



SOLOMON ISLANDS BUSINESS GUIDE

SPECIAL FEATURE



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Sunny skies, calm seas and A POSITIVE ECONOMIC OUTLOOK

The Solomon Islands, 1400 kilometres east of Papua New Guinea, is a country that is making big economic advances. Although it faces many of the familiar challenges confronting developing Pacific economies, such as a narrow industry base, the country has been making some positive gains.

According to the United Nations' Human Development Index, between 2000 and 2015 the Solomon Islands' rating increased from 0.442 to 0.515 – an improvement of 16.5 per cent.

The UN estimates that between 1990 and 2015, Solomon Islands' life expectancy at birth increased

by 11.4 years, mean years of schooling increased by 0.7 years and expected years of schooling increased by 3.6 years.

Over the same period, Solomon Islands' gross national income per head (GNI per capita) increased by 14.8 per cent.

The bulk of the population depends on agriculture, fishing and forestry for at least part of its livelihood. Most manufactured goods and petroleum products must be imported. The islands are rich in undeveloped mineral resources such as lead, zinc, nickel and gold. Some calculations put the country's GDP at \$US1.317 billion in 2017.

The Asian Development Bank's *Asian Development Outlook 2018* notes that cash crops, fishing revenue and construction remained strong in 2017, but economic growth slowed because of a decline in logging exports.

"Inflation decelerated on lower food prices, and the current account deficit almost halved. Slower growth is expected in 2018 and 2019 as new construction only partly offset a likely further decline in logging output. Progress is being made in implementing a much-needed national transport plan, but challenges remain."

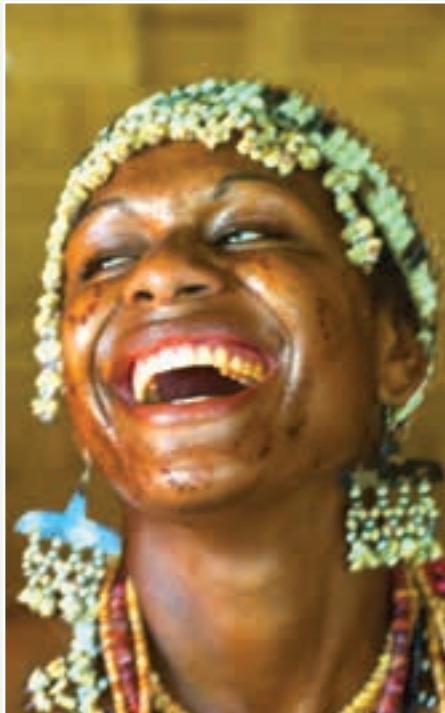
Jay Bartlett, chairman of the Solomon Islands Chamber of

Commerce and Industry, says progress on broadening the country's agricultural base has been relatively slow in the short term. "There is a little bit of small niche products getting exported at the moment but nothing very substantial."

In the medium term, however, there are plans for expansion of the palm oil industry.

A subsidiary of New Britain Palm Oil, GPPOL, is, says Bartlett, looking at an expansion program in the Guadalcanal, in the east of the country.

"GPPOL is looking at more plantations; that is in the pipeline. There just needs to be some key



David James reports that economic advances are being made in the Solomon Islands, providing plenty to smile about.

infrastructure built: two bridges to open up access."

Bartlett says there are some cassava exports but it is still on a "quite small scale". Virgin coconut oil production has been growing slowly, but could potentially be affected by spread of the coconut rhino beetle.

"That is a huge threat to the livelihoods of our rural population that depends on the coconut industry. It is also having a negative impact on the palm oil industry, as well. It is spreading around the Solomons at the moment and being found in a number of different provinces.

"A task force has been established. The Chamber of Commerce is working with the Government and the Ministry of Agriculture. The private sector is taking the lead to find a solution. It needs to be a biological solution ... a virus that will kill it."

Bartlett says the government is embarking on a three-year review into tax reform "to ensure that its administration is efficient and simpler". He describes it as a very positive step.

"We in the private sector, the Chamber of Commerce, we are part of the committee so we are trying to ensure that the government understands ►

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the business point of view and how we would like to see the reform happen.

"It will broaden the base, make tax easier to pay and broaden the net. There is a large informal sector that at the moment isn't contributing to government revenue so hopefully we can look at getting more businesses into the formal sector with a simplified tax system. That is something we can promote."

