



# Solomon Islands

Prepared for the Advisory Council Spring Meeting  
April 13, 2021







- **Solomon Islands**

- ALTIF

- FoVEP

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# Solomon Islands: Current Context



## Solomon Islands Gov't Cooperation



- Consistent and responsive engagement via virtual consultations throughout 2020
- Adoption of Cabinet Paper, reflecting high-level support for the Program
- Potential capacity and governance challenges in tourism and forestry sectors

## Political & Social Situation



- September 2019 switch in diplomatic recognition from Taiwan to China
- Increased regional tensions within the country linked to geopolitical shifts
- Early and aggressive approach to management of COVID-19, resulting in a total of 16 recognized cases and zero deaths

## Tourism/Land & Forestry Sectors



- Logging has been a driver of growth for decades, but forests have been over-harvested and logging exports (and revenues) are in decline
- Tourism offers a key opportunity for job creation but sector growth will require securing land for investment, a stronger investment climate, and increased gov't capacity





# Map of Solomon Islands



# The inability of investors to access land is a binding constraint to growth in Solomon Islands

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- Nearly every investment project faces challenging access to land
  - The Tina River Hydro project took 10 years to reach financial close, in large part due to the difficulty resolving land disputes
  - While most land is under customary, communal ownership, there are enough registered parcels to sustain investment for some time
  - However, even transactions on registered parcels are challenging due to weak policy environment and the importance of working with local communities
- Since wholesale land reform would be very challenging in Solomon Islands, the team chose to focus on unlocking individual land parcels that are most likely to generate investment
- The tourism sector provides an opportunity to focus the project, leverage the Solomon Island Government's commitment to tourism, and build on existing work on land for tourism investment

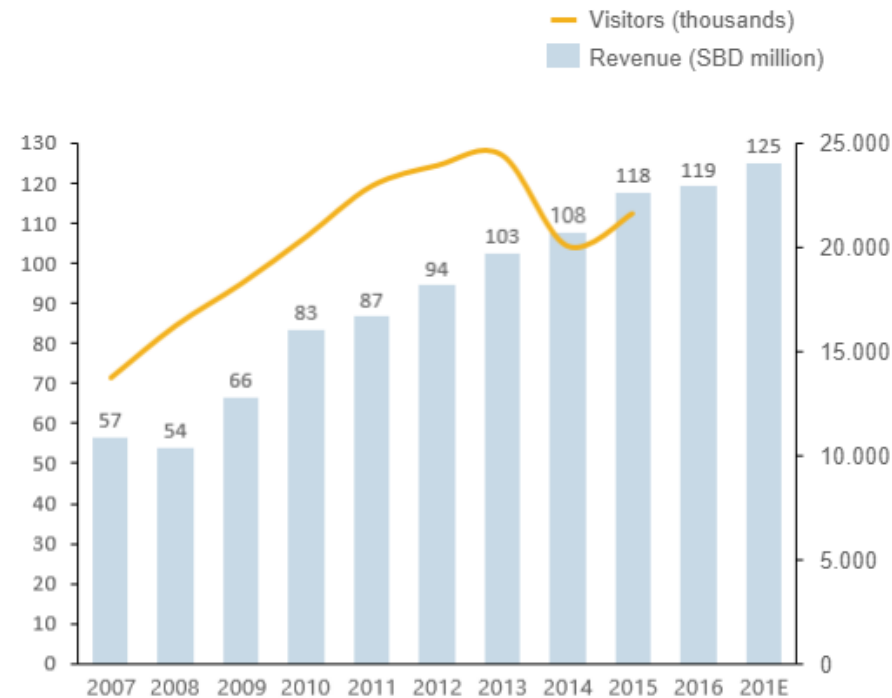


# Tourism revenue has increased over the last 10 years, but sector contribution to GDP has much room to improve

Tourism<sup>1</sup> revenues and visitors to the island have increased...

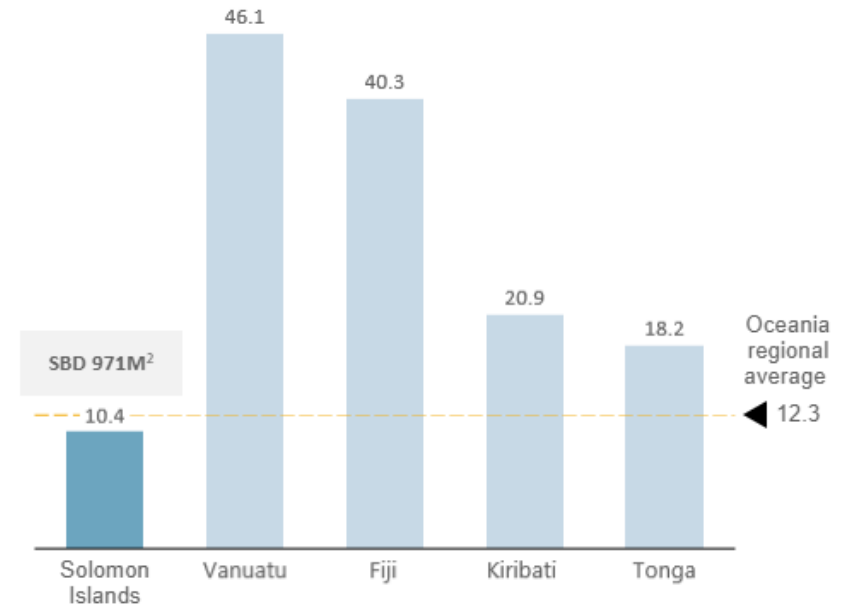
...and although contribution to total GDP is significant, it is under the regional average and far below other Pacific islands

