

SOLOMON ISLANDS

INTEGRATED FRAMEWORK DIAGNOSTIC TRADE INTEGRATION STUDY

AIDE MEMOIRE

14 May 2008

1. Introduction

This aide memoire outlines the objectives, scope, timeline and framework for delivery of the Diagnostic Trade Integration Study (DTIS) which comprises the initial phase of the Integrated Framework (IF) for Trade Related Technical Assistance to Least Developed Countries (LDCs) in the Solomon Islands.

The main objective of the Solomon Islands DTIS is to ensure that trade is mainstreamed into the national economic development process, based on a pro-poor strategy which relates growth to employment creation and human development. The study aims to better integrate the Solomon Islands economy into regional and global markets through identification of actions to remove supply-side constraints to international competitiveness; improve international and regional trade policy; and build capacity for trade.

The DTIS will include a detailed analysis of policy and economic issues that constitute constraints to pro-poor trade development. In order to maximise policy ownership it will be integrated with the rolling Medium Term Fiscal Strategy and the Medium Term Development Strategy (MTDS), which outlines the government's development priorities from 2008 to 2010.

The Solomon Islands has struggled to develop its long-term capacity for trade. One of the major challenges it faces, as is the case with many LDCs, is producing goods and services in consistent quantity and quality to take advantage of existing international market access. Whilst trade and the economy have been growing steadily since 2004, a predicted decline in logging – the industry which accounts for the largest single share of GDP – over the next five years is likely to lower exports and economic growth.

The IF comes at an opportune moment, as the country looks for alternative future sources of economic growth. Improved political stability has created the environment for better trade policy. The negotiation of a number of trade agreements has raised the profile of trade-related issues. These agreements are the Economic Partnership Agreements with the European Union, the Melanesian Spearhead Group Free Trade Area, the Pacific Island Countries Trade Agreement and the Pacific Agreement on Closer Economic Relations. The Solomon Islands is a member of the World Trade Organisation.

2. Country background

The estimated 552,438 population of the Solomon Islands is spread across 300 islands. Together with another uninhabited 690 islands, the total land mass of the country is 28,450 km². Between 1999 and 2002 civil unrest and ethnic tension between people of the islands of Guadalcanal and Malaita resulted in social upheaval and violence. During this time GDP fell 24 percent, many businesses closed and the central authorities struggled to govern effectively.

In 2003, at the request of the Solomon Islands government, the Australian-led Regional Assistance Mission to the Solomon Islands (RAMSI) arrived to restore law and order. The increased presence of a number of other aid donors meant that aid and grants grew to a quarter of economic output in 2004. In April 2006 unrest again broke out in the capital, when a number of Chinese-owned businesses were attacked. Since then the political and social situation has remained relatively calm.

Against a backdrop of increased stability, and from a low base, GDP expanded by 10 percent in real terms during 2007. The main driver was a rapid increase in logging, which currently accounts for 17 percent of the economy and 65 percent of total export earnings. Other exports include fish, copra and cocoa. Due to the significant donor presence and the rising costs of fuel and commodities, the trade deficit has grown steadily since 2004, reaching SBD 551 million (USD 69 million) for 2007. Consumer prices rose 10 percent during the same year, the highest level of annual inflation this decade.

Per capita GDP fell during the period of civil unrest, and is currently around SBD 5200 (USD 650). The Solomon Islands ranks in 129th place out of the 177 countries on the UNDP Human Development Index. A population growth rate of 3 percent and the prospect of exhaustion of forestry reserves over the next five years mean that per capita GDP is forecast to fall again in the medium term.

While extreme forms of poverty, such as malnourishment, are limited due to access to customary land and resources and resilient social networks, poverty in terms of hardship and lack of basic services is widespread. Around three-quarters of the population are subsistence farmers, some of whom engage in paid employment in logging and copra. Whilst the subsistence lifestyle allowed people to provide for basic needs during the tensions, low cash incomes limit access to health and education services. The new government, elected in 2008, has made it a priority to improve livelihoods in the fragmented rural areas.

