

Solomon Islands



Solomon Islands 2017 Constraints Analysis Report



MILLENNIUM
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UNITED STATES OF AMERICA

An Analysis prepared by the Government of Solomon Islands and the Millennium Challenge Corporation of the United States of America for the Development of a Millennium Challenge Corporation Compact Program.

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Authors & Acknowledgements

MCC undertook this Constraints to Economic Growth Analysis under its Threshold Program engagement with Solomon Islands. In May 2019, following national elections and a new government taking office, an MCC delegation travelled to Solomon Islands to conduct the analysis in collaboration with the Government of Solomon Islands through the Ministry of Development, Planning, and Aid Coordination. The Ministry organized key economic stakeholders to provide feedback on MCC's analysis.

Brad Cunningham was the lead economist for the constraints analysis team that included Jason Bauer (FIT), Dominique Duval-Diop (GSI), and Siobhan Pangerl (THP). Steve Dobrilovic (Land) and Matthew Kuniholm (ESP) provided helpful review and feedback on their respective constraint areas. Development of MCC's Threshold Program with Solomon Islands was under the overall leadership of Grace Morgan (THP).

Abstract

Solomon Islands is a small island nation in the Pacific. The country's economic development has been slow and largely dependent on logging. However, the logging sector is unsustainable, and the economy will need to find new growth drivers for the future. Mining offers potential in the near term to provide government revenue, export earning, and a few jobs. Agriculture and fisheries will continue to be important economic contributors. Tourism has the most potential for sustainable and inclusive growth over the long term. The following are the most binding constraints to Solomon Islands' achieving its economic potential:

Inability to access land – Land is inaccessible for investment in long-term, sustainable economic activities in most parts of the country. This is due to an inability to clarify rights holders and establish enforceable agreements. This issue is particularly problematic for the development of the tourism industry.

Inadequate natural resource management – Inadequate oversight of logging and mining sectors has led to significant losses in government revenue, environmental damage, and insufficient benefits to communities. The country's primary tourism asset, coral reefs, are also poorly protected and at risk of further degradation.



Country Context

Solomon Islands achieved independence from Britain in 1978, but the country still struggles with establishing a modern state. The formal institutions of the central government often do not reach into local communities, nor do many citizens trust in them. Instead, much of daily life is governed by local cultural practices and institutions referred to as *kastom*.

Kastom practices are diverse, as reflected by the presence of over 70 distinct languages throughout the country (Solomon Pijin is the lingua franca and English the official language). Beyond culture, the geographic distance between islands is also significant. The combination of disperse geography and a multiplicity of local social institutions has led commentators like Francis Fukuyama to note the lack of shared Solomon Islands identity and a need for nation-building efforts.¹

The population of 660,000 mainly inhabit 90 islands within the archipelago. The population has been growing rapidly, more than doubling since 1990. This population growth has strained inshore and nearshore fisheries important to subsistence. Urban growth has been especially rapid, and planning and infrastructure have not kept up, resulting in large informal settlements, and increasing congestion around the capital of Honiara.

Population growth has also led to a youth bulge; Solomon Islands now has the second youngest population in the region. Seven out of ten Solomon Islanders are below the age of 30 years old. The economy has not been able to accommodate these young people. While labor force data are poor, the International Labour Organization (ILO) estimates youth unemployment at 35%, and other estimates are even higher, signaling an urgent need for new jobs.² The youth bulge is also placing additional strain on weak health and education systems.

¹ Fukuyama F. State building in Solomon Islands. 2009

² ILO Country Report, Solomon Islands

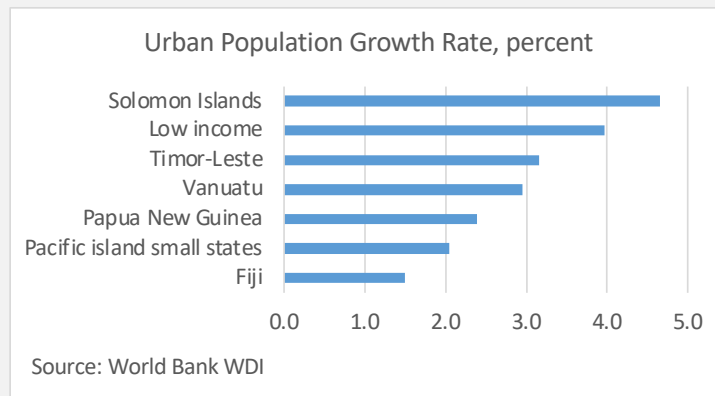
What is a Constraints Analysis?

