



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to notify you that the Millennium Challenge Corporation plans to negotiate and sign a threshold program agreement with the Government of Solomon Islands.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations, please contact Dan Petrie at (202) 521-3583 or PetrieDB@mcc.gov.

This notification is being sent to Congress on January 7, 2021 and negotiations with the Government of Solomon Islands may be started, the threshold program agreement signed, and funds obligated on or after 15 days from the date of this notification.

In addition to the enclosed notification, we have attached supplemental information regarding the planned threshold program.

Sincerely,

/s/

Emily Davis
Vice President
Congressional and Public Affairs

Enclosure as stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

January 7, 2021

PROGRAM: Threshold
APPROPRIATIONS CATEGORY: Fiscal Year 2019
OBLIGATION AMOUNT: \$23,000,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2019; and section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), this notification is to advise you that the Millennium Challenge Corporation (MCC) intends to negotiate and sign an agreement with the Government of Solomon Islands obligating up to \$23,000,000 of fiscal year 2019 funds for a program of assistance under section 616 of the Act (the “Threshold Program”).

The proposed threshold program with Solomon Islands is designed to support policy and institutional reforms in two areas identified as critical constraints to economic growth and poverty reduction: (1) access to land, with focus on the tourism sector and (2) natural resource management.

SUPPLEMENTAL INFORMATION

PROPOSED SOLOMON ISLANDS THRESHOLD PROGRAM

Overview

The proposed Millennium Challenge Corporation (MCC) threshold program for the Solomon Islands seeks to assist the Solomon Islands Government in addressing two major constraints to economic growth: inability to access land in the tourism sector and ineffective natural resource management in the logging sector. The threshold program will address these constraints through two projects: the Accessing Land for Tourism Investment Facilitation (ALTIF) Project and the Forest Value Enhancement Project (FoVEP).

Background and Context

Selection and Eligibility Overview

Solomon Islands was selected by the MCC Board of Directors in December 2018 to develop a threshold program. Historically, Solomon Islands has been a strong performer on the MCC scorecard, consistently passing when it was in the lower income group. Since transitioning to the higher income scorecard category, Solomon Islands has not been able to pass at least 10 of the 20 indicators, the minimum required, as a result of the stiffer competition among countries in that income category. The Control of Corruption and Democratic Rights indicators, however, remain bright spots for the country as it continues to pass both strongly.

Summary of Constraints to Growth

MCC and the Solomon Islands Government identified two binding constraints to economic growth in Solomon Islands.

- *Inability to Access Land:* Land is inaccessible for investment in long-term, sustainable economic activities. This is due to an inability to clarify rights holders, establish secure land rights, and establish enforceable agreements.
- *Ineffective Natural Resource Management:* Solomon Islands is unable to adequately oversee its logging and mining sectors. This leads to significant losses in government revenue, environmental damage, unsustainable production, insufficient benefits to communities, and inadequate investment in responsible uses of the resources.

Country Context

Economic growth is essential for creating economic opportunity and political stability, especially since Solomon Islands is heavily reliant upon donors. Over the last few decades, economic growth in Solomon Islands has been largely dependent on logging, which accounts for more than half of the country's exports and directly provides more than 20 percent of the government's tax revenue. However, forests have been over-harvested for decades and the sustainability of the sector is in doubt. 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.

Tourism provides one of the few opportunities for job creation in Solomon Islands. Growing this sector faces several challenges. A poor investment climate and limited investment facilitation capacity creates impediments for new investors seeking to enter the country. Securing land for

investment is another major challenge, with over 80 percent of land in Solomon Islands held by communities under an informal customary tenure regime. Gaining access to registered land typically also requires obtaining and retaining social license. Additionally, national revenue from tourism was small but growing pre-COVID-19. Since COVID-19, tourism has been in decline globally, posing additional challenges to the tourism sector.

Improved forestry management also offers opportunities for sustained economic growth. While the forest sector accounts for more than half of Solomon Islands total export value, mismanagement of the sector leads to underreporting on as much as \$100-150 million worth of logging exports and undermines the shared prosperity which should result from the sustainable use and equitable sharing of benefits derived from the country’s natural resources. Furthermore, weak regulatory enforcement and a lack of transparent revenue-sharing from forest sector resources create opportunities for elite capture and lead to environmental damage due to unsustainable logging practices.