3. Preliminary DTIS outline

Donors have already conducted a considerable amount of trade-related diagnostic work, including a range of studies by RAMSI, AusAid, NZAid; the European Commission (EC); the UNDP; the World Bank; the Asian Development Bank and others. An IMF article IV mission is scheduled for July 2008. The IF will take into account all of this work, and the terms of reference for the consultants who will conduct the DTIS will include a requirement to build upon existing work.

A number of general issues were identified during the DTIS preliminary mission from 5–9 May 2008. Value-addition and linkages between sectors are minimal. In order to integrate these issues with the overall analysis, they will be addressed across all of the main chapters. Poverty reduction, human development and gender will also be tackled across the DTIS, as will institutional issues. At least one consultant will be assigned to each chapter and substantive sectoral study. The DTIS will result in an action matrix with specific, concrete and executable recommendations.

The draft DTIS outline is as follows:

I. Macroeconomic environment: The chapter will analyse economic and trade performance, focusing on the link between poverty and economic growth. The balance of payments and fiscal situation will be discussed, as well as other pertinent macroeconomic issues, including money supply growth, credit, inflation and employment.

II. Cross-cutting issues: This chapter will discuss productive capacity and competitiveness, including financial services, credit, land ownership and collateralisation, energy, information communications technology, transport, communications, infrastructure, training and human resource development.

III. Enterprise support and development: Here, the focus will be on investment policy, other business environment issues not discussed in the previous chapter, and the institutional framework for enterprise support. The main business entities to be addressed include SMEs, micro-enterprises and small-scale manufacturing.

IV. Trade facilitation: This chapter will look at customs, sanitary and phyto-sanitary measures and standards, storage, wharfage as well as any other pertinent behind-the-border issues.

V. Trade policy: This chapter will focus on tariffs and trade taxes, non-tariff issues, strategy for regional and multilateral trade agreements, the institutional framework for trade policy and other trade-related issues.

VI. Sustainable forestry and logging: The focus here will be on managing the decline in logging of natural forests as well as possible future sources of income from forestry plantations. Land ownership will be discussed, in combination with chapter II. Issues surrounding value-addition will be emphasised.

VII. Agriculture, agro-processing and livestock: The main industries to be discussed here will be palm oil, copra and cocoa. Other smaller and potential agricultural activities, such as fruit and vegetables, vanilla and spices will also be considered. Value-adding and linkages with other sectors will form an important part of the analysis.

VIII. Fisheries, aquaculture and fish products: The main focus of the fisheries section will be on the tuna industry, although constraints and opportunities in artisanal coastal fisheries will also be analysed. The challenges, constraints and opportunities for

aquaculture will be considered. As with other sectoral chapters, value-adding and linkages are important.

IX. Tourism and Crafts: This chapter will focus partly on determining the relative importance of tourism numbers and yield, which makes linkages to other areas of economy a central part of the analysis. The challenges and opportunities for different types of tourism – such as eco-tourism, resorts and bungalows – will be addressed. Tourism in the Solomon Islands will also be discussed relative to competitor destinations.

This chapter will also analyse sustainable potential of crafts sector in Solomon Islands adjunct to Tourism or as an export industry in its own rights.

X. Institutional framework for Action Matrix implementation: This shorter chapter will develop a suitable institutional set-up for achieving the recommendations laid out in the DTIS.

4. Team leader

The team leader will be Dr. Daniel Gay, team leader of the Vanuatu Diagnostic Trade Integration Study, and between 2002 and 2004 Overseas Development Institute (ODI) trade economist in the Vanuatu Department of Trade, Industry and Investment. Dr. Gay can be contacted on danielrgay@yahoo.co.uk.

5. Focal point and national coordination

The Ministry of Foreign Affairs and External Trade has appointed Mr Heinz Vaekesa, Director of Trade, as the national IF focal point. The national IF focal point can be contacted as follows:

Ministry of Foreign Affairs and External Trade
P.O. Box G10
Honiara
Solomon Islands

Telephone (+677) 24898
Fax (+677) 20351
Email: Hvaekesa@dfa.gov.sb

The IF focal point will be assisted by the current ODI trade analyst, Dan Hetherington. He can be contacted as follows:

Ministry of Foreign Affairs and External Trade
P.O. Box G10
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Solomon Islands

Telephone (+677) 21250/21251/21252
Fax (+677) 20351

Email: dhetherington@dfa.gov.sb

National coordination will be carried out through the National Implementation Unit, which is made up of core economic ministries, the private sector and civil society. The NIU coordinator is Stephenson Talogwari: stalogwari@dfa.gov.sb.