MCC's evidence-based approach begins with a constraints-to-economic growth analysis (CA). In a CA, MCC works with a partner country to examine and prioritize the issues that constrain its economy. The CA approach builds on the "growth diagnostic" framework put forward by economists Ricardo Hausmann, Dani Rodrik, and Andrés Velasco (HRV). As HRV point out, all developing countries face significant economic and development challenges, but these challenges do not all equally restrict growth. The diagnostic framework provided by HRV helps to structure the investigation of potential binding constraints. It has been refined through application, both within MCC and the broader economic development community.

Why Does MCC Use Constraints Analysis?

Identifying the most binding constraints to growth helps MCC target its investment on the areas that, if addressed, are most likely to promote sustainable, poverty-reducing growth in a given country. Prioritization helps maximize the limited financial resources and implementation capacity needed to effect change. As HRV also argue, focusing on the most binding constraints helps to minimize the risk that development interventions create negative unintended economic consequences.

FIGURE 1 Urban Population Growth Rate, percent

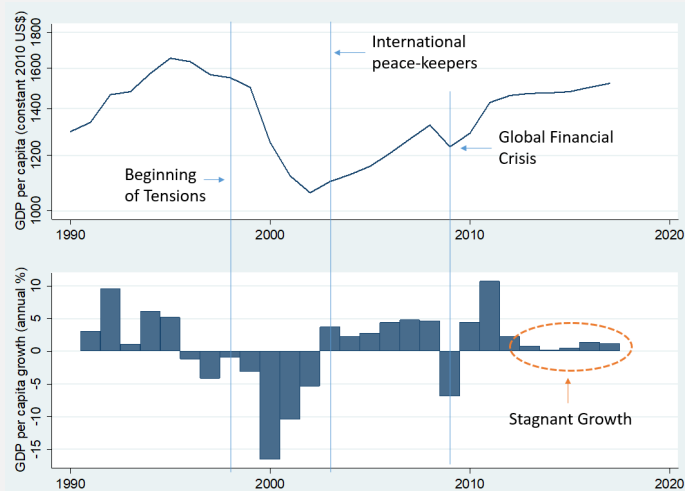


Political History

In 1998, a confluence of urban migration and cultural differences led to a civil conflict between ethnic groups over land-use and other perceived economic injustices. Referred to as "The Tensions", the conflict led to a collapse of governance and an economic contraction of over 40%. An Australian-led peace-keeping force, the Regional Assistance Mission to Solomon Islands (RAMSI), helped to end the fighting in 2003 and remained through 2017.

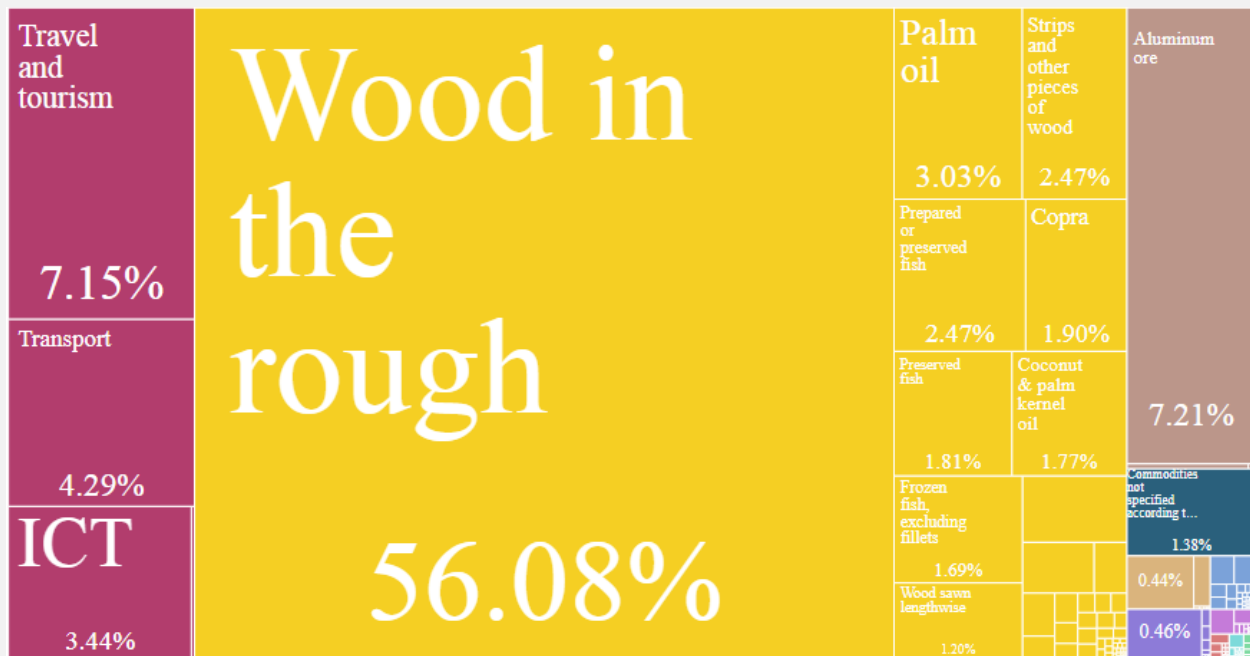
Since the resolution of the conflict, the economy has still not recovered to its pre-conflict level of production. Growth has been particularly disappointing over the last five years with GDP growth rates averaging around 3%, nearly equivalent to population growth. Thus, in per capita terms, output has been stagnant at around \$2,000. Slow growth has meant that Solomon Islands is falling even further behind the rest of the Pacific and is one of the least developed economies in the region.