Bartlett says the members of the chamber are businesses that "contribute and comply". He says it is hard to say what the level of compliance is across the whole economy. "We believe there is a lot of room for improvement."

Two positive developments for the Solomon Islands are the Tina River Hydropower Development Project and the Solomons Undersea Cable Project (which will be mainly funded by the Australian Government). The ADB estimates that these will start contributing to economic growth in 2019.

Bartlett says the laying of domestic cables is expected to begin in May 2019. The main international cable will go into Honiara and there will be three additional domestic connections. He says it will "definitely" lead to more efficiency in business, lower costs and increased speeds.

Bartlett says after that immediate impact, experience suggests that consumption will double every year for the first five years. "It creates other avenues where we can use technology a lot more to deliver services and infrastructure; connectivity is always a challenge and logistics costs are always very expensive. I think innovation is a big area that can grow from this."

The Solomon Islands is mostly Melanesian, and has strong cultural connections with PNG.

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"I think people that invest and run business in Papua New Guinea and Melanesia probably see the Solomons as a good opportunity as well," says Bartlett.

A trade delegation from the Solomons to PNG is being planned. "It will be a partnership between the private sector and government just to gauge what sort of interest we can get in PNG and also for us to go on a bit of a learning mission as well.

"There is a lot of innovation that is happening in Papua New Guinea with agriculture. So maybe there are some



Jay Bartlett ...
chairman of the
Solomon Islands
Chamber of
Commerce and
Industry.

Monetary Fund (IMF) the Australia-led Regional Assistance Mission to Solomon Islands (RAMSI) withdrew this year after 14 years, "having succeeded, together with the authorities, in restoring law and order and re-establishing public institutions".

RAMSI was established in 2003 to deal with ethnic violence, the closure of key businesses, and government fiscal stresses.

Bartlett says the relationships remain. "It has just changed from the mission to a bilateral relationship so we still have

The bulk of the population depends on agriculture, fishing and forestry for at least part of its livelihood.

lessons we can learn and bring back. We are still in dialogue with the Port Moresby Chamber, the Trade Commissioner and the High Commissioner in PNG but we would like to do it this year, working towards September."

The Solomon Islands is recovering from some serious civil conflict. According to the International

a lot of support from the Australian government. One of the things we are doing as a chamber is working with law enforcement and police to build trust and confidence in business, and to encourage more investment.

"The Solomons is a safe country. But we do have a lot of (negative) elements like unemployment,

which is very high. We have also got a very young population.

We are talking seven out of 10 under 30 – so similar demographics as PNG.

"With a lack of economic opportunity for young people and a lot of unemployment, in the future security could be a concern. So we are just looking at ways we can address this holistically. Not just focus on how we can stop it, but also why these issues are there."

Land ownership is another issue, says Bartlett.

"Accessibility to land is always challenging. Similar to Papua New Guinea, most of the land is customary owned." Bartlett estimates 85 per cent of the land is customary land and only 15 per cent is registered land.

"With the majority of our land we need to get some ownership structures in place so we can move on development and get infrastructure in place. There are different models in the Pacific.

"Some of them are quite successful, like in Fiji – they have the Native Land Trust Board that manages this. But it is a long-term process. Land reform is about people, not land. We have to go through some sort of identification process to really understand who is there and what people own. It is not something that is going to happen quickly. It will take some time and it needs a lot of political will to drive it."

Bartlett adds that the Solomons chamber represents "a quite diverse group of businesses".

He says the big-ticket items are infrastructure, the cost of business, utilities, roads and general business efficiency.

He says the cost of internet is also prohibitive, but he expects that to fall with the laying of the overseas cable. ■



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The Solomons strengthens its finances

The good life ... tourism in the Solomon Islands is on the increase.

According to the Asian Development Bank (ADB), economic growth in the Solomon Islands slowed to 3.2 per cent in 2017, down from 3.4 per cent in 2016.

Log output decreased by almost 2 per cent in 2017 to 2.65 million cubic metres from a high of 2.69 million cubic metres in 2016. But output in copra rose by 35 per cent and fish by 15 per cent. Mining and tourism have also expanded significantly, albeit from low bases.

The current account deficit almost halved in 2017 from the equivalent of 4.9 per cent of GDP in 2016 to 2.5 per cent, reflecting "low international food prices, strong exports, and continued inflows of grants from development partners".

Output in copra rose by 35 per cent and fish by 15 per cent. Mining and tourism also expanded significantly.

Merchandise exports grew by an estimated 12.0 per cent in 2017, up from a 0.6 rise in 2016.

