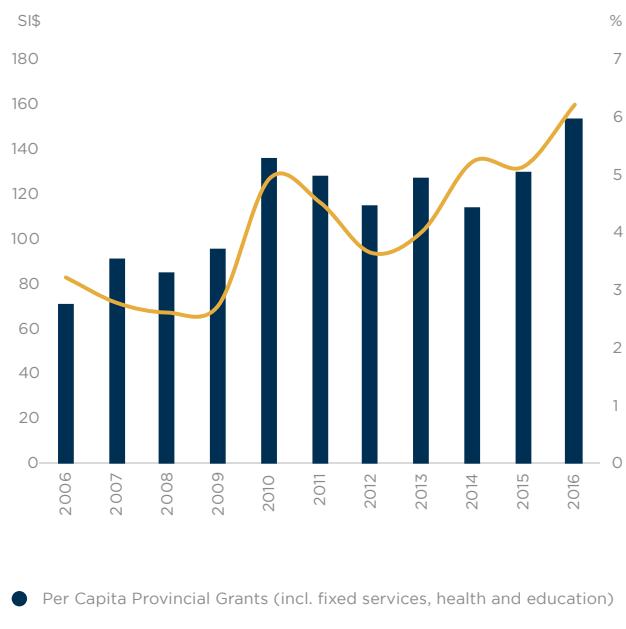
151. **The government in Solomon Islands does this to an extent, through its taxation of natural resource-based industries and spending on human and physical capital.** Around 47 percent of public expenditure is on health and education and the development budget makes up about 18 percent of total expenditure. The government may not be securing a sufficient share of returns from extractive industries, and the quality of its spending may not be as high as it could be (particularly with a third of the development budget going to CDFs), so it could be achieving significant greater levels of human and physical capital than it is for the same level of natural resource extraction. However, the redistribution process is occurring to some extent. In addition to across-the-board investments in human and physical capital, the government also has specific systems for redistribution on a geographic basis—through the system of provincial governments and the more recent system of CDFs—which the next section discusses.

Horizontal Systems for Redistribution

152. While not its primary function, the provincial government system has served, in part, as a means to redistribute public resources on a geographic basis. More broadly, provincial authorities are (or should be) components of the administration of public services in the areas of health, education, water, sanitation, and waste disposal. However, they also have roles in supporting private sector activity in the different provinces, including in the areas of agriculture and fisheries, and by their very existence, provincial authorities and the jobs they provide have spurred the growth of provincial urban hubs around them. The extent to which the provincial government system does serve to redistribute resources geographically is limited by the level of resources available to them, with underfunding relative to their responsibilities a perennial problem (Cox and Morrison 2004). The aggregate envelope of funds for provincial authorities is a somewhat volatile

residual once central government spending needs have been accounted for, rather than reflecting the costs of provincial service obligations (Figure 49). In some cases, this leaves a shell of public authority with extremely little capacity to deliver. The allocation of the envelope among provinces is determined on the basis of population, with a lump sum per province and further adjustments for the results of annual performance assessments and differing own-source revenue potential.¹⁰² As Figure 50 shows, the result evinces considerable variation in per capita allocations across provinces (and as was clear from Figure 44, these transfers are dwarfed by CDFs). As an authority with regional reach and identification, though, provincial governments have considerable potential for accountability and for connecting people to public authority. As such, they feature prominently in political debates over the decentralization of service delivery, devolution of powers, and shift to a federal system.

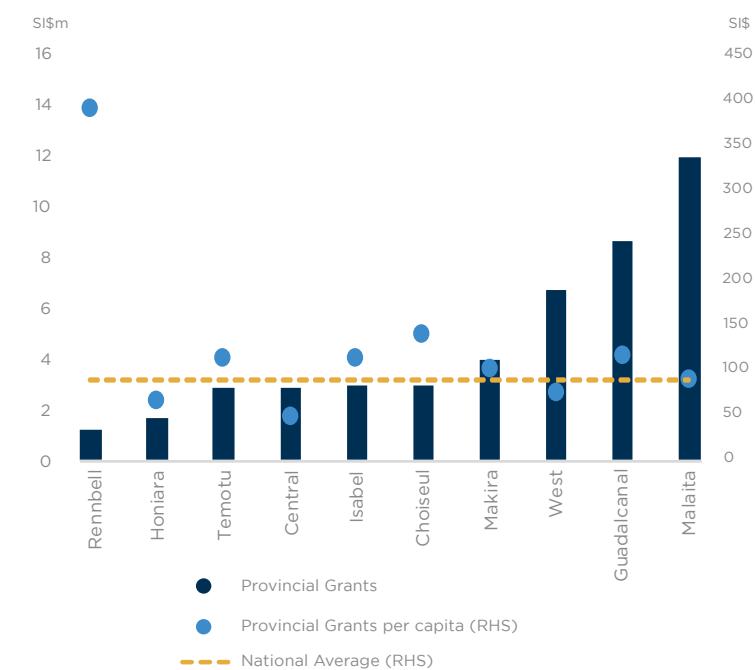
Figure 49: Central government grants to provinces



Source MoFT, World Bank staff estimates.

153. CDFs now represent a major means for the redistribution of public resources on a geographic basis. Following their establishment in the early 1990s, there has been relentless growth in the public resources allocated to CDFs and in their importance. That growth has only intensified in recent years (Figure 51). By providing public resources to national government MPs to spend at their discretion, CDFs bypass the provincial government system. Their budget now exceeds that for provincial grants by a factor of six. In 2016, CDFs accounted for 8.8 percent of total expenditure (6.9 percent from consolidated revenue and 1.9 percent financed by Taiwan, China). Though equal in value

Figure 50: Provincial grants by province, 2015

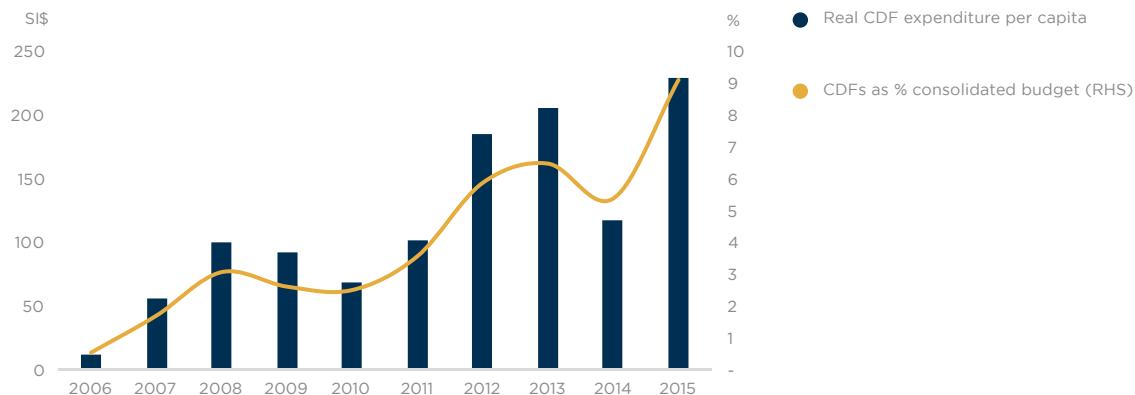


Source MoFT, World Bank staff estimates.

for each constituency, since the population varies so much across constituencies, there are large variations in CDFs per capita (as shown on a provincial basis in Figure 44). Though there is no systematic evidence of their use, CDFs fund anything from setting up constituency businesses (for instance, in shipping), to providing households with solar panels or paying their school fees, to distributing bags of rice at election time. While they serve as a mechanism to redistribute public resources across the archipelago, including directly providing some essential services to constituents (through water or energy infrastructure), their operation is widely recognized as mainly patronage based (see Box 23).