FIGURE 2 GDP has not caught up to pre-Tensions levels.



Source: Worldwide Development Indicators (2017)

FIGURE 3 Solomon Islands Export Basket, 2017



Source: Harvard Atlas of Economic Complexity

Economic History & Productive Sectors

The Solomon Islands economy has been largely dependent on logging. Logging accounts for more than half of the country’s exports and directly provides more than 20% of the government’s tax revenue. However, forests have been over-harvested for decades and the sustainability of the sector is in doubt. Timber harvests have continued to increase and recently surpassed three million cubic meters, twelve times the estimated sustainable harvest of 250,000 cubic meters.^{3,4}

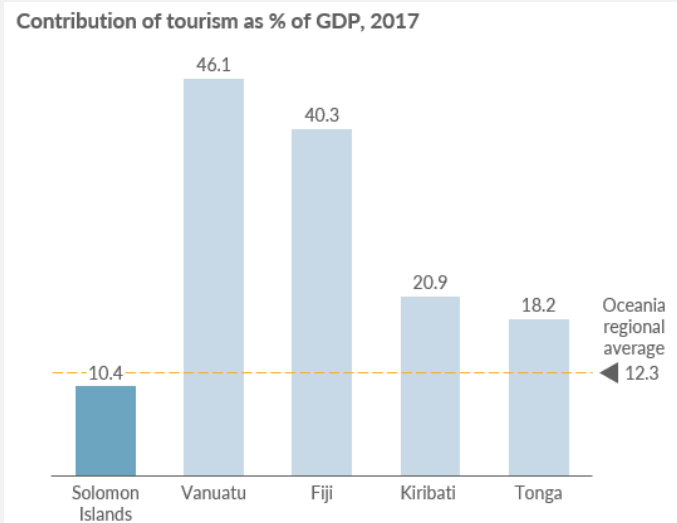
While predictions of a collapse due to overharvesting have been made for many years, 2019 may finally be the beginning of a decline. In the second quarter of 2019, tax revenue from logging was down 15% over the same quarter in 2018.

Facing a decline in the country’s largest economic sector, Solomon Islands will need new sources of economic growth that can generate tax revenue, foreign exchange, and jobs. In the short term, development of the country’s significant mineral deposits, including gold and nickel, appears to be the most viable option for replacing the government revenue that would be lost if logging collapsed. Over the longer term, the tourism sector has the potential to create jobs, generate export earnings, and expand the tax base. However, tourism in Solomon Islands currently provides one of the smallest contributions to the economy of any country in the Pacific (figure **). For example, tourism in neighboring Vanuatu generates twice the number of jobs as in Solomon Islands (30,000 versus 15,500)⁵ despite Vanuatu having less than half the population – illustrating both the nascent state of tourism in Solomon Islands, as well as the potential for growth.

3 Central Bank of Solomon Islands, Quarterly Economic Review, June 2019

4 Katovai, Eric, Will Edwards, and William F. Laurance. “Dynamics of logging in Solomon Islands: the need for restoration and conservation alternatives.” *Tropical Conservation Science* 8.3 (2015): 718-731.

5 Employment figure includes indirect employment generated by tourism. Source: World Travel & Tourism Council

FIGURE 4: Tourism contributes relatively little to Solomon Islands economy.

Source: World Travel and Tourism Council, 2018 Report

Agriculture (non-forestry) and fisheries are also important economic sectors, but their contribution to future growth faces limitations. Soil quality, steep terrain, and geographic isolation make competing in regional agricultural markets challenging. Tuna is the most important offshore fishery and is a significant contributor to employment and government revenue. The tuna fishery is relatively well-managed in cooperation with regional partners and scope for additional production is limited. Coastal fisheries, primarily used for subsistence, also have limited scope for growth with current harvests near or exceeding sustainable levels.⁶

Inclusion and poverty

Three of the largest formal employment sectors (fishing, construction, and logging) are almost entirely dominated by men. Women constitute the majority of workers in

the hotel and restaurant sector, but the sector is small. With limited formal work opportunities, women account for the largest share of informal, unpaid family, or subsistence work. Approximately 75% of women and 54% of men are employed in these types of vulnerable employment activities. Even though women are highly active in small-scale income generation and agricultural activities, their economic participation and control of productive resources are constrained by low educational attainment, discriminatory social norms, and lack of access to key resources including land use rights, transport, and market infrastructure.⁷ Limited employment opportunities for youth, combined with increasing alcohol and substance abuse has led to collective and interpersonal violence, which contributed in part to the Tensions, as well as, recent elections violence.⁸