The Solomon Islands in 2017 recorded a budget deficit estimated to be equal to 4 per cent of GDP. This is likely to improve in 2018.

According to Donald Kiriau, treasurer of the Economics Association of Solomon Islands, the government is moving from adopting expansionary budgets towards balanced budgets. He said

that in the 2018 Budget, revenues were 12.8 per cent higher than in the draft budget, and domestic revenues were up 12.3 per cent "due to new measures by the IRD (internal revenue department)." Expenditures were revised up 4 per cent from the draft budget.

The positive of this fiscal consolidation, according to Kiriau, is that it instigates a "cycle towards fiscal consolidation and a balanced budget." The downsides are that a

tighter budget will reduce capital expenditure and impede long-term growth and productivity.

The rise in taxes would also increase the burden on businesses and there is less likely to be support for key growth businesses.

According to Andrew Harris, a partner at Deloitte PNG, changes to withholding taxes and petroleum tariffs have been "effective". About a third of the government revenue comes from goods tax and a quarter from personal income tax. He says the Solomon Islands has the highest level of tax collection amongst Pacific countries. It is 33 per cent of GDP, which is about double the level in Papua New Guinea. ■

— DAVID JAMES



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Q&A DEREK AIHARI

The director of InvestSolomons says the country is open for business and looking to develop its already close links to PNG.

Q: What are the main sectors you are promoting to the international business community?

A: The growth is in the services sector. One of the ideas is to promote the tourism sector, as well as the mining and minerals sectors. We have a number of reforms going on. The government has a plan to develop a special economic zone, where we can offer incentives. We have a tuna cannery and we are currently looking at one more in Malaita Province, the biggest province in the Solomons. Work is underway.

Soon, we'll be looking at investors to come and develop that place.

Q: What is the regulatory framework like? How easy is it for foreign companies to set up?

A: We have undergone some reforms. In November 2016 we improved the system of registration. We now have an online registry system. It will make it easier for foreigners to register, as well as locals, and incorporate a company or list a business name.

Q: What are the main PNG companies doing business in the Solomons?

A: PNG is ranked third in terms of foreign direct investment for the Solomon Islands. One of the investments is Guadalcanal Plains Palm Oil, which is originally from Papua New Guinea (New Britain Palm Oil). In the services sector, we have Bank South Pacific (BSP) with us – they took over the role of Westpac. Also Credit Corporation, another financial institution.

In the tourism sector, we have one of the biggest hotels in Honiara: the Heritage Park.

We also have a number of PNG investments in retail. ■



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Travellers' tips

VISAS

Free visas valid for 90 days are issued on arrival for most nationalities, including Commonwealth, US and European visitors. To ensure the visa is issued, visitors should have return or onward tickets.

INTERNATIONAL/ DOMESTIC FLIGHTS

International flights land at Honiara's Henderson Airport. Air Niugini flies from Port Moresby to Honiara five times weekly.

See airniugini.com.pg. Solomon Airlines flies throughout the country. The domestic terminal is two kilometres from Henderson. A shuttle bus connects the airports and costs \$SBD35 each way.

See sightseesolomons.com.

CURRENCY

One Solomon Islands dollar (SBD) is worth around 0.42 kina and 0.13 USD. There are ATMs in the international airport and in Honiara's small CBD.

GETTING AROUND HONIARA

Central Honiara is 12 kilometres from the international airport. A taxi from the airport to the CBD costs around \$SBD200. Major hotels can organise transfers. The country's official tourism site is a good place for travel information.

See visitsolomons.com.sb.

CAR HIRE

Avis and Economy Car Rentals have a good variety of vehicles in Honiara. **See avis.com.sb and economycarrentals.com.sb.** Car hire and drivers can also be booked via travel agencies such as Guadalcanal Travel Services. **See solomontravel.info.**

BUSINESS ETIQUETTE

Meetings can seem informal – jackets and ties aren't necessary, though a degree of flexibility is. 'Island time' can mean some people don't show for appointments or, conversely, meetings can be arranged at short notice.

BUSINESS HOURS

Banking hours are 8.30am or 9am to 3pm, Monday to Friday. Commercial hours tend to be from 7.30am to midday and 1pm to 4pm, Monday to Friday, and also Saturday mornings. Government offices open from 8am to midday and from 1pm to 4.30pm, Monday to Friday.

SAFETY

Throughout the Solomon Islands it is safe to walk around during the day; however, as for anywhere in the world, caution should be a priority at night.