¹⁰² Beyond Honiara, provincial governments have few means to raise the direct revenues that provincial grants are meant to supplement (with business license fees the main source, in some provinces chiefly from logging).

Figure 51: Central government CDFs



Source MoFT, World Bank staff estimates.

BOX 23

THE POLITICAL ECONOMY OF CDFs

CDFs are a cornerstone of contemporary patronage politics in Solomon Islands. They are both a cause and a consequence of the weak functioning of broader state institutions. The way the political system operates encourages MPs to secure the maximum possible share of public resources for CDFs and to focus on how these resources are spent in their constituencies. This detracts from the share of public resources available for broader public institutions and from political efforts to ensure those institutions operate effectively. MPs then see CDFs as means to deliver immediate and tangible benefits to constituents, which broader public institutions are not regarded as doing effectively.

Popular sentiment on CDFs is often contradictory, with the behavior of voters enabling and encouraging the very system they despise. There is an unremitting stream of complaints about CDFs in the media and civil society forums. A dominant theme in these is criticism over the use of CDFs for the exclusive benefit of supporters, rather than all constituents. The media reports cases of constituents being denied assistance after constituency officers have checked lists of supporters compiled during elections and found that the applicants are not on them. The media also reports complaints about businesses or construction equipment established through CDFs being treated as the private property of MPs after they have lost office.

There is an increasing degree of institutionalization of CDFs and some moves to penalize their misuse. However superficial in their effect, MPs have to lodge a plan for the use of CDFs with the Ministry of Rural Development, which expenditures are supposed to accord with. Though these plans are said to be public documents, they do not appear to be publicly available. Each MP employs a Constituency Development Officer, Project Officer, and Accountant on the public payroll, to administer and account for their spending. There is active consideration within the state of how greater accountability could be brought to the use of CDFs, including how constituencies could retain ownership of assets funded by CDFs, separately from MPs. There are also instances of MPs who are alleged to have stolen from CDFs being prosecuted.

CDFs are likely to continue to pose fundamental problems for equity and cohesion. Research by the World Bank shows that CDFs are among the major causes of disputes and grievances in communities. (The same research shows that donor projects can similarly fuel local disputes and grievances over resource allocation.) Thus, even though Solomon Islanders tend to judge their MPs on the delivery of private or localized public goods, the perceived injustices over the use of CDFs are driving people apart at the local level. They contribute to a pervasive sense of unfairness about the current practice of politics and intensify long-standing grievances over geographic inequities in public spending and the dividends of citizenship and nationhood. By connecting the local directly with the national, CDFs further entrench central government as the key locus of power and wealth, a trend sidelining provincial authorities and seemingly inconsistent with aspirations to decentralize service delivery to provinces. Contestation over the use of CDFs could, however, spur improved accountability—at the very least, it signals the extent of local engagement in discourse over the use of these resources. Commentators vary over whether CDFs could become effective systems that could eventually be folded into the mainstream state or are fundamentally inconsistent with strengthened state capacity.

Source Evans 2017; Craig and Porter 2014; Haque 2012.

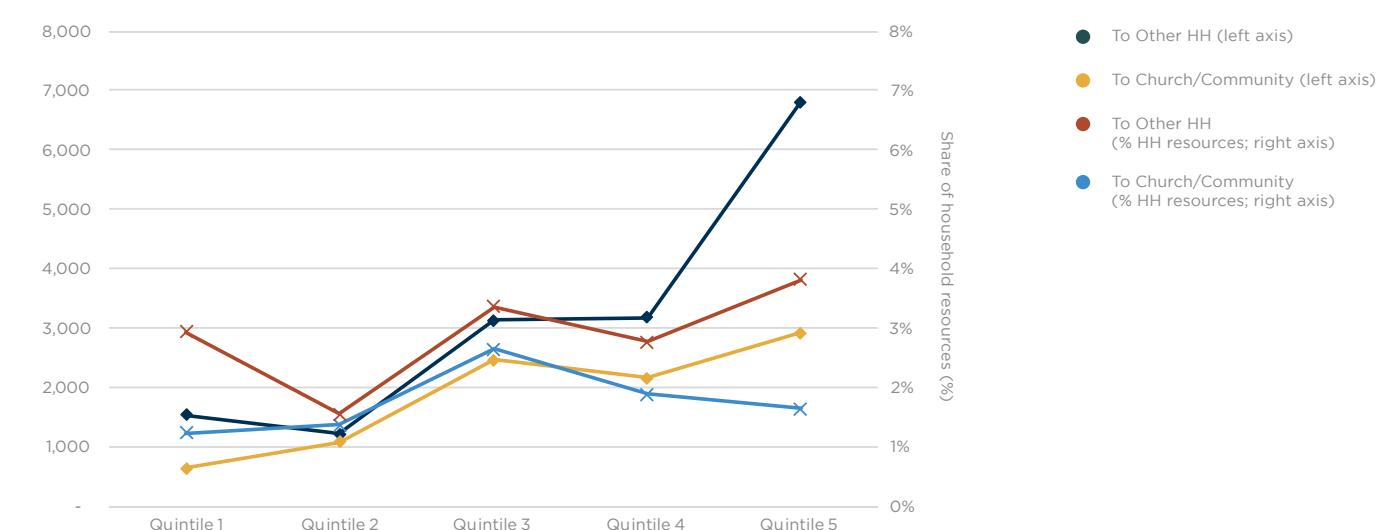
Vertical Systems for Redistribution

154. Alongside systems for redistributing resources from leading to lagging areas, social safety nets can play a role in assisting people who have been unable to benefit from economic opportunities, wherever they live. Formal systems of social protection in Solomon Islands are extremely limited, however. There is a contributory pension scheme for formal sector workers which has quite a large membership base (covering 44 percent of the working-age population), but its assets are extremely low by regional standards (at 1.2 percent of GDP—compared to 6.8 percent in PNG and 18.6 percent in Vanuatu). That, combined with the relatively low eligibility age for withdrawals (50 years) means that many NPF members are likely to have only partially funded retirements. Recent political interference in the investment decisions of the NPF is a worrying sign for the security of that retirement funding. Government social protection programs are otherwise very small scale. Some development partners provide forms of assistance targeted at the poor and least well-off in conjunction with government, however. To date, these have mainly been in the form of cash-for-work programs (including the World Bank's Rapid Employment Project and SPC's Youth at Work Program).¹⁰³