The 2012/13 Household Income and Expenditure survey found 13% of households were living under the national basic needs poverty line and 26% were below the international poverty line (\$1.90 a day, 2011 PPP). Poverty appears to have improved from the 2005/6 survey to the 2012/13 survey. However, differences in survey design and implementation make estimating the precise magnitude of poverty reduction impossible. Women and female headed households experience similar poverty rates as men. Rural households have a much higher incidence of poverty than urban households. Being an economic migrant and having wage work are associated with lower poverty incidence.⁹ Much of the population remains vulnerable to poverty. Natural disasters such as cyclones, landslides, and flash floods can drive poverty rates higher, as occurred in Makira and Guadalcanal Provinces, increasing rates to 32% and 22% respectively (at the national poverty line).

⁶ Albert, Simon, et al. "Keeping food on the table: human responses and changing coastal fisheries in Solomon Islands." PLOS ONE 10.7 (2015): e0130800.

⁷ Asian Development Bank. 2015. Solomon Islands country gender assessment.

⁸ United Nations Development Programme. 2018. Solomon Islands Youth Status Report 2018.

⁹ Solomon Islands Poverty Profile Based On The 2012/13 Household Income And Expenditure Survey, Solomon Islands National Statistics Office, December 2015

Growth Question

Solomon Islands' largest economic sectors (logging and fisheries) are unlikely to drive growth and may even face a contraction in the future.

Yet the country needs employment opportunities that can help address youth unemployment and reduce disparities in economic opportunity faced by women. While

sectors such as agriculture have a role to play, tourism appears to be particularly underdeveloped relative to its potential to contribute to the country's economic needs. Thus, the key question of the analysis is what are the constraints that prevent Solomon Islands from diversifying its economy out of logging and into new sectors such as tourism.

Discussion of Constraints

Inability to Access Land

Acquiring use and access rights to land is a challenge for almost any investment project in Solomon Islands. Most land (80-90%) is governed by local customary practices, which are characterized by communal ownership. However, multiple villages or tribes may claim customary ownership of any particular plot of land, leading to frequent conflict over land use rights. Within tribes, benefit sharing can also be opaque and generate conflict. This results in delays for even government priority projects, such as the 15MW Tina River Hydro project for which approximately 27 tribal entities had a claim to the land. Assessing each claim and achieving agreement on the benefit sharing took close to ten years.¹⁰ Due to such uncertainties, banks explained during team consultations that they are unwilling to accept lease agreements or other rights to customary land as security for a commercial loan.

The court cases that arise from land disputes have led to “an immense backlog in land cases that will take decades to resolve.”¹¹ Rinaldo Talo, president of the local court of Malaita, describes the rise in litigation:

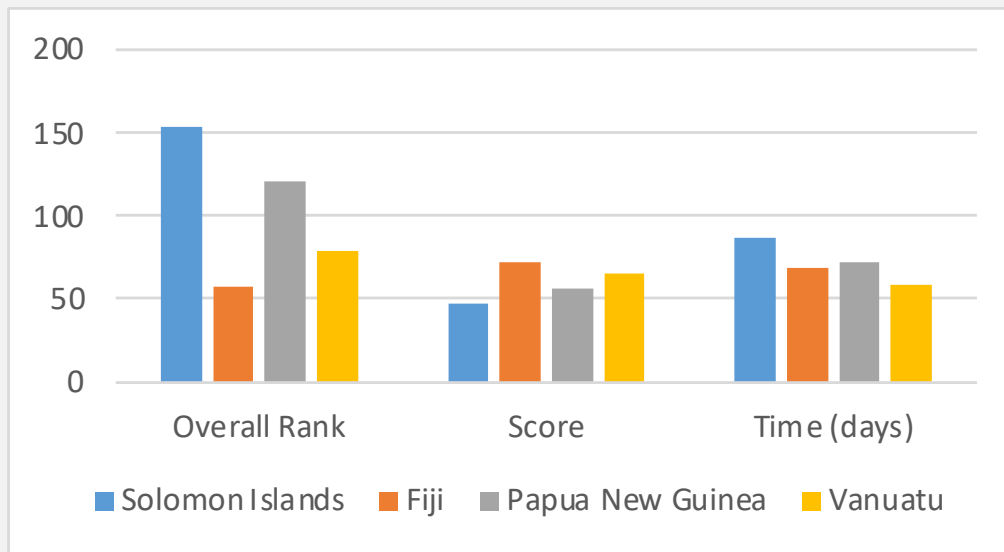
Before land was an asset to the tribe. Everyone knew the boundaries and who belongs to the land. Now we don't know any more. Now we want to dispute. Kastom tells us land belongs to this group here but the law allows us to dispute. Now the laws are causing the disputes- land, logging and mine laws are causing disputes. And usually everyone who is disputed is related to each other. If you dispute each other you are tearing the links, and whoever wins the other group will still have grievances. This is happening too much, and this is what is causing all the problems.¹²