Program Budget and Summary

The threshold program aims to reduce poverty in Solomon Islands by catalyzing economic growth in the tourism and forestry sectors. The program consists of two proposed projects, the Accessing Land for Tourism Investment Facilitation Project and the Forest Value Enhancement Project.

Below is the anticipated budget of the proposed threshold program with the Government of Solomon Islands and a summary describing its components.

Table 1: Solomon Islands Threshold Program Budget

Component	US \$
1. Project #1: Accessing Land for Tourism Investment Facilitation (ALTIF)	\$11,562,000
1.1 Activity #1: Improve Access to Land and Establish Social License to Operate for the Tourism Investor	\$4,175,000
1.2 Activity #2: Increasing Tourism Investment through Investment Facilitation	\$5,957,000
1.3 Activity #3: Facilitation of Government Reform	\$1,430,000
2. Project #2: Forest Value Enhancement Project (FoVEP)	\$6,500,000
2.1 Activity #1: Forest Management through Payment for Ecosystem Services	\$5,000,000
2.2 Activity #2: Policy and Institutional Reforms for Alternative Forest Management	\$1,500,000
3. Monitoring & Evaluation	\$1,550,000
4. Program Administration & Oversight	\$388,000
5. American Catalyst Facility for Development	\$3,000,000
Threshold Program Total	\$23,000,000

Proposed Projects

Project #1: Accessing Land for Tourism Investment Facilitation

Project Objective: The objective of the ALTIF Project is to address the land access and investment facilitation issues that have prevented Solomon Islands from realizing its potential in tourism, one of the country's few growth opportunities. The ALTIF Project seeks to achieve this objective by building government capacity to identify investable land and facilitate investment in the sector. The ALTIF Project aims to increase tourism investment in Solomon Islands, which is expected to deliver jobs and productivity gains, increased local purchases, and foreign exchange benefits.

The land access activity will increase the capacity of the Government of Solomon Islands to identify registered land that can attract tourism investment, assist potential investors in obtaining the necessary licenses to ensure tenure security, and realize an investment. The project will also assist local communities to ensure inclusive governance of their land to prepare for future investment opportunities.

The investment facilitation activity will work in collaboration with the government to develop a portfolio of land parcels that present potential opportunities for responsible investors. The project will then work to develop the government's capacity to respond to investor needs and identify projects that have the potential to yield the greatest benefit to Solomon Islanders by fostering local economic growth, including the expansion of employment and entrepreneurship opportunities for women.

Building governance reform capacity in the tourism and land sectors will strengthen policy and institutional problem solving. This activity will deepen project sustainability and country ownership, enabling tourism to become a driver of growth in Solomon Islands.

Project #2: Forest Value Enhancement Project

Project Objective: FoVEP aims to generate more reliable, sustainable benefits from Solomon Islands' forest resources by (1) attenuating negative environmental impacts, (2) increasing and more equitably sharing the community and national revenues from forest resources, and (3) achieving a more balanced regulatory and enforcement regime between logging and non-logging uses of forests.

The Payment for Ecosystem Services (PES) activity includes the expansion of an economically viable PES program designed to generate environmental, economic, and social benefits through PES accreditation and eventual carbon credit payments in participating communities.

The facilitated governance reform activity will seek to strengthen problem solving capacity to increase opportunities for regulatory and enforcement reforms in the forest industry in participating project jurisdictions and, to the extent possible, with the national regulatory framework.

American Catalyst Facility for Development

In furtherance of the BUILD Act's charge for increased interagency coordination, this threshold program includes up to \$3 million for an American Catalyst Facility for Development (ACFD) component to be conducted in collaboration with U.S. International Development Finance Corporation (DFC). The ACFD would support catalytic investments aimed at attracting private sector finance. Investments implemented through ACFD in Solomon Islands will be consistent with the missions of both MCC and DFC, as well as all existing statutory requirements and authorities. Operationalization of this innovative component will be refined during the first quarter of 2021.