155. Informal systems serve as the main providers of social protection in Solomon Islands. Traditionally, dense webs of social relations have

been sustained through gift exchange, underpinned by Melanesian norms of reciprocity and obligation. In both rural and urban areas, these social relations provide a ‘safety net’ in the form of resource transfers during times of hardship—helping to mitigate large disparities in well-being and serving as a form of insurance against volatility and shocks (see Box 24). It is a given that people will support their kin, with refusal to assist likely to result in antagonism within kinship groups and potentially ostracism. The obligation to provide support is particularly strong when it is known that the potential patron has regular access to money—for example a formal job, own business, student allowance, or royalties. Household survey data provides evidence of pervasive inter-household transfers, including remittances transferred within Solomon Islands and consumption goods received as gifts. One quarter of rural households, for instance, have their income bolstered by remittances from kin working outside the village (often in Honiara). While these informal social protection systems undoubtedly benefit many in need, they do not necessarily provide adequate support for all those in need, with some evidence of vulnerable groups falling through the cracks. Households in the bottom two quintiles who are unable to meet network obligations, may be liable to benefit less from generalized reciprocity. As Figure 52 indicates, although on average households in higher quintiles contribute more to other households and church and community groups, the trend is not so clear for contributions as a share average income.

Figure 52: Cash and in-kind assistance given to other households and church and community groups, by quintile



Source HIES 2012/13.

¹⁰³ Many church groups, local NGOs, and international NGOs also work with vulnerable groups.

VOLATILITY AND SHOCKS AT THE MICRO LEVEL

Solomon Islanders are highly vulnerable to volatility and shocks in their day-to-day lives, largely as a result of geography and the structure of the economy, in combination with very limited means to mitigate exposure. Rural households are vulnerable to commodity price volatility and shocks for their cash crops and to oil price volatility and shocks (Table 11). Remoteness from Honiara magnifies the impact of changes in oil prices, with the markup on fuel that feeds into the cost of transport and all transported items up to 182 percent per liter in remote areas compared to Honiara. Rural households are also vulnerable to climate variability, climate change, and natural disasters, through their impact on subsistence and cash crop yields and the availability of agricultural land. The main way in which rural households mitigate the impact of volatility and shocks on their livelihoods is through ex post changes in their economic activities—for instance, changing the allocation of their effort between copra, cocoa, food crops, and fisheries depending on relative prices, climatic conditions, and pests that affect earnings. In this respect, expanding the set of options (such as through VCO as an alternative to copra) adds to the ability of rural households to mitigate the effects of volatility and shocks.

Table 11: Coefficients of variation for key import and export commodities (%)

Imports		Exports						
Oil		Logs	Palm Oil	Coconut Oil	Copra	Cocoa	Nickel	Gold
1977–86	35.8	24.0	27.5	38.8	36.6	27.1	17.3	36.6
1987–96	18.2	30.3	26.6	24.8	23.7	20.4	39.3	8.8
1997–06	51.0	15.7	25.8	25.3	25.6	22.5	61.7	28.3
2007–16	23.1	15.3	21.5	33.0	33.4	16.6	45.6	27.7

Source World Bank Pink Sheet.

In urban areas, households are more vulnerable to food price volatility and shocks, while households in natural resource enclaves are highly vulnerable to commodity prices. With less than half of urban households having a vegetable garden, urban households are typically more dependent on purchased food than rural households, with the price of imported rice particularly important. Like rural households, they are vulnerable to oil price volatility and shocks, directly for fuel and indirectly through international transport costs for all imported items. In areas dominated by natural resource extraction, households are particularly vulnerable to commodity price shocks, primarily through employment. This vulnerability was starkly illustrated in 2009, when demand for logs in China contracted sharply, as well as in 2014, when the low gold price contributed to the corporate decision to close the Gold Ridge mine. The flooding of the tailings dam after heavy rains was also a major factor contributing to that closure and loss of mining jobs. While the addition of nickel mining to gold and bauxite mining might yield a partial hedge effect at the macroeconomic level, the volatility of nickel prices will still yield significantly volatility in livelihoods for those dependent on nickel mining.

In the absence of formal social protection systems, Solomon Islanders primarily turn to kinship and other community groups, like churches, for assistance in the face of hardship. Aside from reallocating effort between the few available economic opportunities, there are few options but seeking assistance through these informal systems. Even without the development of formal social protection systems, household and community resilience to volatility and shocks could be further supported through many mechanisms, including more resilient agricultural varieties and practices and more resilient community infrastructure.

156. Since uneven development is likely to become more—not less—pronounced in Solomon Islands as the country develops, mechanisms to mitigate its effects will become increasingly important. This section has emphasized the importance of connecting people and their products to urban and other centers of growth, both to increase the growth effects of those centers and to enable a wider set of people to share in their benefits. It has also emphasized the importance of mechanisms to secure an appropriate share of the returns from those growth centers, for redistribution through public service delivery and infrastructure provision across the country. Strengthening public sector capacity to play this role effectively, particularly if

large-scale mining develops, will be critical to Solomon Islands' growth prospects and chances of avoiding further conflict. Scope for formal social protection systems is obviously significant, given that they are almost non-existent at present. However, little is actually known about the extent to which people fall through the gaps of the informal systems. Filling this knowledge gap is a prerequisite for assessing the value of building formal social protection systems. Nonetheless, it is abundantly clear that Solomon Islanders face considerable volatility in their livelihoods, so mechanisms to mitigate that need to be explored (with types of mechanisms that do not depend on identifying those affected likely to be more feasible administratively).



7.1 Summary of the Core Development Problem

157. This SCD has explored how the combination of Solomon Islands' economic geography and political economy drive uneven development and militate against the emergence of the kind of state functions needed to manage it effectively.

The particular economic geography of Solomon Islands leads to both pronounced spatial disparities in development and an economy that is highly dependent on rents. At the same time, its political system combines with the existing distribution of economic power and historical social context of predominant local identities, to yield a non-developmental political economy equilibrium. Given spatial disparities in development and the rent-dependence of the economy, a state that is capable of securing an appropriate share of these rents and redirecting them to the benefit of the wider population is critical to poverty reduction, broader economic growth, and national stability. As yet, state institutions capable of doing this effectively have not emerged in Solomon Islands. Instead, the lack of a political settlement between the main political and economic power holders in favor of investing in effective state institutions has combined with the economic geography of Solomon Islands to limit the reach of the state in important ways. These include the limited extent to which the state secures an appropriate share of natural resource rents and the limited political impetus for effective service delivery through core state systems. Political incentives are more narrowly focused around the delivery of goods and services directly to constituents through the parallel system of CDFs.