Investment in tourism has been particularly constrained by land. Solomon Islands is endowed with raw tourism assets including natural environment and cultural heritage, yet these opportunities have not been taken advantage of. Tourism contributed only 10% to GDP in Solomon Islands in 2017, compared to 46% for Vanuatu, and 40% for Fiji. Through interviews with investors operating in the region, the International Finance Corporation (IFC) noted locations with touristic appeal for investment have been identified, but the inability to secure lease agreements is a primary concern and is

¹⁰ Tina River Hydropower Development Project (TRHDP), Community Development Plan, Ministry of Mines, Energy and Rural Electrification, May 2017

¹¹ Building a Pathway for Successful Land Reform in Solomon Islands, Siobhan McDonnell et al. (2015)

¹² Ibid

FIGURE 5 Registering Property Index

Source: Doing Business Indicators, 2019

“currently preventing accommodation investments from proceeding.”¹³

Though premium operators have demonstrated interest and their presence is necessary to expand the customer base of the sector, such investors have not been proactively engaged by the Government of Solomon Islands. Currently eco and adventure tourism customers and investors have been the primary target of limited outreach by interlocutors such as IFC.

While accessing rural land under customary ownership is extremely challenging, accessing urban (or government owned) land is somewhat easier, although still difficult. The World Bank’s Doing Business report ranks Solomon Islands 154th (out of 190 countries) on their registering property index, which examines the accessibility of land around Honiara.¹⁴ Among firms currently operating in Honiara, access to land was identified as the fourth most common obstacle, despite these firms already having some access to land in order to be included in the survey. Land issues were identified by firms across sector and

size, although small firms appear particularly affected and identified their biggest obstacle as access to land more frequently than any other issue except corruption.

Insecure land tenure also contributes to myriad of other challenges in the country. Land tenure was a source of tension between migrant and local communities that contributed to the Tensions. Benefits from the country’s mineral wealth and overall management of natural resources are complicated by the lack of clear land rights. During consultations, the Minister of Infrastructure also noted land acquisition as the chief obstacle to building the country’s infrastructure.

Land rights have important gender dimensions. Kinship groups control customary land, with some areas being matrilineal and others patrilineal. In matrilineal systems, like those of Guadalcanal, Isabel, Western and Makira Provinces, women are the traditional owners of land. In practice, however, they may have limited power to make decisions about the use of land and marine resources leading to inequities in the distribution of benefits

¹³ IFC. “Identifying Essential Investments For First-Stage Development Of The Tourism Sector In Solomon Islands” Western Province Tourism Investment Needs Assessment, October 2018

¹⁴ World Bank. “Doing Business 2019: Training for Reform.” 2019.

and preventing the sustainable use of resources.^{15,16} Women hold less explicit power in community level decision-making and are hindered by cultural and social restrictions and taboos from engaging on these issues. In the formal legal system, the value of women holding visible roles in the management of customary land is diminished by the fact that they are rarely listed as land trustees or timber rights holders. Their absence from

records of public hearings around land, suggests that their role within the formal legal system is constrained. Furthermore, across Solomon Islands, both men and women express concern about the ability of small groups of senior men to extract benefit from logging, mining and the sale or leasing of land, while excluding most community members from the benefits that arise.^{17,18}

Ineffective Management of Natural Resources

Solomon Islands is not effectively managing its natural resources. As a result, the country is incurring significant costs from environmental damage while losing out on much of the potential benefits. These issues are especially acute in the logging and mining sectors, where the poor policy and regulatory environment is allowing irresponsible harvesting of resources. The regulatory environment is also inhibiting responsible investment that could generate higher value-added, increased sustainability, and improved local community benefits.

Effective oversight of the logging industry is difficult due to both pervasive corruption and weak capacity. The Ministry of Forestry employs only 2-3 officials per province to monitor logging operations. These officers are responsible for overseeing provinces that range from 600 km² to 5,000 km², including numerous islands. In addition to few personnel, the Ministry lacks an updated forest inventory, adequate equipment and logistical support, and adequate staff training, as well as appropriate salary and incentives.

