

Solomon Islands

GDP: US\$1.922 billion (est. 2012)

£1 = SB\$11.00 - Solomon Island Dollar
(Nov. 2012). Pegged to the \$US.

Growth Rate 2011: Over 10%



Mapping Courtesy of BMT WBM

Strengths of the market

- A large area of land suitable for agricultural use
- Excellent fisheries resources
- Mining potential - exploration and exploitation are increasing
- Potential for Tourism
- Political Democracy
- English is the official language
- Local law is derived from English common law

Solomon Islands economy relies heavily on the logging industry. However, with a few exceptions, the sector is being over-exploited and badly managed and the current levels of export earnings from the sector are not sustainable. The government has recognised the need to diversify into other sectors. These include agriculture, mineral and raw material exploration and exploitation and tourism.

In the agriculture sector, Guadalcanal Plains Palm Oil Limited (GPPOL), a sustainable oil palm plantation, is an example of a successful investment in this sector. GPPOL is listed on the London Stock Exchange under the name of its parent company New Britain Palm Oil Ltd and was purchased from the Commonwealth Development Corporation in 2006.

Located along the same chain of islands as the islands of PNG, it seems probable that Solomon Islands is rich in similar mineral deposits. With its beautiful tropical environment, tourism is another area of opportunity in Solomon Islands, particularly for the development of both eco and niche tourism. The utilities sector has suffered from under investment for many years. Renewable energy,

particularly solar, is becoming increasingly popular in this sector, and a medium scale hydro project is in the advanced stages of a World Bank funded feasibility study. Fish stocks in the seas surrounding Solomon Islands are excellent and are increasingly well managed through the regional fisheries association based in Honiara.

Solomon Islands consists of a chain of some 900 islands divided by ethnicity, culture and geography. The Solomon Islands has six major islands and nine provinces made up of volcanic, mountainous islands with rainforest vegetation and a tropical climate. The capital, Honiara is located on the island of Guadalcanal.

Solomon Islands gained independence from Britain and joined the Commonwealth in 1978 and is a Realm country with HM Queen Elizabeth II as Head of State. National elections will be held in 2014.

From 1998 to 2003 ethnic tensions led to a closure of businesses and an economic contraction of over 30%. In 2003 the intervention of the Regional Assistance Mission to Solomon Islands (RAMSI) restored law and order and has supported stability since. However, following the General Election in August 2006, 4-days of rioting took place and much of China Town in Honiara was burnt to the ground.

Solomon Islands has a population of about 600,000 people and is made up of isolated communities. Population growth rates are about 2.3% per annum.

Solomon Islands government has limited resources and would be investors need to be innovative and take the lead in promoting business links. The appointment of a good local representative, adviser or partner will be essential for dealing with the local bureaucracy.

60% of the population live in localities with less than 200 persons, only 17% in urban areas, Solomon Islands has a per capita income of US\$3,400 (2012)

US Department of State 'Background Note: Solomon Islands', website www.state.gov, 2011

Investment Incentives

- 5 year Tax holidays for Tourist hotels
- 5 year Tax holidays for manufactured or processed foods
- 5 out of 10 years Tax holidays for Agri-business and fishing
- Up to 10 years tax free holidays for certain business
- Up to 10 years exemption from withholding tax on dividends
- Up to 10 years exemption from withholding tax on interest paid to non residents
- Accelerated depreciation of assets: For manufacturing enterprise, 40% in the first year and 5% per annum thereafter. For tourism development projects 50% in the first year and 5% per annum thereafter.
- Double deduction for expenditure on apprenticeships and tertiary education
- 50% expenditure deduction for cost of inter province transport of raw materials
- 150% expenditure deduction for export promotion
- Duty free entry for capital equipments and drawback on re-export items
- Special additional incentives for tourism developments. Hotel and resort establishment including other tourism settings are eligible for the special incentives.
- Free movement of capital and profit remittances

Source: Solomon Islands Foreign Investment Division



>> World Bank
Ease of Doing
Business ranking
for Solomon Islands
rose 10 places, from
106 in 2010 to 96
in 2011, due to a 78
place improvement
in the Getting Credit
criteria. <<

World Bank

How to Invest

The Foreign Investment Division (FID) should be the first point of contact for any business wanting to register in the Solomon Islands. The FID is able to provide investment information. The Solomon Islands Chamber of Commerce and Industry (SICCI) is also a useful source of information. In recent years the registration process has been streamlined, it now takes 5 days to issue a Certificate of Registration. The corporate tax rate is 28% for both resident and non-resident companies.