158. These fundamental political economy dynamics have proven extremely durable over time, but they are not uncontested and nor are they immutable. Contestation comes from civil society groups and private sector institutions with broader interests in state regulatory and service delivery capabilities and is raised in the media and social media. It also comes from within the bureaucracy, with pockets of senior officials dedicated to public interest concerns—however little political cover they receive. Donors are important players in this space, adding to the resources of civil society and private sector groups, promoting alternative agendas in policy dialogue, altering the distribution of resources through the public services they support, and altering lines of accountability within the state—not always with desirable outcomes. Significant impacts from processes of contestation are most likely when

they intersect with—harnessing and reinforcing—changing distributions of socioeconomic power. Changes in the structure of the economic activity can alter the distribution of economic power in ways that offer scope for political economy dynamics to change, which may be able to be harnessed to generate more pro-developmental political economy dynamics. At the current juncture, there are going to be changes in the structure of economic activity—definitely with the decline of logging and hopefully also with the emergence of new sources of growth, with potential in mining more immediately and tourism in the longer term. If changes in the distribution of economic power associated with the emergence of new sources of growth can support more pro-developmental political economy dynamics, the wider benefits of these new sources of growth will be magnified considerably.

159. On the fragility outlook, the prospects for avoiding further large-scale conflict are reasonably positive, though subject to a number of key risks.¹⁰⁴

A number of factors augur against a return of the kind of conflict experienced in the tension, particularly the legacy of RAMSI and continued Australian security guarantee. In addition, the cohort of militant leaders from the tension has largely moved on (with many remaining in prison and others having taken up roles in politics or business), and high-powered weapons appear to have largely remained out of the community.¹⁰⁵ There is widespread public aversion to returning to the ‘dark days’ of conflict, and political elites are not making the same kind of aggressive public statements that characterized the lead-up to the tension. Weighing against these factors, the underlying drivers of the tension—contested state legitimacy, uneven development, rapid and largely unmanaged urbanization, and contested land and natural resource control—remain to be addressed. With the economy growing only slightly faster than the population and the age structure of the population very young, economic growth and the growth of paid employment are insufficient to meet the rising expectations of Solomon Islanders—especially the growing ranks of school leavers and university graduates. Increasing competition for scarce jobs, land, housing, and essential services in Honiara, combined with pervasive disaffection with ‘the government’, the practice of politics, and lack of voice for youth especially, is likely to continue to lead to episodic destabilizing acts of public violence (as occurred in 2006, 2009, and 2014). Further urban encroachment onto customary land poses specific conflict risks. Increasing social and economic stresses could overwhelm the hybrid

¹⁰⁴ The fragility outlook presented in this section draws heavily on Allen (2017) and Evans (2017).

¹⁰⁵ The large numbers of armaments believed to be extant on Bougainville and the porous maritime border raises the possibility of clandestine and possibly rapid rearmament in Solomon Islands, however (Allen 2017). The firearms amnesty now in place just before the conclusion of RAMSI indicates recognition of continued risk.

forms of authority that mediate disputes and conflict at the local level, as they are already doing in some instances. The development of large-scale mining also poses specific conflict risks. In addition to these broader factors, the more proximate factors precipitating the tension could be repeated, with the decline of logging disrupting the existing distribution of rents and potentially provoking fiscal instability, and the possibility of instability in Bougainville around its referendum on independence in 2019.¹⁰⁶ With respect to logging, the ongoing exhaustion of more readily available forest stocks is increasing the impetus for logging in areas where communities have remained united in opposing it till now, making it likely that progressively more communities will be subject to the social disintegration and erosion of rural resilience that logging precipitates.

7.2 Priorities for Supporting Poverty Reduction and Promoting Shared Prosperity

160. **In selecting a set of strategic priorities to support poverty reduction and promote shared prosperity in Solomon Islands, this SCD uses three main considerations.** The analytical framework of the SCD helped to identify potential priority areas for accelerating poverty reduction and shared prosperity, under the pillars of strengthening the foundations of well-being, achieving inclusive and sustainable growth, and managing uneven development. These potential areas are now prioritized according to three main considerations. The first is the *relevance* of the area to security (mitigating the risks of fragility, conflict, and violence), to sustained and inclusive growth, and to equity (a substantial positive impact on the well-being of the poor and less well-off). The time frames over which these impacts are expected is part of this consideration. The second is our level of *confidence* that the relevant constraints have been accurately identified along with technically feasible means of addressing them. The third is the degree of *alignment* between the priority and what can feasibly emerge from the policy arena, given the political incentives of relevant elites under the existing distribution of power in the country. In line with WDR2017, this is not a static consideration but instead takes into account the potential for the policy arena to be reshaped through the levers of contestability, elite incentives, and the ideas, preferences, and beliefs of participants in the policy arena. It also accounts for how, over time, policy outcomes might alter the underlying distribution of power to allow for a broader range of policy options in future. The judgments behind the application of these considerations to the possible priority areas are set out in the narrative below.

Critical Priorities

161. **This first tier of priorities is composed of those that are highly relevant to growth, equity, and security, and where there is some possibility—even if small—of achieving an alignment with the incentives of political elites.** Included under this tier are priorities in respect of smallholder agriculture and fisheries, urbanization and connectivity, mining governance, and local-level institutions of public authority. These priorities are not only critical in themselves, but form the basis of a coherent and mutually dependent reform program with the potential to help Solomon Islands realize its immediate opportunities while managing its most pressing fragility risks. The development of large-scale mining is the only feasible way for Solomon Islands to manage the macroeconomic challenges posed by the decline of logging over the medium term. Though large-scale, mechanized mining is unlikely to be inclusive from a jobs point of view and will also be spatially concentrated, potentially exacerbating conflict risks. It is therefore also vital to invest in mechanisms to spread the benefits and mitigate the risks both within the sector and more broadly through (a) ensuring an effective rural safety net, by supporting livelihoods in smallholder agriculture and fisheries; (b) facilitating the further development of the urban services economy and its linkages to the wider national economy, as mining revenues are recycled through public sector spending; and (c) strengthening local-level public authority to address existing and potential new sources of contestation and conflict as wider structures of economic activity undergo an intense period of change.

Supporting the productivity and resilience of smallholder agriculture and fisheries, including their contribution to nutrition

162. **It is critical to improve the ability of Solomon Islanders to obtain food and nutrition through smallholder agriculture and fisheries activities, an ability that the majority of the population depend on, but which is currently under threat.**

- **Relevance.** The productivity and resilience of both subsistence and semi-commercial agriculture and fisheries is of overwhelming importance to security, growth, and equity. It is of immediate and direct importance to the well-being of the rural population, as well as many urban residents, with nutrition of particular significance to child health and cognitive development. A vibrant agricultural and fisheries sector has the potential to underpin growth over the short term and on a sustained basis. More productive and more resilient agriculture and fisheries is vital to mitigate pressures that may otherwise build with population growth and climate change toward disputes over increasingly

¹⁰⁶ Government-endorsed compensation processes have also helped to perpetuate organized militant groupings.

scarce land and sea resources, as well as to reduce push factors in urban migration.