6. Donor facilitator

The European Commission has agreed to act as donor facilitator. The donor facilitator can be contacted as follows:

Dr. Abdoul Aziz Mbaye
Chargé d'Affaires
Delegation of the European Commission in Solomon Islands
Level 2, City Centre Building,
Mendana Avenue,
Honiara,
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Tel. (+677) 24820

Fax (+677) 23318

Email: Abdoul-Aziz.Mbaye@eu.europe.int

7. Funding

The Solomon Islands IF process is getting underway as the 'old' IF is being phased out and the 'new' Enhanced IF is about to be launched. Funding available for the Solomon Islands is as follows:

- USD 300,000 from Window 1 of the 'old' IF Trust Fund (IFTF) for the DTIS, managed by the UNDP as the Lead DTIS Agency for the Solomon Islands..
- USD 38,000 from Window 1 of the 'old' IFTF for immediate capacity-building needs of the IF national focal point, delivery underway and managed by the UNDP as the 'old' IFTF Manager.
- USD 300,000 a year over five years under the 'new' Enhanced IF for strengthening the capacity of the Solomon Islands to manage the IF for maximum benefit and 2 x USD 100,000 for the DTIS up-dates within the five years period. This, in total amounts to USD 1.7 million with USD 1.5 million for capacity building and 200,000 for the DTIS updates. The EIFTF Manager, UNOPS, will make these funds available to the Solomon Islands from the beginning of the EIF operations in June/July 2008. The UNDP as the Lead DTIS Agency for the country and the IF Secretariat at the WTO will work in close collaboration with the Government of the Solomon Islands to come up with a five-year Tier 1 project addressing the country's (Government and Private Sector) immediate capacity-building needs.

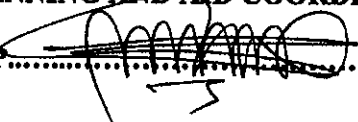
- At a minimum approximately some USD 4 million from Tier II of the EIFTF for implementing agreed priorities from the DTIS action matrix. The EIFTF Manager, UNOPS, will make these funds available to the Solomon Islands after the validation and Cabinet endorsement of the DTIS and against Tier 2 project proposals to be appraised and approved in the country and by the EIF Board in Geneva. Support in project development will be made available to the country.
- Development Partners in-country are proposed to support the implementation of the action matrix by providing funding and technical assistance. The Donor Facilitator will have a significant role to play in coordinating the delivery of this assistance with the Government.

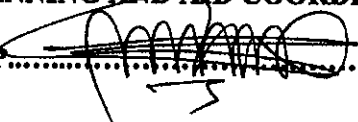
8. Timeframe

- Following the formal launch of the IF during the preliminary mission from 5-9 May 2008, work on the DTIS began immediately.
- A concept note will be drafted by 27 June 2008.
- The main mission will take place during July and August 2008.
- A draft of the DTIS will be ready for review by IF partners and the government by 20 October 2008.
- The validation workshop, which will approve the proposals of the DTIS action matrix, will take place by 3 November 2008.
- The DTIS will be finalised by 21 November 2008.
- Following validation of the DTIS an implementation meeting will prioritise the recommendations and incorporate these recommendations into the MTDS and to allow development partners to make funding commitments.

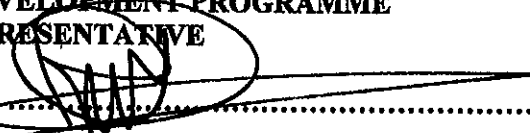
Signed on behalf of:

**GOVERNMENT OF THE SOLOMON ISLANDS
MINISTER OF DEVELOPMENT PLANNING AND AID COORDINATION**

Name: Honourable Steven Abana MP 

Date: ... 4th June 2008 

**UNITED NATIONS DEVELOPMENT PROGRAMME
UNDP RESIDENT REPRESENTATIVE**

Name: Richard Dictus 

Date: ... 5th June 2008 