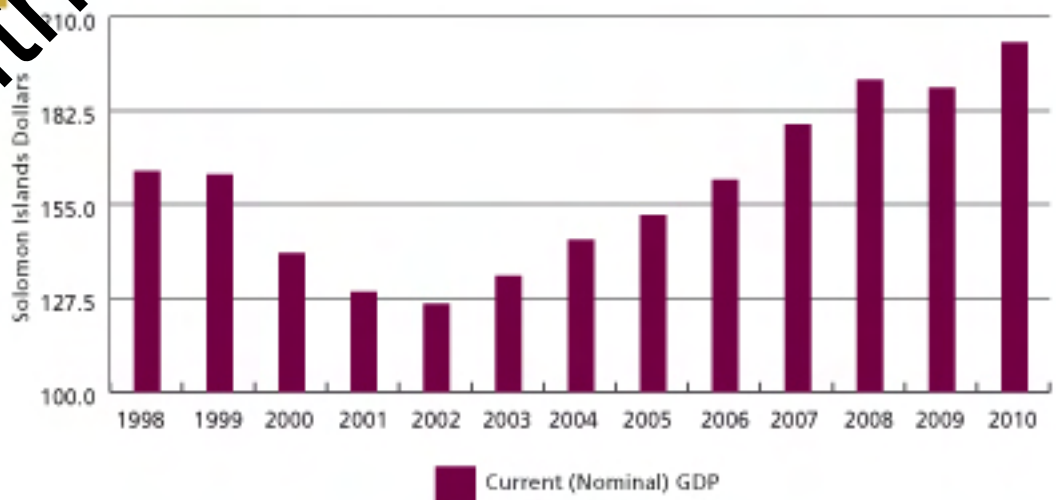
The principal types of business models operating in Solomon Islands are Limited Company, Partnership and Branch office (of a company registered outside Solomon Islands). With Limited Company status being the preferred option for most businesses.

Registration Process

- Apply for a Certificate of Registration - Foreign Investment Division
- Apply for a Sector license (Fishing and Mining only) - Ministry of Fisheries or Ministry of Mines, Energy and Rural Electrification
- Apply for a Certificate of Incorporation - Registrar of Companies
- Apply for Work permit - Commissioner of Labour (in the Ministry of Commerce)
- Apply for Residence permit
- Apply for Business license - Honiara City Council or relevant Provincial Government as applicable

Since 2008 there has been a strong increase in foreign company registrations, particularly in the Forestry sector. Foreign investment in the past three years has been led by Malaysia (Logging), Australian companies (mining and services) and increasingly, Chinese companies (retail).

Solomon Islands GDP 1998 - 2010



Source: Solomon Islands Central Bank, 2011

>> How we provide assistance needs to change from that which is needed in a post-conflict situation to that which is appropriate to a long term development strategy. <<

Nicholas Coppel
RAMSI Special Coordinator

Economic Outlook

Following the global financial crisis and 0% GDP growth in 2009, Solomon Islands' economy enjoyed growth of 7.1% in 2010. There are similar expectations for 2011.¹ With the arrival of RAMSI in 2003, and the subsequent improvement in security, development flows have increased year-on-year. This, together with significant increases in logging industry revenues has been the main driver of growth.

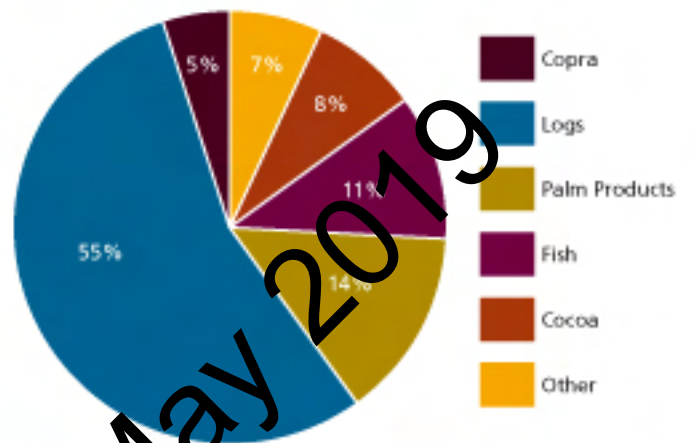
The pressing issue for Solomon Islands' economy is the unsustainable level of depletion by the logging industry of Solomon Islands' forests. The industry currently contributes some 60% of export earnings and revenue is expected to decline from 2014. This coupled with an expected flattening off of development flows means that growth in other sectors will be needed to mitigate the risk of an economic slowdown.²

Solomon Islands has abundant natural resources and has benefitted from the global commodity boom. Any reduction of growth in Asia could significantly impact on Solomon Islands growth prospects for the foreseeable future. One major project to have come online recently was the re-opening of the Gold Ridge Mine, which went into production in early 2011. Should Gold Ridge prove a success it could act as a catalyst for other investment in mineral extraction.