Gross value added and tourism visitor arrivals, 2007- 2017



Contribution of tourism to total GDP<sup>2</sup>, 2017

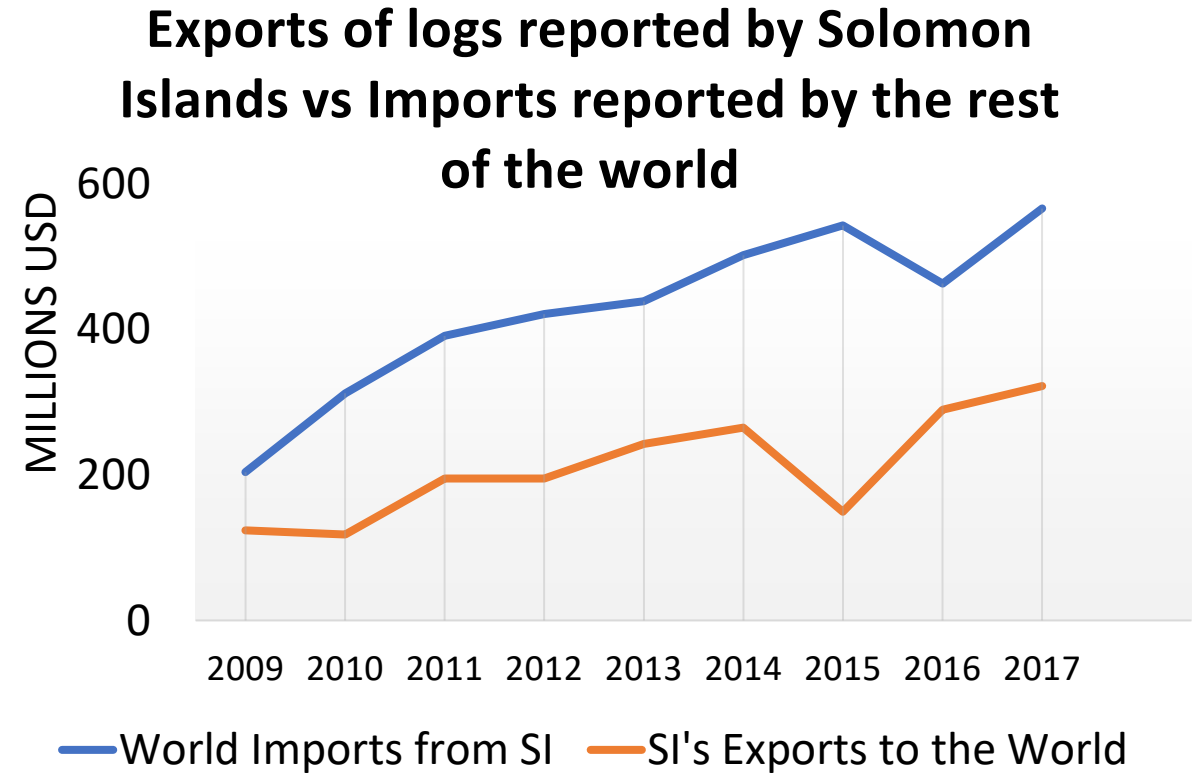
Percentage of total



- Notes: 1) This only reflects gross value added from hotel and restaurants, as per Central Bank of Solomon Islands (CBSI) & Solomon Islands National Statistics Office (SINSO); 2) This reflects a more comprehensive picture of tourism, and includes the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services (excluding commuter services), and the activities of the restaurant and leisure industries indirectly supported by tourists

- Source: [Central Bank of Solomon Islands \(CBSI\) & Solomon Islands National Statistics Office \(SINSO\)](#); World Travel Tourism Council, [Solomon Islands country report](#), 2018

# Logging in Solomon Islands is problematic



- Much of the potential tax revenue is being lost due to underreporting of logs' value
- Benefits to local communities are not being maximized
- Poor oversight of logging is causing significant environmental damage
- Women are disproportionately disadvantaged in access to benefits and effects on livelihoods

A vibrant underwater scene featuring two divers swimming over a diverse coral reef. The water is clear blue, and numerous small orange and yellow fish are scattered throughout. The divers are positioned in the upper right, with one slightly ahead of the other. The coral in the foreground is a mix of green, yellow, and white, showing various textures and shapes.

