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Finance for the Poor



INCLUSIVE DIGITAL ECONOMY SCORECARD REPORT SOLOMON ISLANDS 2020

MARCH 2021



THE UNITED NATIONS CAPITAL DEVELOPMENT FUND

The United Nations Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 46 least developed countries. With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments – through fiscal decentralization, innovative municipal finance and structured project finance – can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

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INTRODUCTION

TO THE INCLUSIVE DIGITAL ECONOMY SCORECARD IN SOLOMON ISLANDS

The inclusive digital economy scorecard (IDES) is a policy tool to help governments set the priorities for their countries' digital transformation. It identifies the key market constraints hindering the development of an inclusive digital economy and helps to set the right priorities with public and private stakeholders, to foster a digital economy that leaves no one behind.

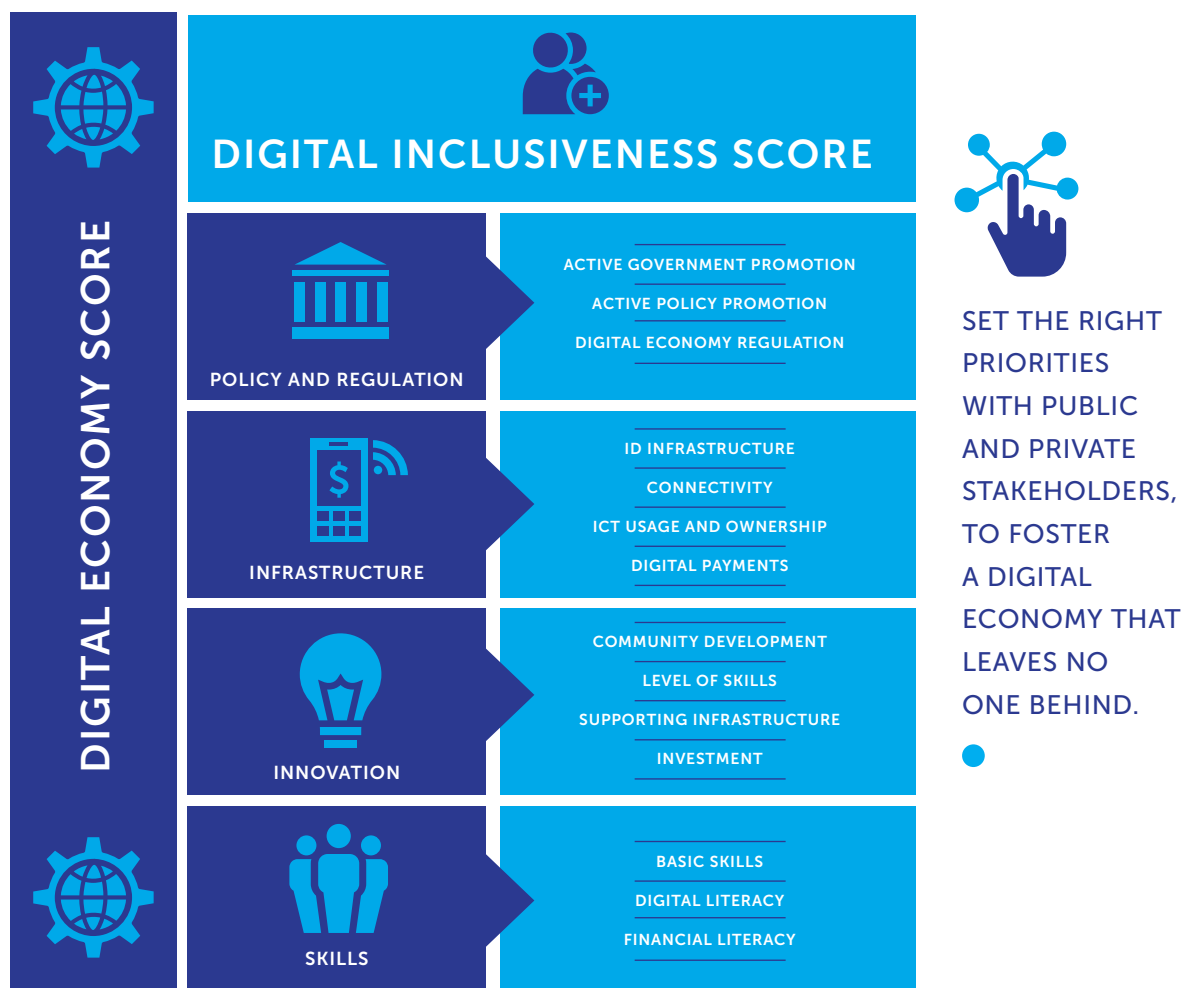


Figure 1. Foundations of the inclusive digital economy scorecard



**SOLOMON
ISLANDS WAS ONE
OF THE PILOT
COUNTRIES FOR
THE IDES IN 2020
– TOGETHER
WITH BURKINA
FASO, NEPAL
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The IDES provides an overall score for the development of a digital economy based on various indicators for its main components (policy and regulation, infrastructure, innovation, and skills). It also provides a score for the inclusiveness of the digital economy for marginalized segments (rural population, women, youth, micro-, small and medium-sized enterprises – MSMEs – refugees, older people, people with disabilities). The inclusiveness of the digital economy is measured primarily through the qualitative assessment of the efforts made by the public and private sectors to include specific segments in the expansion of the digital economy.