The inability to effectively regulate the sector has meant that logging companies are not contributing the tax revenue that they should be. In 2017, Solomon Islands recorded \$360 million of timber exports, however, customs agencies worldwide recorded over \$550 million of timber imports originating from Solomon Islands.¹⁹ While some of this difference is attributable to the cost of freight and insurance, the differential is under 20% for many countries. The remaining disparity of over \$100 million represents a significant loss to the country's tax revenue.²⁰ Similarly, revenue and benefit sharing with local communities is poorly managed.

¹⁵ Minter T, Orirana G, Boso D and van der Ploeg J. 2018. From happy hour to hungry hour: Logging, fisheries and food security in Malaita, Solomon Islands. Penang, Malaysia: WorldFish. Program Report: 2018-07.

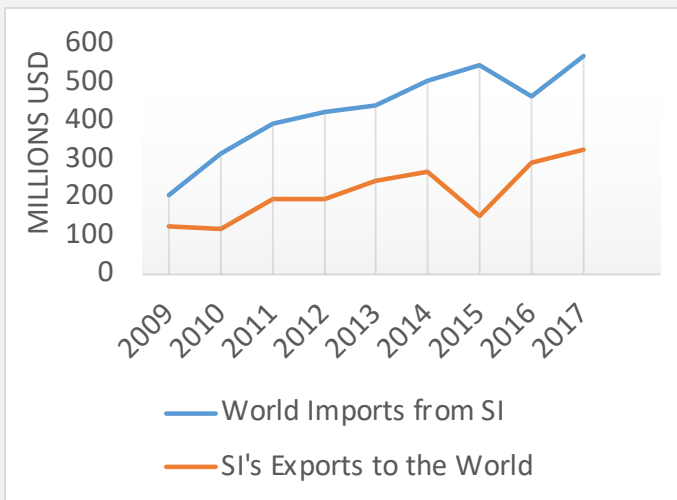
¹⁶ Monson, R. 2017. The Politics of Property: Gender, Land and Political Authority in Solomon Islands. Chapter in *Kastom, property and ideology: Land transformations in Melanesia*, edited by Siobhan McDonnell, Matthew Allen and Colin Filer. 2017. ANU Press, The Australian National University Press, Canberra, Australia.

¹⁷ Monson, R. 2017. The Politics of Property: Gender, Land and Political Authority in Solomon Islands. Chapter in *Kastom, property and ideology: Land transformations in Melanesia*, edited by Siobhan McDonnell, Matthew Allen and Colin Filer. 2017. ANU Press, The Australian National University Press, Canberra, Australia.

¹⁸ World Bank Group. 2019. Land and Geospatial Resilience, and Access to Land for Development.

¹⁹ Central Bank of Solomon Islands Annual Report 2017, and UN

²⁰ The illicit nature of the activity makes a full accounting of the cost difficult

FIGURE 6 Exports of logs recorded by Solomon Islands vs Imports recorded by the rest of the world

Source: UN COMTRADE

The country's inability to enforce harvest limits and other environmental regulations have also caused significant damage. Logging operations on Guadalcanal have caused multiple water outages in Honiara due to erosion and increased turbidity of the Kongulai catchment.²¹ Rural communities also experience landslides that destroy farms, siltation harming coral reefs, and the destruction of mangrove habitat and other areas important for agricultural production and food security.²² Furthermore, the country's rich biodiversity is a critical asset for the tourism sector, making its preservation essential.

Bauxite is also present in significant quantities in Solomon Islands. It is surface mined in locations throughout the country by firms that also engage in logging. Bauxite mining faces similar regulatory challenges, creates similar environmental costs, and exports appear to be similarly undertaxed.²³

21 RNZ news "Honiara water supplies again cut off by logging" 17 June 2019

22 Minter, T. et al. (2018). From happy hour to hungry hour: Logging, fisheries and food security in Malaita, Solomon Islands. Penang, Malaysia: WorldFish. Program Report: 2018-07

23 RNZ News "Solomons caucus defends removal of bauxite export duty" 18 January 2017

24 World Bank. 2007. Solomon Islands Agriculture and Rural Development Strategy.

25 RM Bourke, A McGregor, MG Allen, BR Evans, BF Mullen, AA Pollard, M Wairiu and S Zotalis. 2006. Solomon Islands Small Holder Agriculture Study. Commonwealth of Australia.

26 Department of State. 2019 Trafficking in Persons Report

27 World Bank Group. 2018. Solomon Islands Systematic Country Diagnostic: Priorities for Supporting Poverty Reduction and Promoting Shared Prosperity. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/29881> License: CC BY 3.0 IGO

Poor practices in logging and bauxite mining have a particularly negative impact on women who are more likely to be engaged in vulnerable subsistence farming and gardening. The availability of land suitable for agriculture has been reduced by the spread of logging, jeopardizing the ability of communities and women to provide subsistence and cash-earning activities.^{24, 25} Women are also more likely to be disadvantaged by opaque revenue sharing arrangements between loggers and local power brokers within the community that may not equitably distribute proceeds from logging. Limited accountability of resource extraction actors, minimal awareness, gender and social inequality, and weak law enforcement combine to increase the vulnerability of communities to trafficking.²⁶

If logging does decline as many predict, new sources of government revenue will be required in order to avoid a fiscal crisis and related economic turmoil. Fiscal deficits were controlled from 2011 through 2016, but have grown since then. In the third quarter of 2019, expenditure exceeded revenue by nearly \$30 million (9% of quarterly GDP). The budget may face additional pressure over the next few years from hosting the 2023 Pacific Games, as well as, from the high risk of natural disasters.