- Solomon Islands

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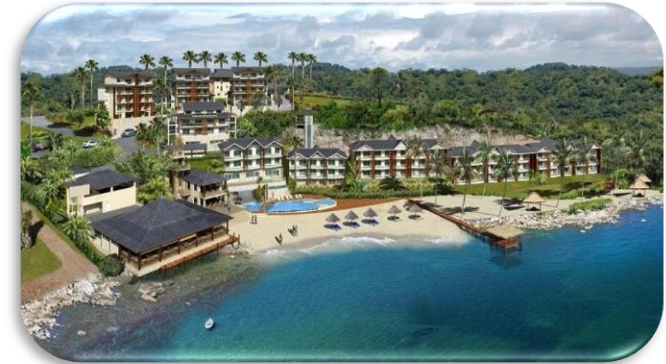
# The Solomon Islands need more than an incremental step



Fiji



Vanuatu



The Solomons



**Historically, there has been no coordination among government, private sector, and donors.**

An IFC Advisory engagement has served the role of convener and monitor of tourism projects

### IFC WP Tourism Assessment

A comprehensive and detailed analysis, updated quarterly



Western Province  
Tourism Investment Needs Assessment

IDENTIFYING ESSENTIAL INVESTMENTS FOR FIRST-STAGE DEVELOPMENT  
OF THE TOURISM SECTOR IN SOLOMON ISLANDS

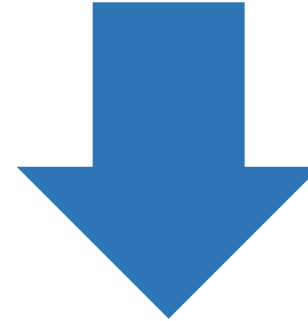
October 2018

AN IFC REPORT FOR THE SOLOMON ISLANDS  
MINISTRY OF CULTURE AND TOURISM IN PARTNERSHIP WITH



**IFC is assessing 50 sites** for new accommodations and expect around 12 to make it through the criteria filters of which **land access is a primary driver**.

They are looking for an **anchor investment** and all options are on the table. In terms of strategy adventure tourism has been considered but so has high-end, since it is an untouched environment.



Opportunity for MCC to support a more structured investment promotion process and possibly a PPP transaction



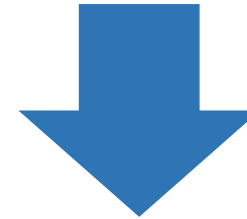
## There are examples of strong community engagement models that could be applied to new investments



Engaging communities during an investment requires a **high degree of on-the-ground coordination**. The Tina River hydro project, the country's first PPP, took 10 years to secure land rights.

Marine protection requires not only implicated communities, but also those adjacent to them, **requiring education and consultation**.

The top requirements from investors interviewed by IFC were **land security** and infrastructure.



Opportunity for MCC to engage communities around land access and natural resource management for targeted investments




*Inspired by his passion for giving back to nature, Kilo Paza began in sustainable tourism as a healthy and meaningful way to live his life. As a young school dropout Kilo joined the logging industry for almost 15 years to earn a living, but this was not at all satisfying because of the degrading effects to land and environment. His family focus pulled him back to his village, Ugele in Rendova island, to start Titiru Eco Lodge.*

# Currently, investors reach out to SIG themselves, independently engaging with provincial authorities and communities

High-level process view of current investment facilitation process for an investor:



## Legend:

-  Pre-investment assessment stage
-  Investment initiation stage
-  Investment realization stage



Note: 1. Titleholders could include individuals, companies, entities or trustees of land-owning groups



# A committee consisting of key ministries/agencies will be responsible for coordination and decision-making on tourism investments

Coordinating committee's constituent members, mandate, and rationale

*Possible approach – internal SIG discussions pending*

## Chair

**MCT will chair the committee**, given its existing coordination role on matters related to tourism and mandate to focus on tourism sector

## Members

Tourism Solomons, InvestSolomons, Ministry of Finance (MoF), Ministry of Land, Housing, and Survey (MLHS), Provincial Offices

## Mandate

*Decision-making and coordinating body that:*

- Discusses **strategies** for bringing in tourism investors
- Addresses **bottlenecks in the facilitation process** through roping in specific ministries
- Provides the Chair of the Committee with **relevant expertise, information, and partnerships** to successfully facilitate investments across different investment stages