HEALTH

It is advisable to take anti-malarial tablets, even if just visiting Honiara. Consult your doctor before departure about malaria but also tetanus and vaccination for hepatitis A and B. A typhoid booster is also recommended.

HONIARA ACCOMMODATION

The Heritage Park Hotel is popular with business travellers and has a swimming pool and conference rooms. **See heritageparkhotel.com.sb.** The five-star Coral Sea Resort & Casino opened last year. **See coral-sea-resort.com.**

The Solomon Kitano Mendana Hotel, next door to the Solomon Island Visitor Bureau office, has a business centre and conference rooms. **See kitanomendana.com.**

HONIARA RESTAURANTS

The Heritage Park Hotel and the Coral Sea Resort have upmarket restaurants. At the Heritage, guests dine in part of the governor general's former residence. Haydn's Steakhouse, at the Coral Sea Resort, has modern Australian and European cuisine. There is also a restaurant, The Boardwalk, featuring South-East Asian street food at Coral Sea. There are several options away from the hotels. Sea King is the best known of the crop of Chinese restaurants.



Taj Mahal (Sri Lankan and Indian), just across the road from the Heritage Park Hotel, has a very good reputation. If you are after great coffee and comfort food, the Breakwater Cafe and Lime Lounge are popular expat hang-outs in the centre of town. The Bamboo Cafe, run by and directly next door to the King Solomon Hotel, is another good option.

CLIMATE

Warm and humid, with coastal day temperatures averaging 28°C. May to November tends to be drier.

TIME ZONE

11 hours ahead of GMT.

ELECTRICITY

240V AC 50Hz, using Australian-style plugs.

ENTERTAINMENT

Away from the larger hotels, many call into the Point Cruz Yacht Club for a beer after work. Visitors can sign in. The Honiara Golf Club, just out of town, is also popular.

MEDIA

The Solomon Islands Broadcasting Commission has a daily online newsfeed. **See sibconline.com.sb.** *The Solomon Star* (solomonstarnews.com) and *The Island Sun* are the local daily newspapers. *The Solomon Times Online* (solomontimes.com) is the other local main news source. ■



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SOLOMONS SNAPSHOT

AREA: 28,900 sq km

POPULATION: 550,000 (2011 est.)

CAPITAL CITY: Honiara (c. 50,000)

OFFICIAL LANGUAGES: Pijin, English

PEOPLE: Melanesian 95%; Polynesian, Micronesian, European and Chinese 5%

GDP: \$US1.317 billion in 2017 (CIA)

INFLATION: 0.5 per cent 2016 (Statista.com)

EXCHANGE RATE: Solomon Islands dollar, equals 0.42 PGK, 0.17 Australian dollars, and 0.12 US dollars.

MAJOR EXPORT MARKETS:

China 62.4%, Italy 7%, UK 4.4% (CIA Fact Book, 2016)

MAJOR IMPORT MARKETS:

China 25.3%, Australia 15.5%, Singapore 9.6%, Malaysia 9.5%, Japan 5.2%, South Korea 5%, NZ 5%, Papua New Guinea 4.4% (CIA Fact Book, 2016)

HEAD OF STATE: Governor General Frank Kabui

HEAD OF GOVERNMENT: Prime Minister Rick Houenipwela

DISTANCE BY AIR: Port Moresby to Honiara, 2 hours and 20 minutes

WORLD BANK EASE OF DOING BUSINESS RANKING: 116 (2018)



USEFUL BUSINESS CONTACTS

Solomon Islands Chamber of Commerce and Industry
See solomonchamber.com.sb.

Invest Solomons (Solomon Islands investment promotion agency)
See commerce.gov.sb.

Solomon Islands Business Registry
See solomonbusinessregistry.gov.sb.

Central Bank of the Solomon Islands
See cbsi.com.sb.

Office of the Prime Minister
See pmc.com.sb. ■

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- Serviced Apartments: Studios to 3 bedroom
- Water's edge • Business district
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- Club Bar • Resort pool
- Restaurant, Coffee Shop, Waterside Bistro.
- Gymnasium • Reliable wifi
- Excellent security • Attentive Service

HERITAGE PARK HOTEL HONIARA

***FREE WiFi**
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- Luxurious waterfront rooms and suites
- Serviced Apartments: Studios to 3 bedroom
- Water's edge • Business district
- Conference facilities - New 250 pax room + smaller

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