Solomon Islands was one of the pilot countries for the IDES in 2020 – together with Burkina Faso, Nepal and Uganda. The Solomon Islands Government, and particularly the Ministry of Communication and Aviation (MCA) with the Central Bank of Solomon Islands (CBSI), was instrumental in implementing the tool and finalizing the 2020 version in partnership with UNCDF. From June to December 2020, the MCA and the CBSI worked together with the UNCDF team in Solomon Islands and globally to collect the data for the IDES, and the data validation was jointly finalized in January 2021.

This report gives an overview of the development of the digital economy of Solomon Islands at the end of 2020, and its level of inclusiveness.

DEVELOPMENT

OF THE DIGITAL ECONOMY IN SOLOMON ISLANDS AND ITS INCLUSIVENESS AT THE END OF 2020

At the end of 2020, the digital economy score for Solomon Islands stood at 39 percent, indicating that it is firmly in the start-up stage. The country, while connected to the Internet backbone via undersea fibre-optic cable in December 2019, faces challenges to delivering the benefits of this potentially transformational infrastructure.

Accelerated improvements must be made in developing an enabling regulatory environment, supporting the private sector to expand mass-market digital services, and further improving the telecoms and financial infrastructure to build the necessary foundations for the innovation sector to grow.

The digital inclusiveness score for the country is at 50 percent, indicating that there is much room for the public and private sectors to include marginalized segments (rural population, women, youth, MSMEs, refugees, older people, people with disabilities) in the development of the digital economy. A national focus on the financial inclusion of women has contributed to a higher gender inclusiveness score of 78 percent.