## Rationale

- **Plugs coordination gaps:** While individual ministries can support on specific aspects of the facilitation (e.g., licensing), they do not have the expertise across the entire facilitation process - the coordination mechanism would thus help plug gaps
- **Streamlines roles across ministries:** A committee with clear owners and roles can limit overlap of responsibilities, accelerate the facilitation process, and decrease the turnaround time for investors



## Guarantees, direct investments, and political risk insurance are potential blended finance instruments that can mitigate the risks

	Guarantees	Direct investments	Political risk insurance
Description	Agreement where a guarantor agrees to pay part of or the entire value of an instrument in the event of non-payment or loss of value	Direct financial investment into a transaction or financial vehicle	Arrangement where a third-party agrees to compensate for full or partial losses due to political instability, at a national or local level in return for a premium
Potential structure	<ul style="list-style-type: none"><li>• <b>Covering losses</b>, either partially or fully, when <b>business activity is disrupted</b> or financial benefits are not realized</li></ul>	<ul style="list-style-type: none"><li>• Providing <b>small-scale grants to crowd in larger volumes</b> of capital from other lenders (with diverse risk profiles) at favorable terms</li></ul>	<ul style="list-style-type: none"><li>• Designed as per an <b>assessment made by a provider</b> to cover key risks perceived by the investor</li></ul>
Risks addressed	<ul style="list-style-type: none"><li>• Operational risks due to <b>disputes</b></li><li>• Investment climate risks due to unforeseen regulations and unclear guidelines</li></ul>	<ul style="list-style-type: none"><li>• Access to capital risks given <b>limited avenues</b> to raise money locally</li></ul>	<ul style="list-style-type: none"><li>• Investment climate risks due to <b>unfavorable political events</b></li></ul>
Time-horizon <sup>1</sup>	<ul style="list-style-type: none"><li>• <b>Long-term</b>, given that operational risks can <b>persist several years</b> after setup</li></ul>	<ul style="list-style-type: none"><li>• <b>Long-term</b>, given <b>extended repayment timelines</b> typically associated with hotel projects</li></ul>	<ul style="list-style-type: none"><li>• <b>Short-term or long-term</b> based on payment cycles of insurance products</li></ul>

Note: 1. Short-term typically refers to 2-5 years while long term refers to 10-15 years; these blended finance instruments are broad options MCC can consider to support investment facilitation in SI.



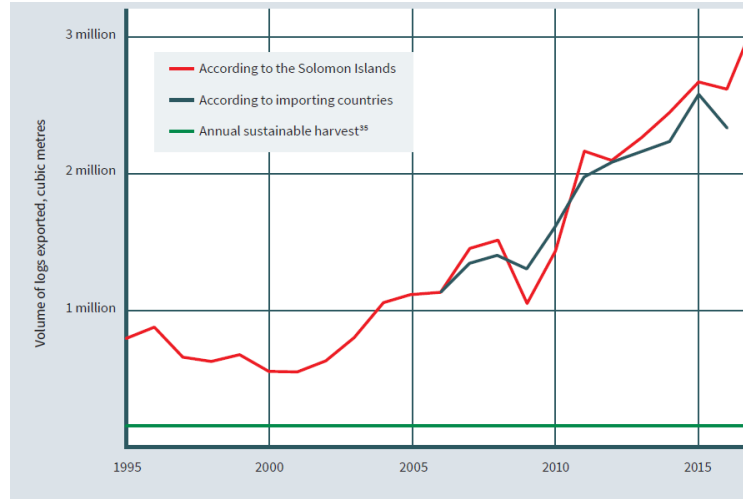
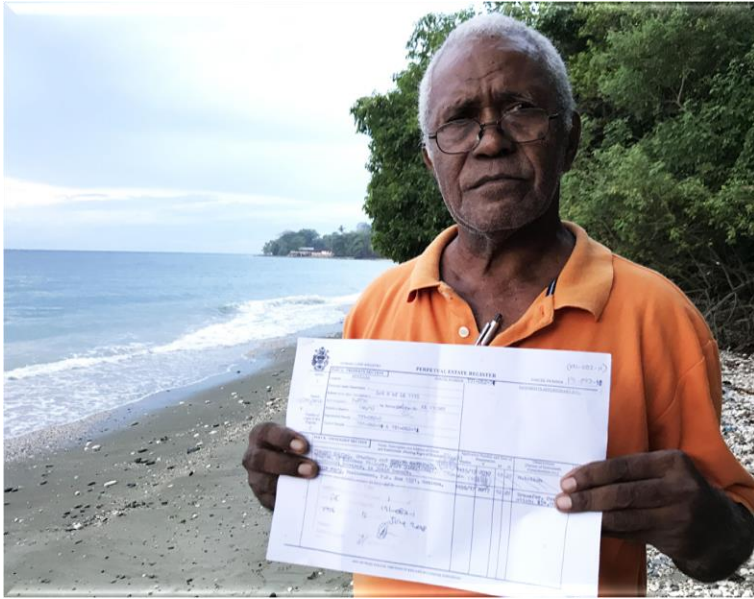
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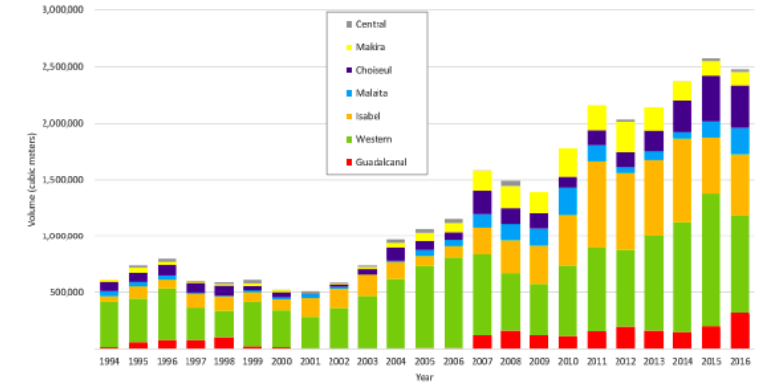
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**Solomon Islands log export volumes**