The country's nickel and gold mineral assets appear to be the most viable options in the short term to replace declining revenue from logging and ensure a sustainable fiscal position.²⁷ However, uncertainty and ineffective regulation has constrained responsible investment in the sector. The mining activity that has flourished has been in bauxite, which is often undertaken by logging firms. This type of mining is short term in nature and does not

require the land and regulatory security needed for developing nickel or gold assets.

Protecting the country's coral reefs is also a key issue in managing natural resources as reefs are the country's main tourist attraction and are an important ecosphere for the fishing sector. The overall health of the country's reefs is not well examined, but it is clear that some resources remain in good shape while others have begun

Non-Binding and Near-Binding Constraints

While the binding constraints identified above are the most problematic for the country's economic development, Solomon Islands faces many challenges that would provide benefits if addressed.

Tax Burden

Economic activity in Solomon Islands is taxed in multiple ways: imports are effectively taxed at 19.5% and general sales, corporate, and personal income are taxed at 10%, 30%, and 35%, respectively (rates for foreign owned business and individuals are even higher). In the 2015 World Bank Enterprise Survey, 18% of firms identify this tax burden as their top constraint in the business environment.

Yet in some sectors, such as tourism, there are significant incentives for new investment that make the tax burden minimal. If tax has been the most binding constraint, we should have seen relatively more investment in areas such as tourism with a relatively low burden, but this has not occurred.

The GoSI is currently taking the initiative to review their approach to taxation.³⁰ In order to reduce the tax burden, it will be necessary to widen the tax base. However, the tax base may actually be narrowing as the logging sector declines and the fiscal space to undertake tax reform may be narrowing along with it.

28 Hamilton, Richard J., et al. "Logging degrades nursery habitat for an iconic coral reef fish." *Biological Conservation* 210 (2017): 273-280.

29 Asian Development Bank, *State of the Coral Triangle: Solomon Islands, 2014*

30 <http://www.mof.gov.sb/AboutUs/EconomicsUnit/TaxReview.aspx>

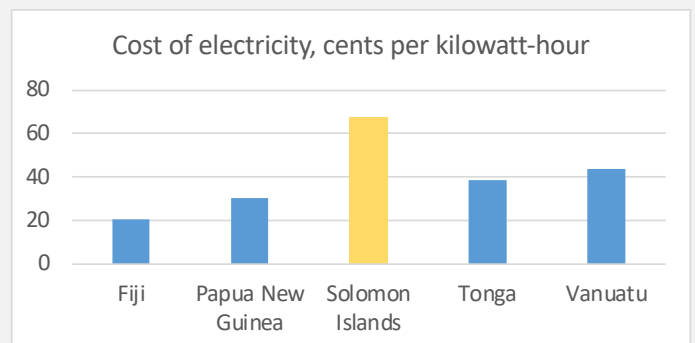
31 Central Bank Of Solomon Islands, *Quarterly Review, June 2019*

to suffer from siltation due to logging as well as overfishing driven by population growth.^{28, 29} Finding a balance between protecting the ecological assets and enabling subsistence fishing that is deeply embedded in Solomon Islands culture is a challenge. There are a variety of efforts to improve reef management, but these efforts remain isolated, uncoordinated, and small in scale.

Cost of Electricity

Solomon Islands has one of the highest electricity tariffs in the world at over \$0.60 per kWh. Current initiatives including the Tina River Hydro project and solar projects can help bring this cost down. New investment in the tourism sector is unlikely to be constrained by power, as self-generation through solar is likely to be the most cost-effective solution for the foreseeable future in Solomon Islands given geographical constraints.

FIGURE 7 The cost of electricity in Solomon Islands and comparators



Source: iea.org

Access to Finance

Lending rates are high at over 10% (with minimal inflation).³¹ Business environment risks (as reflected in the high interest rate spread) are a key driver of high rates. Court efficacy and land administration are frequently

cited as areas in need of improvement to de-risk and bring lending rates down. Beyond institutions, many Solomon Islanders are excluded from traditional banking services due to a lack of physical access to banking facilities and low financial literacy. Poor transport and information and communication technology (ICT) connectivity also constrain access to financial services.