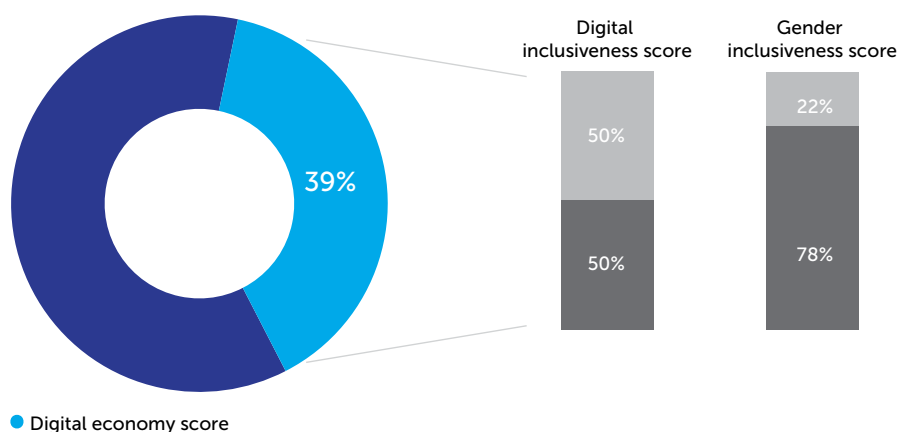


Figure 2. IDES score for Solomon Islands, 2020

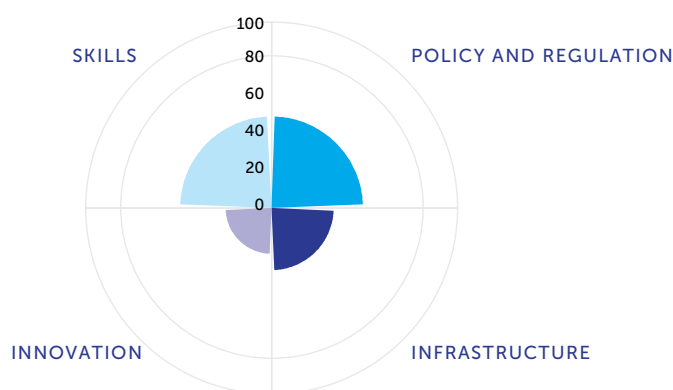


Figure 3. The digital economy score for Solomon Islands, 2020

While the country is strongly engaged and investing in the development of its digital economy, an emphasis is needed towards all marginalized segments – to make sure that the digital divide is lessened as the digital economy expands.



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The country continues to build the foundational digital rails (policy and regulation, infrastructure, skills) for citizens to access and use basic digital services, mainly in the telecommunications and finance sectors. The score of 49 percent on policy and regulation shows that the government has the consistent intent to spur the development of a digital economy, but policy and regulatory gaps persist. The score of 33 percent on infrastructure reflects significant additional investments being needed for the country to be able to offer mass-market digital and financial services, especially in the context of reaching the rural underserved. The low score of 25 percent for innovation reflects the limited development of the innovation ecosystem, with hardly any incubators or start-ups launching digital services, combined with the low level of development of payment services and the lack of open systems to allow digital innovation to grow rapidly. The case of the implementation of National Provident Fund Board's youSave LoMobile account is nonetheless a testament to the potential in the country of collaborative partnerships to overcome barriers in delivery. The Solomon Islands scores 49 percent on the skills component, although the mix of digital skills still needs to be improved. Overall, these scores expose some constraints that the government can focus on to ensure citizens have the proper skills, access to infrastructure and appropriate policy to promote everyone's inclusion in the digital age.

INCLUSIVENESS OF SOLOMON ISLANDS' DIGITAL ECONOMY DEVELOPMENT

The digital inclusiveness score is 50 percent and the gender inclusiveness score is 78 percent, meaning that half of the key population segments and 22 percent of women cannot participate in the digital economy.

If the inclusiveness barriers in the four dimensions of the IDES are not addressed by public and private sectors, these people will remain at risk of being excluded from the development of the digital economy in Solomon Islands.

In response to the digital inclusiveness scores for women (78 percent), youth (47 percent), rural population (44 percent) and MSMEs (40 percent), the government and the private sector should develop strategies and action plans to focus on these important segments. Despite representing a lower percentage of the population, older people and people with disabilities must not be excluded from access to digital technologies and the benefits of the digital transformation.