Source: Solomon Islands State of the Environment Report, 2019



**Comparison of log export volumes**

Source: "Paradise Lost", Global Witness, 2018

## Why this Project?

- The forest sector accounts for more than half of Solomon Islands total export value and provides more than 20 percent of the government's tax revenue
- Mismanagement of the sector leads to underreporting on as much as USD 100-150 million worth of logging exports, unequal benefit distribution, and corresponding environmental impacts
- The objective of this project is to generate more reliable, sustainable benefits from Solomon Islands' forest resources

## FoVEP Project Objective



The Forest Value Enhancement Project (FoVEP) seeks 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. These objectives will be achieved by:



Scaling up an economically viable payment for ecosystem services (PES) program



Facilitating incremental forest sector policy and institutional reforms in participating areas



# FoVEP Outcomes and Benefits



## Outcomes

Generate more reliable, sustainable benefits from Solomon Islands' forest resources:

- Delivery of an accredited payment for ecosystem services (PES) program encompassing >6,000 hectares of forest
- Direct (financial) and indirect benefits derived from community participation in PES project sites
- Incremental reforms in the forest sector's regulatory and enforcement environment in participating project areas

## Benefits

- Preservation of forest areas
- Diversification of forest-derived income
- More effective forest sector regulatory environment

## Activity 1: Payment for Ecosystem Services (PES)



### Overview

- This activity will facilitate community-based forest and land management supported by a voluntary market-based PES program in participating project locations
- The methodology consists of five primary procedural steps required to establish site-specific PES projects:
  - Assessing and establishing an enabling environment for PES project implementation, including site selection criteria;
  - PES project preparation, field work, and consultations;
  - PES project implementation including monitoring, marketing, sales and transaction facilitation;
  - Supporting alternative livelihood activities; and
  - Providing input for policy and institutional reform process in FoVEP Activity 2.

## Activity 2: Facilitated Reform



### Overview

- The Facilitated Governance Reform Activity provides a three-level structure to facilitate incremental policy and institutional reform in participating project areas.
- FoVEP working groups will be convened at each of the following levels:
  1. A National FoVEP Task Force will authorize FoVEP project and support initiative of thematic working groups;
  2. A Forest Governance Accountability Working Group will engage civil society on initiatives to increase accountability in the forest sector; and
  3. Forest Management Working Groups in each participating project location will address structural constraints to PES implementation and local forest governance.



## FoVEP Activity 1 Sub-Activity Summary



1.1 Facilitate Enabling Environment for PES Projects



1.2 Facilitate Participation in Forest-Based PES Projects



1.3 Facilitate Marketing and Sale of PES Credits



1.4 Conduct Monitoring, Reporting, and Verification



1.5 Facilitate Alternative Livelihood Opportunity Development



1.6 Provide Input to Link PES to Forest Sector Reform



# Questions for the Advisory Council

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- What will be the most important factors and risks that investors will consider in a new market like the Solomon Islands?
- Do you have ideas on how MCC might use blended finance tools to reduce risk of investments for the private investor while at the same time stimulating inclusive community governance and decision-making structures that create new opportunities for community members to benefit from and participate in tourism investments?
- How might MCC attract or facilitate private sector interest in the purchase of voluntary carbon credits generated through MCC projects, such as the Payment For Ecosystem Services Activity of the Solomon Islands FoVEP project?
- It is expected that logging in the Solomon Islands will continue to decrease significantly and that sustainable management of SI's forests involves a much lower level of logging than occurred in recent decades. Given the historically strong role of the logging industry (politically and economically), are there good practice examples of how private sector actors in an unsustainable declining market can be engaged as allies in the transition to sustainability?
- Based on your understanding of the Solomon Islands context and the activities planned in the Threshold Program, what opportunities do you see for the ACFD to use blended finance instruments to promote gender equality and women's economic empowerment?