Connectivity

Connecting people to each other through physical transportation infrastructure as well as through ICT is critical for economic productivity. The poor physical and ICT connectivity in Solomon Islands clearly constrains economic growth. However, with a small population spread over a large area that is far from international markets, the country's poor physical connectivity is partially the result of immutable geography rather than infrastructure deficiencies. This enhances the importance of connectivity via ICT to ensure that information and ideas can flow even when it is difficult for people to move. Recognizing these issues, the GoSI, in partnership with Australia's Department of Foreign Affairs and Trade (DFAT), are nearing the commissioning of the Coral Sea Cable System, an undersea cable that will provide 20 Tbps to the country.³²

Urban Planning

Functional cities that allow people to live in closer proximity to each other are also critical to connecting people for the purpose of economic production. However, population density can also bring with it congestion and other costs. Solomon Islands is urbanizing more rapidly than any of their peers, threatening to choke economic activity in Honiara if underinvestment in urban planning and infrastructure continues.

Human Capital

Human capital in Solomon Islands is low, but not a binding constraint. Returns to education are relatively low and analysis of the labor market suggests that demand

for higher skills is low. Given weak employment demand, training for higher skills likely needs to target foreign labor markets. Professional skills are the most sought after according to a survey conducted by the chamber of commerce. Literacy, at over 80%, is above average for their income group.

Important challenges remain, however. About one-third of men and women did not complete primary school (35% of women and 34% of men). Approximately one-fifth never attended school, although that percentage is slightly higher for women than men, which suggests a small gender gap in educational attainment.³³

Gender Inequality

Gender inequality remains a major barrier to human and economic development. Solomon Islands ranks 152 out of 189 on the Gender Inequality Index, which represents how women are disadvantaged in three areas: reproductive health, empowerment, and economic status. The Women in Business and Law indicators identify deficiencies in the legal framework related to obtaining and getting paid for work and running a business. For example, there are no laws mandating nondiscrimination in employment or accessing credit. There is also no legislation to protect women from sexual harassment in employment. One in three women experience domestic or sexual violence in their lifetime, which affects their ability to work outside the home and their productivity at work. Although when compared to the region Solomon Islands has the highest female labor force participation rate (62%) much of this employment is vulnerable or informal.

Women are highly active in small-scale income generation and agriculture. Most women working within the agriculture sector are not paid (80%) and are commonly employed by family members or are self-employed. Higher levels of formal work are constrained by low educational levels, sociocultural discrimination, sectoral and occupational segregation, and a lack of access to key resources such as transport and market infrastructure.

32 The cable is expected to be commissioned in December 2019. (<https://www.coralseacablesystem.com.au/about/>)

33 Solomon Islands National Statistics Office. 2015. Solomon Islands Demographic and Health Survey

Fishing, construction, forestry, and transportation are some of the largest formal employment sectors in the economy. These sectors are dominated by men and employ very few women. A few sectors such as hotels and restaurants employ more women than men, but as these sectors are relatively small, women have about half as many formal jobs as men. Older women who have obtained more than secondary education and live in urban areas are more likely to be formally employed. The gap between male and female employment rates is also smaller for women with these characteristics. Furthermore, women aged 25–34 had the highest proportions of any age group employed in professional, technical and managerial roles and some of the lowest proportions in employed in agriculture. Indeed, there is a greater return to secondary education and beyond, with women employed at higher rates than men in professional and technical roles.

Lastly, World Bank enterprise surveys show a mixed picture for women’s ability to be entrepreneurs. While only 13% of firms interviewed had majority female ownership, 47% of firms has some female participation in ownership, compared to 29 and 53% respectively in the East Asia and Pacific region. Top managers were women in 23% of firms surveyed, higher than the global average but again below the regional average of 33%.

The analysis above suggests extensive challenges and barriers for women’s economic participation. Yet, extreme geography, deep poverty and deprivation, and lack of resources and infrastructure marginalizes all vulnerable groups, not just women. Therefore, it is difficult to identify gender inequality on its own as a binding constraint to economic growth, but is a key inequity that can reduce benefits of MCC investments if not directly addressed in program design.

Conclusion

Solomon Islands needs new economic sectors that can drive its economy forward and create employment opportunities for its burgeoning youth population. Historically, Solomon Islands’ economy has relied on extractive sectors, especially logging, that are causing environmental harms and unlikely to lead the country towards its economic development goals. Never-the-less, logging and extractive activities are likely to remain a large part of the Solomon Islands economy for some time to come, and thus natural resource management is a key

constraint. Tourism has potential in Solomon Islands as an alternative economic driver to extractive sectors. However, this potential is constrained by challenges in the administration of land rights that prevent investment. Underpinning constraints in both land access and natural resource management is a complex interaction between traditional/informal institutions that predominate in local communities with the role of the central government that is still building the capabilities to govern economic transactions throughout the archipelago.