The agribusiness sector could also grow strongly albeit from a low base. Dormant businesses including the Russell Islands Plantation Estates Limited (RIPEL), which ceased to operate due to a labour dispute in 2007, could return to operation in the near term. Recent progress on dispute resolution is maintained.

Percentage of Exports by Commodity

Growth has been led by high prices of export commodities. Exports totalled SB\$1.8 billion in 2010, an increase of 37.5% over 2009.



Source: Solomon Islands Central Bank 2010 Figures

For example (all figures in SB\$);

- Exports of Palm products doubled to 256 million
- Sales of coconut products doubled to 98 million
- Exports of fisheries rose 47% to 197 million
- Round log exports increased 42% to 1006 million
- Exports of Cocoa products increased 21% to 141 million³

Solomon Islands mainly export to China (50%) but also to; Korea, Japan, Philippines and the UK (Palm Oil).




iStock Photos

>> Mining is the next big industry for Solomon Islands

<<

Calvin Ziru, Solomon Islands Chamber of Commerce and Industry (SICCI).



Finance - Growth of the Formal Economy

Development Funds:

Development Assistance has been a large contributor to growth in the past eight years, and will continue to play a vital role in addressing shortfalls in fiscal resources and capacity across public administration. Development Assistance also provides significant stimulus to the local private sector, particularly in Honiara, and there is potential for development contractor companies to provide expertise. The Asian Development Bank and World Bank are active in Solomon Islands.

Total Australian government aid budget for the year 2011-2012 to Solomon Islands was US\$261.7 million.⁵

National Provident Fund (NPF)

The NPF is a potential credit or equity partner. The NPF is the only superannuation fund in Solomon Islands and holds 70% of its investments onshore and the balance off shore. The NPF has a total of approximately SB\$1.2 billion invested, with major investments in local companies including Our Telekom, South Pacific Oil, Soltai (tuna cannery) and Sasape Marina.

Regional Assistance Mission to the Solomon Islands (RAMSI)

RAMSI provides police, military and civilian personnel from the 16 countries which make up the Pacific Island Forum. Initially RAMSI's main role was the restoration of law and order. Now the focus has changed and major work is being done in support of government.

The PNG effect

A knock on effect from the economic boom in PNG is having a positive impact in Solomon Islands. An increased focus on regional cooperation has led to an increase in investment between the two countries.

For example:

- The Heritage Park Hotel opened in 2010 is a Joint Venture between: The Lamana group (PNG) 30%, Nasfund (PNG national superannuation fund) 60% and Solomon Islands' own National Provident Fund) 10%.
- Both Daltron, a PNG technology company, and parent company WR Carpenters, have a presence in Solomon Islands.
- Guadalcanal Plains Palm Oil Ltd. is a subsidiary of PNG oil palm production powerhouse New Britain Palm Oil Limited.
- PNG state-owned BeMobile has invested in mobile communications in Solomon Islands.

Challenges

Infrastructure

Solomon Islands requires extensive investment in infrastructure if tourism or mineral extraction businesses are to reach their full potential. In particular, inter-island shipping and ports are underdeveloped and domestic air connections from the capital Honiara are limited and expensive. In short a high proportion of the country is inaccessible. The result is that economic growth is concentrated around Honiara and the natural resource enclaves.⁵

Corruption

Corruption is one of the many challenges to doing business in Solomon Islands. British Investors must take account of their responsibilities under the UK's Bribery Act when considering how to conduct business in Solomon Islands. Solomon Islands rank 110th out of 178 nations on Transparency International's Corruption Perception Index, on a par with Indonesia.

Land Title

As with any investment in Solomon Islands, securing legal title to land before any capital investment takes place presents a significant challenge. The majority of land in Solomon Islands is owned on a communal basis under customary title and is unregistered. Securing title to such land often takes between five and ten years, as there are often disagreements as to ownership and demarcation of the area concerned. It is imperative that land issues are settled before construction and development commence as arson is often used by contesting parties to retard building work.