Thank you!







Annex

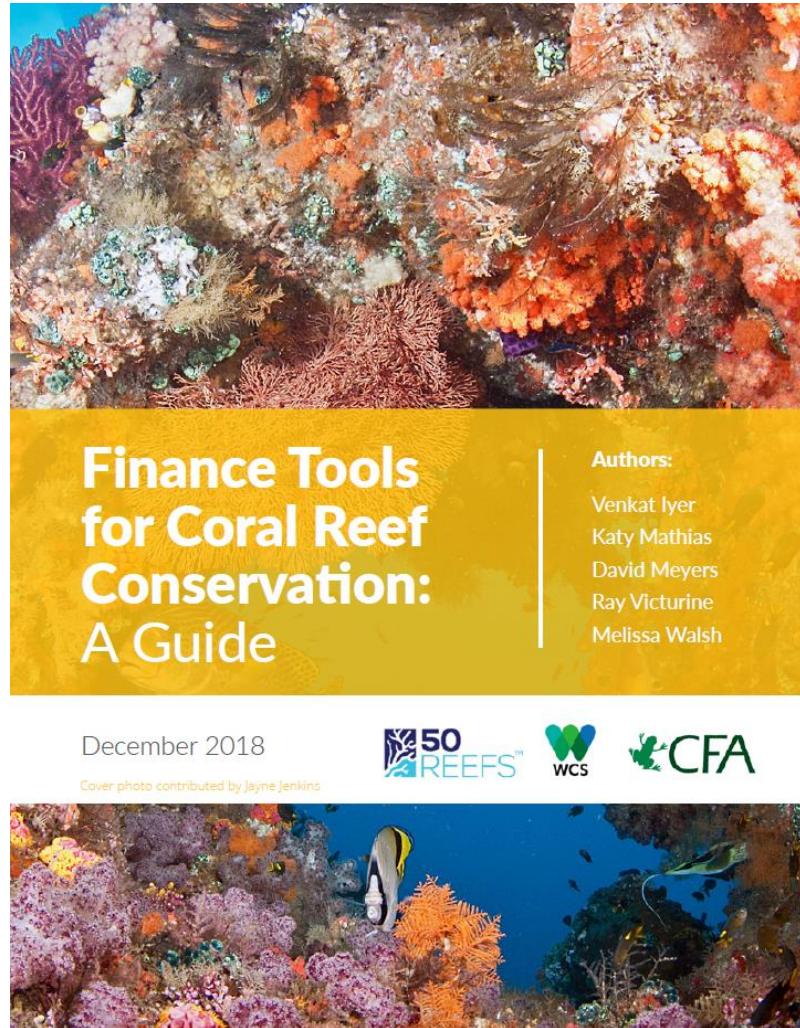
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# An important aspect of natural resource management is protecting marine assets for tourism

While still nascent in the Solomon Islands, effort have been made in marine conservation

*While the Protected Areas Act passed in 2010 to cover both terrestrial and marine sites, by 2017, none had been formally protected due to stringent stipulations for eligibility. In May 2017, the Arnavon Community Marine Park was established, the first location to be protected under the act.*



## Keys to Marine Protected Areas Success

From the USAID funded and WWF implemented Coral Triangle Initiative

- Community sense of ownership
- Provincial government capacity (monitoring and enforcement)
- Community capacity and independence (successful CBRM)
- Strong local governance (management & enforcement)
- Alternate livelihood opportunities and success