- **Confidence.** There is reasonable certainty over the constraints faced and over technical aspects of ways to address them and a reasonable body of experience to draw on in respect of what has and has not worked well previously. There remains, however, some uncertainty over effective means to assist producers in this context, especially given the limited rural reach of the state and also given the very different role the state would need to take on from its current one, to support CBRM in fisheries.
- **Alignment.** While political elites are clearly very interested in rural development, they do not prioritize supporting it through core state systems. Some of the limitations of existing public sector support to smallholder agriculture and fisheries could fairly be attributed to the immense challenges of providing assistance to a rural population so thinly dispersed over such divided territory, but the recurrent budgets for agriculture and fisheries are small and glaring omissions—like rebuilding public agricultural research and development capability after the facilities were destroyed during the tension—remain. The extent of political concern with rural development would imply, however, that there is scope to achieve the necessary alignment, including through changing ideas about the most effective ways to improve rural livelihoods.

163. **A useful approach may be to consider how state and non-state institutions might complement each other in providing support to smallholder agriculture and fisheries, and to focus on how these initiatives align with political interests in rural development.** This would involve identifying how critical research and delivery capabilities could be obtained. For research, this could mean bringing in improved varieties developed in similar contexts (like PNG), or scaling up *in situ* work by partners like SPC and FAO, given that an in-house capacity cannot feasibly be built in the near term. For delivery, this could mean involving the private sector, churches, NGOs, or other institutions (like the World Bank's Rural Development Program) with rural reach, to support producers to adopt more productive and resilient varieties and methods. Central and/or provincial government capabilities to support extension service providers and coordinate their work with other relevant programs (in rural service delivery, for instance) to make it more effective, would need to be strengthened. For fisheries, central and/or provincial government capabilities to provide support services for local resource managers would similarly need to be strengthened.

The approaches on the research and delivery sides in agriculture and fisheries should be informed by nutritional concerns and linked to complementary programs promoting demand for nutrition (in rural health clinics, for instance). In terms of alignment with political interests, a strategic dialogue is likely to be essential to share ideas on how livelihoods and income-earning opportunities for smallholders can be enhanced. Initiatives that could be supported by or delivered through CDFs (whether agricultural service delivery or infrastructure to support supply chain development to urban or other growth centers), would also be useful ways to strengthen that alignment. The dialogue could also help preempt challenges that might otherwise undermine initiatives—such as the likelihood that exporters of high-value marine species will contest CBRM mechanisms.

Supporting the effective functioning and connectivity of urban and other growth centers, to increase their contribution to growth and well-being in both urban and rural areas

164. **It is critical to improve the functioning and connectivity of Honiara, in particular, as well as other growth centers around the country, to increase their ability to drive broader economic growth and improve the well-being of urban and rural communities.**

- **Relevance.** The functioning and connectivity of the urban service economy of Honiara as well as of other growth centers is vital not only to the livelihoods of urban residents, but also to livelihoods in all communities connected with them by land or sea. The potential impacts on the urban poor (many of whom are unable to access essential services and have limited livelihood opportunities) and the rural poor (who similarly lack access to essential services and need market access for their products), are very significant. This includes the way full coverage of Honiara can support essential service provision in smaller centers and beyond, by lowering the unit cost of these services. The functioning and connectivity of Honiara is critical to security, because private sector activity in the urban service economy is a key channel for the redistribution of natural resource rents in the broader economy. Maximizing opportunities through backward linkages from that spending in urban and rural areas is likely to support stability.
- **Confidence.** There is considerable certainty about what constrains the functioning and connectivity of Honiara and other growth centers, including in infrastructure, essential services, land access, and the business environment for the formal private sector. There is considerable uncertainty, however, about how these constraints could be eased,

¹⁰⁷ The technical assistance that the ADB is starting to provide for the development of a 'Greater Honiara Urban Development Strategy and Action Plan' should help to provide clarity on some of these issues.

given the way power, authority, interest, and capability are distributed among many different state and non-state entities at many different levels.¹⁰⁷ There is also limited knowledge of key weaknesses in the business environmental for informal private sector actors.

- **Alignment.** While the extent of political antipathy toward urbanization and urban issues indicates their lack of alignment—in themselves—with political interests, political elites are strongly interested in connectivity to spread the benefits of growth into rural areas. This suggests an avenue for an indirect interest in the functioning of Honiara and other growth centers, though with 47 of the 50 MPs elected from the provinces rather than Honiara, there are clear structural constraints to this interest. Enhancing contestability in the policy arena would thus be advantageous and should be feasible given the extent of private sector, civil society, HCC, and GPG interests in tackling urban management concerns, including as recent evictions in informal settlements have shown. Successes in improving the functioning of Honiara are likely to further enhance contestability, because of the importance of the urban space for the voices of women and youth.

165. A useful approach would be to identify existing initiatives or openings for better urban management as well as key gaps in connectivity impeding backward linkages and to consult stakeholders to see if additional external assistance could be useful. With respect to urban management, existing initiatives and openings include the MLHS's efforts to formalize the titles of residents in some informal settlements, SIEA's attempts to expand electricity access in informal settlements and peri-urban areas, the dialogue fostered by recent Australian National University research on urban development in Honiara, and the opening to consider broader land issues precipitated by the recent evictions. Local actors are seeking to increase contestability in the policy arena through, for instance, regular mechanisms for private sector dialogue with central government, civil society discussion forums that are beginning to involve MPs, and proposed regular joint sittings of HCC and GPG assemblies. With respect to connectivity, there is a clear link between this priority area and the previous one on supporting smallholder agriculture and fisheries. In relation to connecting rural areas to urban markets, the MID has undertaken planning work on improving road connectivity around Honiara and to underserved areas of Guadalcanal, there are plans to add new routes to the FSS, and domestic port services in Honiara are being improved. Apart from supporting key existing initiatives and moves to enhance contestability, there might be a useful role for external partners in dialogues with political leaders on the extent to which the functioning of urban and other growth centers facilitates or

impedes rural development and service provision (as with the clear financial link between SIEA's coverage in Honiara and its outstation initiatives, or with the interlinked interests of tourism businesses, urban centers, and connectivity in Western Province).

Supporting effective mining governance and measures to spread the benefits of mining

166. It is critical for Solomon Islands to secure the development of its mining industry as a driver of economic growth and to spread the benefits as far as possible through backward linkages and nationally through public expenditure.