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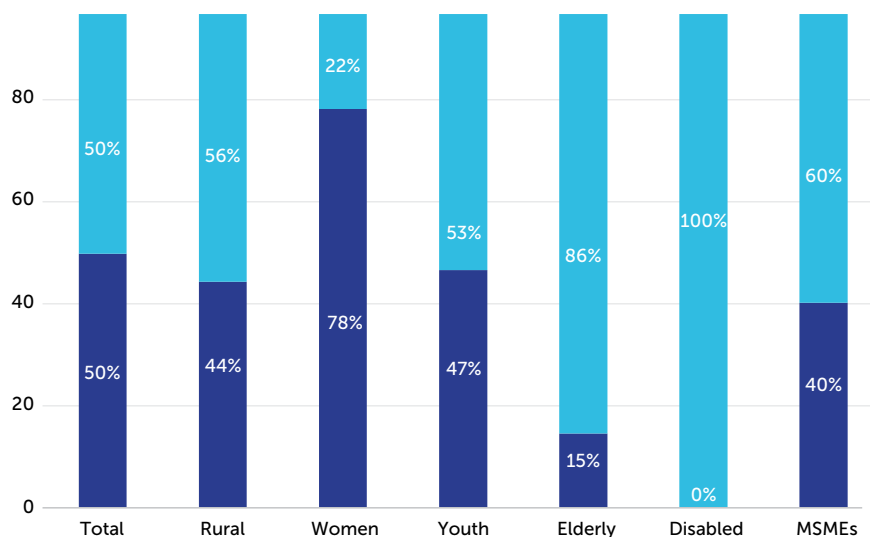


Figure 4. Digital inclusiveness by segment in Solomon Islands, 2020

KEY COMPONENTS AND SUB-COMPONENTS OF SOLOMON ISLANDS' DIGITAL ECONOMY

POLICY AND REGULATION

The score of 49 percent for policy and regulation indicates that the regulatory framework in Solomon Islands offers a foundation for establishing an enabling environment for the development of the digital economy.

Under the initiative of the MCA, several government agencies and public administrations (Office of the Prime Minister, Ministry of Finance and Treasury, CBSI, Telecommunications Commission) are supporting the development of the digital economy, yet policy promotion is lacking. In this context, the upcoming first National Digital Economy Strategy (NDES1) for Solomon Islands will set out a multi-year framework for the development of an inclusive and sustainable digital economy by 2025. There is room within NDES1 for other government agencies to actively promote and support diverse sectors (agriculture, energy, education, health, etc.) to embrace and leverage digital technology for increased economic development.

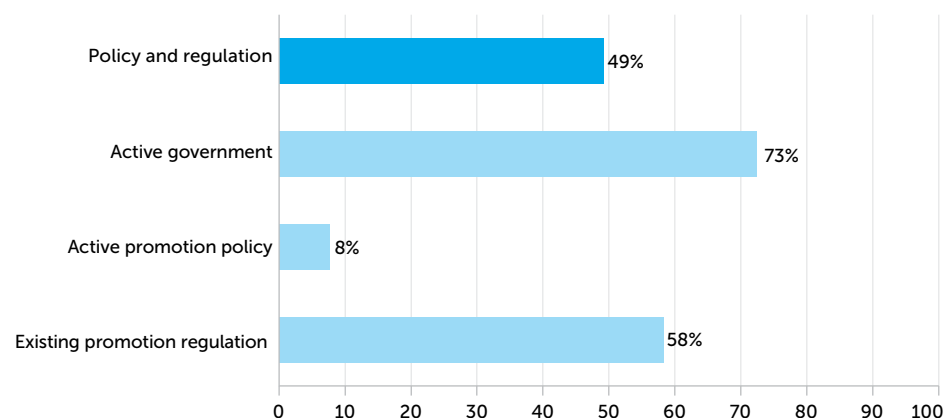


Figure 5. Breakdown of the policy and regulation score, 2020

A priority for the government should be the development of a wider public–private dialogue on the digital economy to make sure the current policies and regulations have the expected impact in the market. The findings from these dialogues would help the government to learn more about the impact of policy actions and regulatory interventions to continually improve current frameworks and develop new regulations that respond to the dynamic development of the digital sector. This dialogue should focus on specific policies to reduce the digital divide in the country. Recommendations for these policies include the following:

- Swiftly promulgate the pending National Payment Systems bill and supporting regulations regarding cybersecurity and cybercrime, consumer protection, e-money and agent banking.
- Develop additional policies and strategies to support gender-based financial inclusion and online child protection.
- Align the responsibilities for the National ICT Policy (2017) under the MCA as the nodal ministry, working with direct oversight of the ICT Support Unit.
- Promote a forum for collaboration with public and private stakeholders to further assess regulatory constraints to the development of an inclusive digital ecosystem, and gauge the need to adapt the regulatory framework accordingly, to deliver better results and policy outcomes that improve inclusion for marginalized segments.
- Strengthen the institutional capacities of the MCA, with the establishment of an effective coordination mechanism to monitor the implementation of NDES1.
- As part of the implementation of NDES1, encourage ministries to launch action plans and set strategic objectives for the digital transformation of key sectors of the economy (agriculture, energy, education, health, etc.). Alternatively, the identified ministries could integrate digital transformation into their general sectoral strategy.
- Assess, design, develop and implement the requisite digital skills training programmes for civil servants with the commensurate investment needed to support the digital transformation of government services.
- Foster innovation in governance and leverage digital technologies to improve public service delivery – especially in rural areas.



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INFRASTRUCTURE

Developing the required infrastructure for digital payments and digital ID as well as improving network coverage and information and communications technology (ICT) ownership must be a focus in Solomon Islands at the current stage of its development.

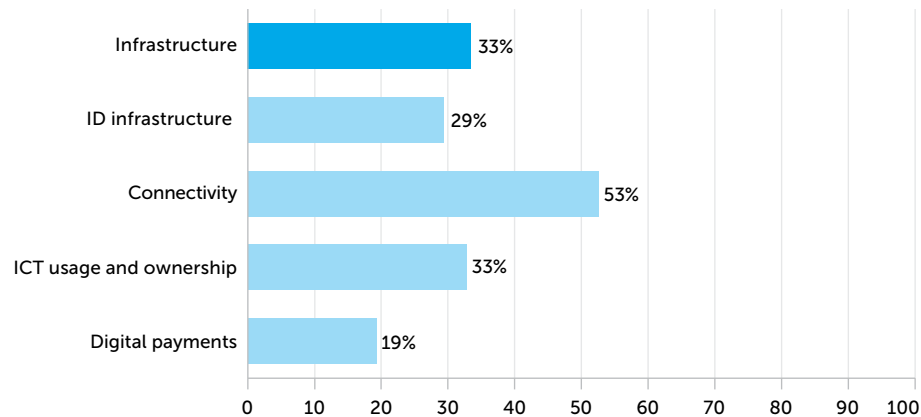


Figure 6. Breakdown of the infrastructure score, 2020



THE LANDING
OF THE CORAL
SEA CABLE
PRESENTS NEW
OPPORTUNITIES.



The landing of the Coral Sea Cable presents new opportunities and – when coupled with an expansion of the network coverage, a national payments switch, digital ID and affordable mobile devices – will enable more citizens to access a wider range of digital services. It will also expand government, agricultural, trade and health services.

The low score of 33 percent on ICT usage and ownership is depressed, however, due to the scant usage of Internet in the country (20 percent) and low ownership of smartphones (33 percent). Similarly, the low score of 19 percent on digital payments results from the low penetration and usage of digital payments in the population. Nevertheless, the nascent nature of digital payments in the country makes these indicators significant ones to watch for improvement over the coming years.

While Solomon Islands continues to focus on network coverage, ICT ownership and increased usage of digital payments, the country could focus on the following fundamental infrastructural priorities:

- The National Payment Systems bill is pending approval by the parliament and will herald the way for the setting up of the payments infrastructure of the automated clearing house, real-time gross settlement and a national payment switch.
- Having an inclusive digital ID must be a priority to enable the scaling up of the digital economy. The government and private sector should develop an implementation strategy that ensures that all citizens have equal access.
- Upgrading existing 2G infrastructure to 4G, and further expanding the network to cover excluded areas, must be prioritized.
- Deployment of at least one national mobile money initiative, with commensurate agent network support, is needed to further embed digital payments.
- The government and private sector should provide incentives to increase the access to and usage of smartphones and the Internet, particularly for marginalized segments of the population (including women, rural households and MSME entrepreneurs).