# Implementation: Proposed Partnerships and Contracts

## IFC

AO: CGM  
AOR: RTD  
PM: FIT

Noncompetitive  
award  
(cooperative  
agreement) to a  
PIO co-creation

## PDIA Contractor

CO: CGM  
COR: RTD  
PM: THP PO

Competitive  
award to a private  
firm or NGO

## Community Engagement Partner/ Contractor

AO/CO: CGM  
AOR/COR: RTD  
PM: Land&Ag

Competitive  
cooperative  
agreement or  
contract

## Live and Learn/ Nakau

AO: CGM  
AOR: RTD  
PM: ESP

Noncompetitive  
award  
(cooperative  
agreement) to an  
NGO – co-creation

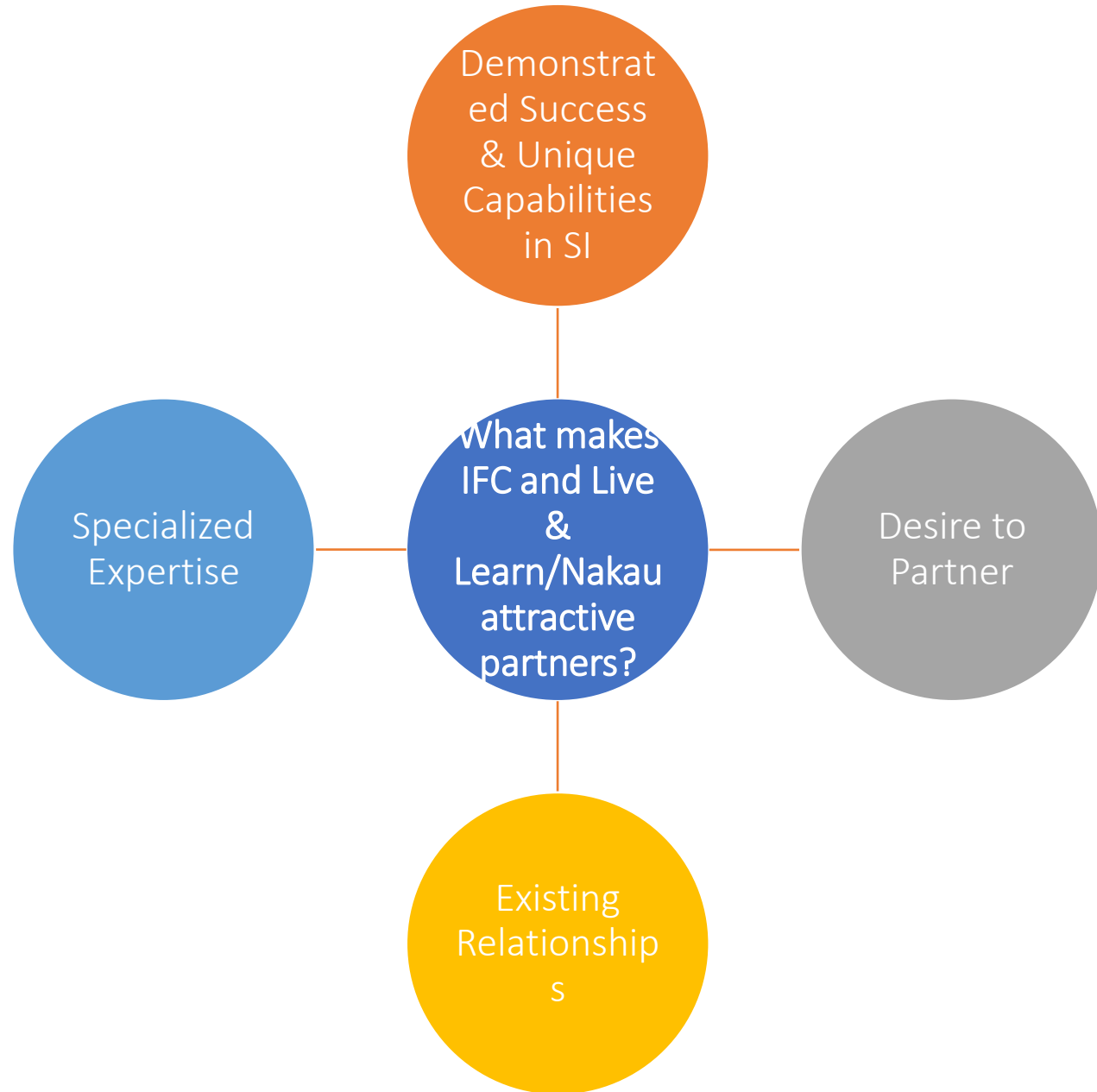
## Communications & Support

CO: CGM  
COR: RTD  
PM: THP PO

Competitive  
contract



Partnerships allow for consistency of knowledge and experience throughout project design and implementation.