- **Relevance.** The SCD has argued that Solomon Islands is in the unenviable position of depending on large-scale mining to manage its transition out of post-conflict levels of aid and unsustainable logging. The end of logging presents major challenges to economic growth and macroeconomic sustainability. Mining represents the only industry that can feasibly replace logging contributions to macroeconomic aggregates over the medium term, though whether it does so in time depends both on the timing of the decline in logging and the effectiveness of the governance of mining. Making mining governance sufficiently effective to secure the benefits and mitigate the risks of mining is vital. The industry itself is likely to create relatively few direct jobs, though additional jobs and wider growth benefits could come from backward linkages to agriculture, fisheries, transport, and other services and from the infrastructure and essential service developments around mining operations. More important is likely to be public expenditure on human and physical capital that the state could make if secures an appropriate share of the rents from minerals extraction. By this means, mining rents will also be recycled through the urban service economy. Spreading the benefits as widely as possible through backward linkages and public expenditure will be vital to mitigate the conflict risks associated with large-scale mining, as will stakeholder benefit-sharing arrangements and effective environmental regulation.
- **Confidence.** There is solid body of knowledge on what is needed to enable mining development to drive broader economic growth and contribute to public investment in human and physical capital. There is also growing experience in relevant comparator countries, like PNG, on effective ways to manage conflict risks.
- **Alignment.** The interest of political elites in mining development is obvious, but with respect to mining governance their incentives have skewed the governance framework to

date toward retaining political discretion over decision making and securing short term gains at the expense of long-term benefits, protection of human and environmental health, and mitigation of conflict risks. Given just how big the gains from effective mining governance could be in Solomon Islands, it must be possible for political elites to be better off with access to the larger pie that effective governance could yield, than under the current approach. At the same time, there is scope for the political economy dynamics of the prospective nickel mine to be quite different from the mining (and logging) preceding it, and this could facilitate the emergence of more pro-development political economy dynamics. This centers on the interests of a large-scale, long-life mine with heavy up-front investment in maintaining a long-term social license to operate, which could support—or even require—the existence of public authorities capable of containing conflict risks (including by mitigating spatial disparities through effective public investment). It also centers on the feasibility of the state reckoning with a large-scale mining operation in a fixed location (relative to many, small, remote, and constantly shifting logging operations). Complementary work to build a governance framework and make the case in dialogue for how it can better serve political interests than current approaches will be critical. Increasing the contestability of the policy arena will also be critical, to promote equity in benefit sharing and to mitigate conflict risks.

167. A useful approach would be to start with the interests of political elites and develop the case for how those interests could be better served within a regime of effective mining governance than they have been in the past. The adoption of the NMP provides a very good foundation for this dialogue, as long as the approach recognizes that everything is yet to play for—no laws, regulations, institutions, or norms of conduct have been developed under it yet. To align developmental interests in mining with political incentives, there must be sufficient political gains within an effectively governed sector to exceed those available from acting outside such a governance regime. That is, if all the avenues for political gain are shut down by the governance framework, political elites will have a strong incentive to act outside it. ‘Good-enough’ governance and institutional solutions will be required that address key risks and ensure some public capture of rents, while still ensuring compatibility with the structure of incentives facing political elites. Such solutions are only likely to emerge from having political leaders and their concerns engaged in the processes of designing the legislative, regulatory, and institutional framework based on the NMP. There may also be roles for development

partners in supporting the capacity of the state to negotiate effectively with global mining companies, supplementing its capacity to secure its designated share of the rents from mining; supporting more effective public expenditure in key areas from mining revenues; supporting the operation of the ‘Development Forum’ and proposed advisory center to enable the effective participation of all key stakeholders (including as a means to support environmental regulation); and working with private sector operators and on connective infrastructure and essential services to maximize the backward linkages and wider growth benefits from mining operations.¹⁰⁸ While the existing political economy context and experience to date suggests the likelihood of achieving effective mining governance is small, the costs of failure would likely be very high, making the attempt of critical importance.

Strengthening local-level institutions of public authority

168. It is critical for Solomon Islanders to have access to some form of local public authority, to support security and justice and to increase their ability to articulate their priorities to the state for the use of public resources.

- **Relevance.** Local-level law and order is not only critical to security and social cohesion, but it is also a foundation for economic activity and growth and also for equity. Institutions of public authority at a decentralized level can be important means for linking citizens into the state system, providing potential for them to articulate their priorities and for the state to respond to those. This is of particular significance in an economy dominated by natural resource rents, where public expenditure is an important means for sharing the benefits of natural resource-based industries with the wider population.
- **Confidence.** While a large degree of uncertainty inevitably attends the means to build local-level institutions of public authority, since what will be effective is highly context specific, the Community Officers Program that the World Bank is supporting in Solomon Islands is demonstrating good results, both in local-level dispute resolution and in linking people to the broader state system. This suggests that an effective approach has already emerged. Part of its effectiveness is due to its flexibility—even between the two provinces where it is established, there are significant differences in the way it operates. This flexible approach should enable its successful expansion to other provinces, where it can also take contextually appropriate forms to fill the same types of functions.

¹⁰⁸ The small bauxite mine approved on Waghina Island could offer all stakeholders a bridging opportunity for work on mining governance and benefit spreading, before the potential large-scale nickel operation begins.

- **Alignment.** The local level appears to be a site of serious investment by political elites. The experience to date with the Community Officers Program indicates significant political interest in local-level institutions of public authority and serious investment by senior policy makers in supporting these institutions to work and in considering how they can serve an expanded set of purposes over time and space.

169. A useful approach would be to continue with and scale up the kind of approach to building local-level public authority that has been taken in the Community Officers Program to date. At its core, it involves communities in choosing the person who will facilitate local-level dispute resolution, allows the form that this function takes to fit the local context, and provides support for the formation of horizontal and vertical linkages with the role. The horizontal linkages are often with informal institutions (chiefly and church systems) that also bear on the management of local-level disputation. However, they can also be with formal institutions—like the authority structures involved with CDFs and the World Bank's Rural Development Program. This points to some of the potential of the local authority supported by the Community Officers Program to intersect with institutions of political salience, in productive ways. The vertical linkages are primarily with RSIPF and provincial authorities, helping people to connect with the larger state systems that are otherwise often beyond their reach. This also points to some of the potential of the local authority to connect people to an array of broader state systems to articulate service delivery priorities and facilitate accountability relationships, for instance in the areas of health and education. These connections could prove particularly useful from a demand and accountability point of view, if they intersect with initiatives to deconcentrate aspects of service delivery (as currently planned in health at the provincial level) or with broader intergovernmental reforms (as under the proposed review of the Provincial Government Act). Over time, such forms of local-level public authority could potentially underpin a more positive political economy through citizen-based engagement and accountability links with state institutions, enhancing the responsiveness of public expenditure and services to local needs.

Next Tier Priorities

170. This next tier of priorities is composed of those that are highly relevant to growth, equity, and security, but where alignment is unlikely to be achievable in the near term. Or, in the case of tourism, there are more immediate economic challenges Solomon Islands has to address, for tourism investment to yield returns.

- **Supporting the provision of quality, basic education for all.** Tackling the quality of basic education at all levels, as well as access to it at the secondary level in particular,

is highly relevant to equity and long-term economic growth opportunities, as well as to social cohesion, citizen engagement, and public sector performance. Limited quality and access in basic education appears to be a matter of both supply and demand. Supply-side factors (including school places, qualified teachers, and learning materials) have received considerable attention to date, though significant gaps remain and efforts to fill these remain important. Demand-side factors (including accountability for teacher performance and school management) have received some attention, but there has been little progress in the MEHRD, provincial or church education authorities, or communities holding teachers and schools to account. Even if communities value quality education, there appears little immediate prospect of community-level accountability mechanisms being effective, if they are not backed by vertical accountability through the MEHRD or the relevant education authority. Also, that is a very challenging situation to change, given both the near-exclusive political interest in tertiary scholarships and the myriad of school sites that need to be accounted for. If the READ-PNG project is found to yield sustainable gains in a similar context, the potential for near-term change in Solomon Islands would seem more positive, but otherwise it seems that stronger local-level or devolved public authority may be a prerequisite for addressing demand-side factors. Supporting that first is the primary reason education is treated as a 'next tier' priority.