INNOVATION

The innovation component gave the lowest score in the IDES for Solomon Islands, at 25 percent.

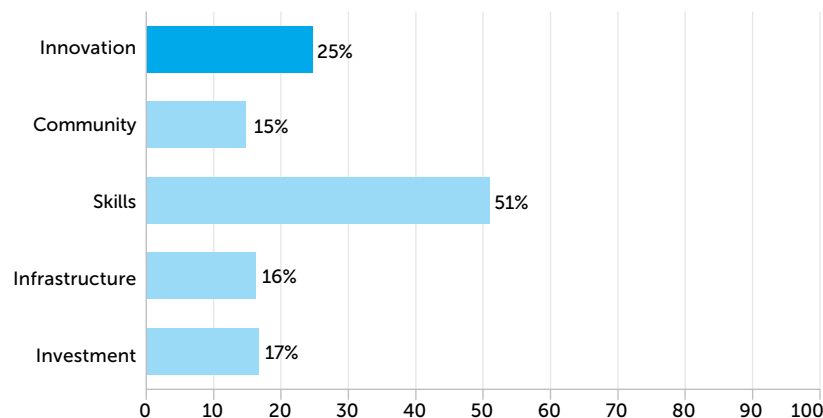


Figure 7. Breakdown of the innovation score, 2020

The innovation ecosystem in Solomon Islands is at a nascent stage, with limited development and synergies in the innovation community (15 percent), a medium level of skills available in the innovation community (51 percent), and a low score on supporting infrastructure (16 percent), compounded by a low availability of financing at all stages



THE ECOSYSTEM
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of the entrepreneur journey (17 percent). Furthermore, the innovation ecosystem cannot yet rely on a strong and open digital infrastructure to develop mass-market digital products and services.

Innovation hubs and/or co-working spaces are practically non-existent in Solomon Islands. The lack of a digital payments infrastructure and supporting regulations has discouraged the emergence of e-commerce and the entry of information technology entrepreneurs into the fintech space.

The ecosystem could benefit from a collaborative and integrated approach to bringing together various stakeholders, particularly investors, mentors and entrepreneurs.

- In this context, there is a need to create exposure to models of financing and investment that can work and will contribute to building locally designed technology solutions for the benefit of marginalized populations. Other recommendations for the government include the following:

- Take the lessons learned from the development and implementation of youSave LoMobile to bring digital savings solutions to the public through public–private partnership and collaboration.
- Support more co-working and incubation initiatives like lumiWaka and Young Entrepreneurs Council Solomon Islands (YEC SI), which could be analysed by stakeholders to envisage the best ways to strengthen the ecosystem.
- The CBSI’s development of a regulatory sandbox and commensurate operating procedures with a supportive management structure could be a catalyst for some areas of innovation.
- Consider policies to facilitate and incentivize the development and growth of innovation in the country, from both fiscal and business perspectives, building on the COVID19-related challenges led by the MCA.
- A preliminary mapping of the information technology, fintech and start-up ecosystem will provide a starting point for further growth and potential interventions by development partners.

SKILLS

The score of 49 percent under the skills component for Solomon Islands indicates that the potential skill set does exist and could be developed further.