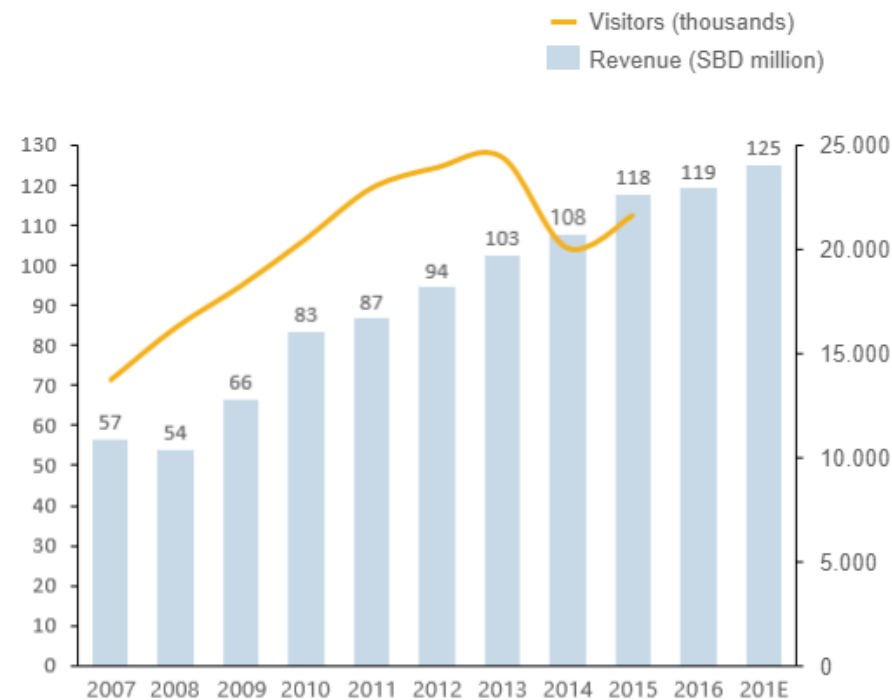


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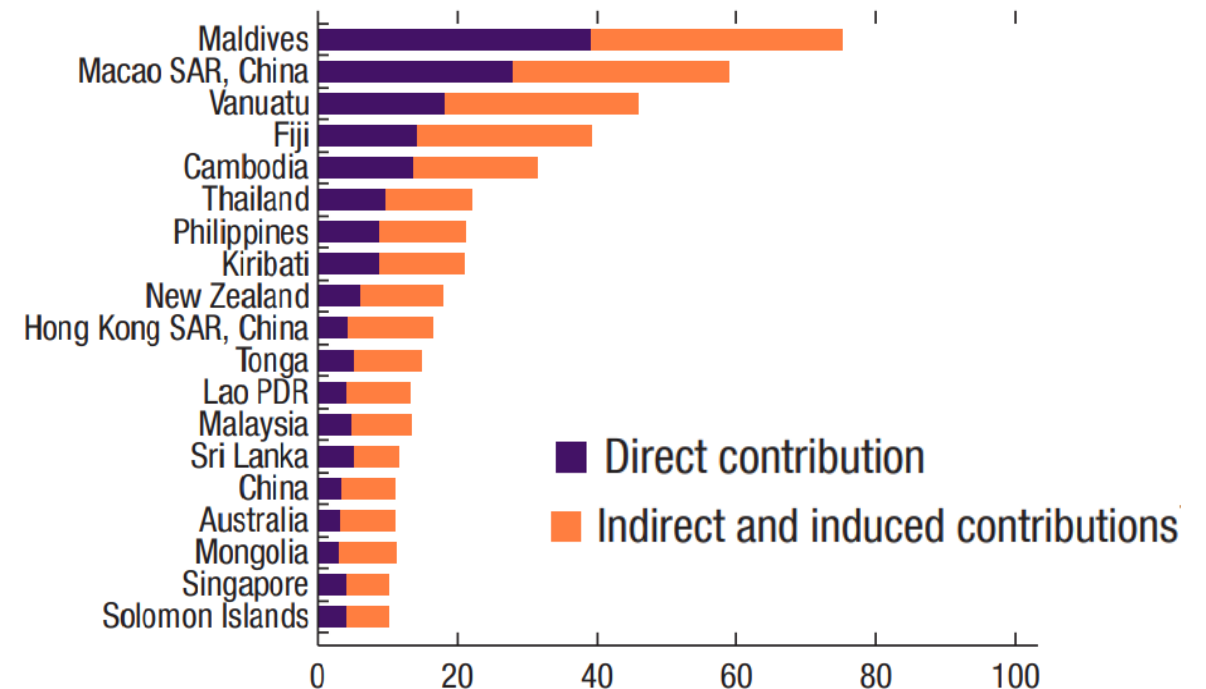
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Gross value added and tourism visitor arrivals, 2007- 2017



Tourism Share of GDP in Asia and Pacific



- Source left: [Central Bank of Solomon Islands \(CBSI\) & Solomon Islands National Statistics Office \(SINSO\)](#); World Travel Tourism Council, [Solomon Islands country report](#), 2018
- Source right: Tourism in the Post-Pandemic World Economic Challenges and Opportunities for Asia-Pacific and the Western Hemisphere, International Monetary Fund, 2021

# Implementation Arrangements



## Activity 1: PES

- MCC is working with an international NGO to establish an implementation partnership for the PES activity
- Project methodology, including site selection criteria, to be validated in consultation with Solomon Islands Government advisory team



## Activity 2: FGR

- A Facilitated Governance Reform process implemented by a contractor
- Three-level FoVEP working groups to be established with representation from local, national and civil society stakeholders