- **Supporting significantly expanded access to improved water, improved sanitation, and waste disposal services.** Expanding access to these services is critical to well-being, in particular for the poor and less well-off. Expanded service provision would also have important complementary benefits for the environment (affecting the benefits people can derive from environmental assets, as in agriculture and fisheries, as well as the long-term potential of tourism to be a driver of growth). Whereas in urban areas, improving access to these services is largely about ensuring sufficient operational capacity of the utilities and resolving the impediment to access that utilities are making of occupancy titles, the situation is different in rural areas. It would be valuable to build an evidence base on the variety of approaches taken to service provision by communities, CDFs, provincial authorities, central government, donors, and NGOs, to understand what has worked, in which contexts, and why. With respect to alignment, access to improved water tends to be prioritized by communities in community-driven development programs, so there may be immediate scope to support that priority. However, sanitation and waste disposal do



not tend to be prioritized by communities. It appears that state or non-state providers do not have the reach, resources, or impetus to provide the kind of sustained support needed to create demand for behavior change. Also, neither political elites nor communities are likely to provide an impetus to change this over the medium term.

- **Supporting the provision of better quality health services for all.** Improving health service access and quality is clearly relevant to well-being, equity, and long-term growth. Considerable attention has been paid to supply-side factors to date, with considerable success—as indicated by Solomon Islands being on par or better than global averages on key health indicators for its income level. This makes further improvement in many areas of health less of a pressing concern than in education, for instance. However, unlike in education, there are some initiatives underway in health that have some prospect of improving the accountability and performance of the health system and some prospect of sustainability due to their potential alignment with the interests of political elites. These initiatives include deconcentrating power and responsibility to more appropriate levels and implementing the RDP. They have the potential for alignment with political interests in local-level service delivery, which have to date—in the absence of obvious alternatives—been channeled into investments from CDFs in clinics and staff housing without coordination with the MHMS on staffing and operational expenses. So, though perhaps not so pressing, there appears more scope for alignment on these health reforms. One area that is pressing is child undernutrition. In addition to addressing nutritional concerns in agriculture and fisheries (as above), it is clearly important for measures to tackle undernutrition in the health sector to be prioritized. However, like measures in agriculture, this will only tackle part of the problem. Global evidence suggests that the most significant gains are made through coordinated, multi-sectoral strategies with strong political backing. Effective strategies in contexts lacking such commitment and with a low status of women are less clear.
- **Catalyzing significant tourism development.** Tourism offers Solomon Islands the opportunity to transform its long term growth trajectory, with the growth it generates potentially inclusive and sustainable. It offers the prospect for more widely distributed economic power than is the case for extractive industries, which could also ease political economy constraints on future development. Supporting this development is critical, beginning with a prefeasibility study for Western Province, to identify what investors regard as the key gaps to fill to make tourism an investible proposition for the private sector

and to assess what the market potential could be. If high-level support from the state can be secured, a capable development partner could then take the lead on coordinating work on the necessary infrastructure developments to enable private sector tourism investment to realize that potential. The reason for placing tourism with ‘next tier’ priorities is because it is of longer-term significance for growth, equity, and security, and Solomon Islands has more immediate challenges that it has to address for tourism sector development to be feasible at all.

- **Supporting stronger fiscal and public expenditure management.** This is extremely important for growth, equity, and security (particularly through effective service delivery). There is a history of effective international engagement in customs and revenue administration, where there is some alignment with political interests. Important gains have been made and continued assistance would be valuable. Extensive external assistance has also been provided for most areas of fiscal and public expenditure management in the post-conflict period, but the feasibility of continued engagement being useful is questionable. Misalignment with prevailing political incentives, rather than the lack of technical capacity, is currently the binding constraint to sustainable improvement on budget formulation, budget execution, and expenditure management. That alignment may improve, however, as it has done previously, as the fiscal situation becomes more challenging. Otherwise, it is likely to be more feasible to address aspects of fiscal management through narrowly targeted work within other engagements, for instance building on a mining governance engagement to address tightly related fiscal issues.
- **Establishing formal social protection systems.** Given how exposed especially poorer households in Solomon Islands are to volatility and shocks and how limited their capacity to afford the goods and services they need may be in the wake of large-scale negative shocks, there seems a clear case for formal social protection systems for poor and vulnerable households. There is a need, however, to gather evidence on the extent to which and circumstances in which people fall through the gaps of the informal systems, as a basis for designing contextually appropriate formal systems. Experience in Melanesia would suggest there is virtually no chance of securing political support for such systems, at least in the medium term, but this could be considered an area of such significance to the poor that it warrants establishment through parallel systems with development partner support, potentially on a long-term basis.

Other Priorities

171. **This third tier of priorities include those where there is not such strong relevance to security, growth, and equity, where constraints are already being addressed reasonably successfully, or where the extent of their misalignment with elite incentives effectively makes them non-starters.**

- **Supporting significantly expanded or higher tier access to electricity.** Constraints in this area are already being addressed reasonably successfully.
- **Increasing the share of rents secured from the oceanic fishery and improving the sustainability of its management.** Constraints in this area either have been or are now being addressed reasonably successfully.
- **Enhancing opportunities for international labor mobility.** In the absence of major changes to labor market access in Australia or New Zealand, Solomon Islanders are unlikely to be able to secure much more representation in these markets, limiting the relevance of this area. Until the quality of basic education improves, international labor mobility is also likely to offer limited gains for the poor and less well-off.
- **Reforming customary land governance and public land administration.** The initiatives the government already has underway to consider alternative options for customary land governance are the avenues most likely to lead to general reforms. Development partners might have additional opportunities to support change through narrowly targeted work within other engagements, for instance a major tourism engagement for Western Province. Public land administration is likely to be more effectively tackled indirectly (as it relates to expanding access to electricity, for instance) than directly.
- **Strengthening the governance of CDFs.** The history of CDFs in the post-conflict era demonstrates their impenetrability to the direct influence of external actors, even those with significant leverage in the state. Influence might more effectively be achieved indirectly, if other programs can intersect constructively with CDFs, like the implementation of the RDP in the health sector, the operations of the Community Officers Program, or the work of the Rural Development Program.
- **Strengthening forestry governance.** The history of forestry governance interventions in the post-conflict era amply demonstrates that political incentives do not align with the

regulation of logging.¹⁰⁹ Even if they could be aligned, the nature of the logging operations, power of the landowners, and geography of the archipelago makes it inconceivable that the state could build the reach and capability required to regulate logging effectively in the few years logging is likely to continue on its current scale.