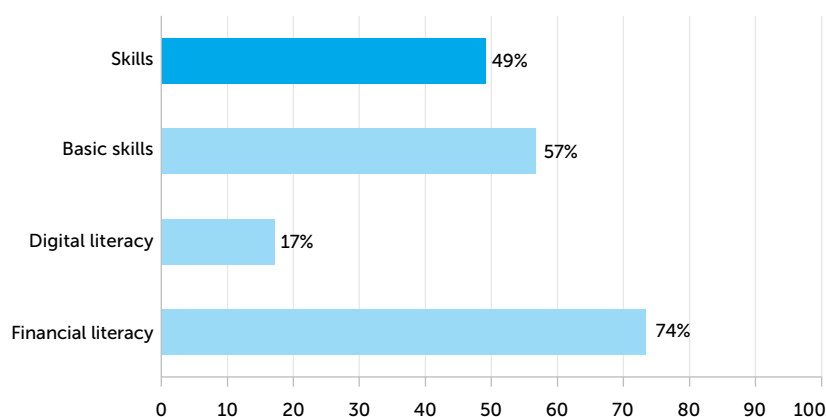


Figure 8. Breakdown of the skills score, 2020

Although the scores for basic skills (57 percent) and financial literacy (74 percent) are relatively high, the overall skills score is brought down by the lack of digital literacy, with a score at just 17 percent.

Support for financial literacy has shown a positive result and yet may be overstating its effect on the rural population, and on women in particular, in preparing them to enter the digital economy.

To amplify the impact and to ensure that the appropriate skills lead to improved financial behaviour, a more systematic approach to digital literacy is needed. Monitoring of the skills development is also needed, along with the following recommendations:

- While the government should continue to increase basic skills and financial literacy, a key priority is to develop strategies and plans to increase the development of digital skills throughout the population.
- Linkages to rural technical colleges via the private sector, and by leveraging digital channels, should become commonplace.
- The Ministry of Education, working within schools, can build on the apparent strengths to further develop financial education beyond basic literacy, developing the wider range of ICT and digital skills that will drive the digital economy.



**A MORE
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CONCLUSIONS

The focus for a country at the start-up stage of development of its digital economy should remain on building the digital rails (policy and regulation, infrastructure, and skills) while supporting the foundation of a nascent innovation ecosystem.

In the case of Solomon Islands, a specific focus on infrastructure development and on fostering innovative growth and entrepreneurship in the digital era is also important.

With a 50 percent digital inclusiveness score, there is a pressing need for the country to mainstream marginalized segments (including people in rural areas, women, youth and MSMEs) in the development of their economy, to ensure that the digital divide is not increased. The following are additional recommendations for Solomon Islands:

- Prioritize the setting up of a digital ID to support all aspects of citizen participation in the digital economy.
- To help promote the scaling up of digital payments, the government should actively engage with the use of ID services for government-to-person (G2P) and person-to-government (P2G) payments as high-volume drivers.
- Establish a high-level strategic National Digital Economy Task Force for the implementation of NDES1. Leverage the IDES findings and establish the task force under the leadership of the MCA, and include CBSI, Telecommunications Commission of Solomon Islands, Ministry of Finance and Treasury, Ministry of Commerce Industry Labour and Immigration, Ministry of Foreign Affairs and External Trade, and the Prime Minister's Office.
- Strengthen the capacities of the members and key actors of the National Digital Economy Task Force on the concept, tools and importance of the IDES, and make sure the issue of inclusion is put at the centre of the group's discussion.
- Agree on clear priorities and objectives to implement policy recommendations for the country and measure progress yearly through the IDES and other tools.
- Work with the MCA and the Bureau of Statistics to embed the use of the IDES in yearly planning and to include data collection at the country level.
- Through a whole-of-government approach, develop frameworks to enable the collection of, access to and use of gender-disaggregated data.
- Advocate the formulation of projects and programmes that address challenges and have strong impacts on accelerating the digital inclusion of marginalized populations.



LEAVING NO ONE BEHIND IN THE DIGITAL ERA

The UNCDF strategy of leaving no one behind in the digital era is based on over a decade of experience in digital finance in Africa, Asia and the Pacific. UNCDF recognizes that reaching the full potential of digital financial inclusion in support of the Sustainable Development Goals (SDGs) aligns with the vision of promoting digital economies that leave no one behind. The vision of UNCDF is to empower millions of people by 2024 to use services daily that leverage innovation and technology and contribute to the SDGs. UNCDF will apply a market development approach and continually seek to address underlying market dysfunctions.



 www.ides.uncdf.org

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