7.3 Overarching Implementation Considerations

172. **Having discussed above the priorities for poverty reduction and shared prosperity in Solomon Islands, this section briefly outlines some overarching implementation considerations for engagements and projects.** WDR2017 recognizes that the interaction between donor interventions and local political economy conditions and power relationships has a significant impact on whether the interventions achieve their intended outcomes, have no impact, or lead to unexpected and potentially perverse results. Particularly where the resources involved are substantial, the potential for donor engagements and projects to inadvertently cause harm by damaging local accountability relationships or strengthening the power of interests that will subsequently impede pro-development policies, must be accounted for.

173. **It is not possible to identify a specific approach that, if applied to all engagements and projects in Solomon Islands would ensure they deliver the intended results.** Successful design and implementation approaches are likely to vary substantially by sector, project, and counterpart, as well as over time. The following broad principles—based on the analysis presented in this SCD—may be useful, however, in appropriately orienting approaches:

- **Potential engagements should be carefully screened for fragility risks, upstream.** Donor engagements may exacerbate drivers of fragility, conflict, and violence if benefits are distributed unevenly across existing social fractures or if they empower actors with interests that are not aligned with social cohesion. Dedicated resources for fragility analysis will be important, and the analysis must occur upstream to enable sectors and approaches to be chosen in light of fragility risks—rather than sectors and approaches being chosen without regard to fragility risks and project teams being left to do the best they can to mitigate these risks. Upstream fragility analysis at the portfolio level could then be complemented with sector, agency, and project-specific analysis.

¹⁰⁹ In their review of Australia's forestry assistance, Hughes et al. (2010) stated, "For over twenty years repeated attempts had been made to inject sound management and strong technical parameters into SI [Solomon Islands] forestry policy... These had largely failed, leaving only traces of their efforts in discarded policy papers, unenforced regulations, and a few long serving FD [Forestry Department] staff who remember better days."

- **Projects should account for the economic geography and political economy of Solomon Islands.** A thorough understanding of the economic geography and political economy context is a prerequisite for judging whether projects are feasible. It is also vital for assessing whether engagements risk altering the distribution of power in a way likely to impede pro-development policies in future. Such broader impacts should be weighed alongside the more direct impacts in the project preparation process.
- **Trade-offs between immediate project effectiveness and the broader implications for state capability of parallel systems should be explicitly accounted for.** Solomon Islands' experience shows how resort to parallel systems can weaken the impetus to strengthen state capability, with weak state capability in turn justifying further resort to parallel systems. There may be a public good argument for using parallel systems to deliver critical goods or services when such initiatives are not aligned with political incentives. However, any resort to parallel systems should be considered very carefully, because of the resultant distortion of vital local accountability relationships, the infeasibility of all of the assumed future transfers of such systems into the state, and the extent to which this fragmentation stretches state capacity even further, because the state still has to manage the components of these systems that do intersect with it.

7.4 Key Knowledge Gaps

174. **While this SCD has benefited from the considerable body of analytical work already existing on Solomon Islands, limited data and information in particular areas did pose constraints.** Some key knowledge gaps were filled in the course of preparing the SCD, through staff analysis of the 2012/13 HIES, the preparation of a Risk and Resilience Analysis and the preparation of background papers on urbanization and informal settlements, maritime and road transport, and the aviation sector. In parallel with the SCD, work is also underway on infrastructure PPPs for industry development, examining core characteristics of good PPPs and common pitfalls of bad PPPs, particularly in contexts of thin public sector capacity and significant power asymmetries between public and private partners. Other key knowledge gaps are in the process of being filled, as with the agriculture survey that FAO is supporting and the mapping of powers and responsibilities for urban management that will be part of the ADB's technical assistance. The remaining key knowledge gaps identified in the course of preparing the SCD are summarized in Table 12.



Table 12: Key knowledge gaps

Poverty Analytics	<ul style="list-style-type: none"> While detailed poverty analysis is possible on the basis of the 2012/13 HIES, the significant changes in methodology from the 2005/6 HIES means that it is not possible to draw robust conclusions about poverty and inequality dynamics over time. This is a critically important limitation to address.
Health	<ul style="list-style-type: none"> The SCD highlights the high prevalence of stunting in Solomon Islands, but the evidence base on the extent to which access to improved water, access to improved sanitation, the quality of diets, or other factors like low levels of empowerment for women contribute to stunting in this country context needs to be built. This would then enable appropriate interventions to tackle the key causes to be designed.
Education	<ul style="list-style-type: none"> While the World Bank's READ-PNG project has yielded significant improvements in literacy results from an array of coordinated interventions in the education sector, it is not yet clear how sustainable these improvements will be over time. This is an important consideration in how applicable a similar approach could be to Solomon Islands. It may be important to gather evidence on whether the language of instruction is in fact a binding constraint on educational attainment in Solomon Islands, as might be indicated by the large difference between literacy and numeracy performance and the success of mother-tongue teaching pilots. If so, the strategy to improve outcomes would need reformulating.
Essential Services	<ul style="list-style-type: none"> The SCD highlights the high prevalence of stunting in Solomon Islands, but the evidence base on the extent to which access to improved water, access to improved sanitation, the quality of diets, or other factors like low levels of empowerment for women contribute to stunting in this country context needs to be built. This would then enable appropriate interventions to tackle the key causes to be designed.
Fisheries	<ul style="list-style-type: none"> While coastal fisheries are broadly recognized as being fully exploited or overexploited, data on fish stocks are scarce, a critical priority for supporting evidence-based CBRM.
Forestry	<ul style="list-style-type: none"> Despite a range of studies over previous decades, repeated projections of log exhaustion have failed to materialize and log export volumes reached their highest level yet in 2016. An updated assessment of remaining stocks and the likely trajectory of log volumes over the medium term would facilitate a better understanding of the likely extent and timing of the macro-fiscal adjustments facing the country. Little is known about the commercial viability of plantation forestry in Solomon Islands. There are two commercial plantations in operation, but both are on alienated land. It is important to assess whether smaller-scale plantations on customary-held land could be economically viable, not only in the context of providing future income-generating opportunities in rural areas, but also in the context of mitigating the environmental impacts associated with current logging practices.
Tourism	<ul style="list-style-type: none"> A prefeasibility study is needed for Western Province, to identify what investors regard as the key gaps to fill to make tourism an investible proposition there and what the market potential could be.
Fiscal Analysis	<ul style="list-style-type: none"> Aside from data on CDFs and some provincial grants (administration, health, and education grants), public expenditure data disaggregated by geographical region are unavailable, limiting the extent to which patterns of public resource distributions can be analyzed.
Private Sector	<ul style="list-style-type: none"> The SCD highlights the high prevalence of stunting in Solomon Islands, but the evidence base on the extent to which access to improved water, access to improved sanitation, the quality of diets, or other factors like low levels of empowerment for women contribute to stunting in this country context needs to be built. This would then enable appropriate interventions to tackle the key causes to be designed.
Social Protection	<ul style="list-style-type: none"> The SCD highlights the scope for formal social protection systems as significant, given that they are almost non-existent at present. However, little is known about the extent to which and circumstances in which people fall through the gaps of the informal systems. Such evidence is needed to assess the importance of building formal social protection systems and to inform the design of such systems.

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