REVIEW OF SOLOMON ISLANDS’ POLICIES AND PROGRAMS TO PROMOTE PRIVATE SECTOR DEVELOPMENT AND SMALL BUSINESS

Deogratias Harorimana, Sr, The University of the South Pacific
Abstract

Solomon Islands is a nation with vast resources with huge potential to excel economically if proper business atmosphere is provided for both private sector development and small and medium enterprises entrepreneurship. Conducive policies that, not only, a mere statement but is broken down to workable strategies with quantitative expected outcome with a strong mentoring mechanism is very important. Previous governments have continuously ignored the importance of having small business policies until lately when NCRA government came up with a set of policies that strategically addresses the significance of small and medium businesses. However, notwithstanding foreign investment is very important in terms of the foreign currency, expertise, technology transfer that foreign investor brings into the country while local businesses harmonises the gaps in creating jobs in Solomon Islands for Solomon Islanders.
1.0. Background

1.1. Geography

Solomon Islands was a former British Protectorate since 1893 until 1976 when it becomes a self-governing state and gains its political independence on July 7th 1978.

It comprises of many Islands, atolls covering an area of 30,400 square kilometres, second in term of land mass to Papua New Guinea, the largest island in the South Pacific. The country’s main Islands are sporadically located, Guadalcanal being the largest (5,336 square kilometres) hosts the nation’s capital, Honiara. The five other main Islands are Malaita, Makira, Choiseul, New Georgia and Santa Isabel.

The island formation is predominantly volcanic creating a land mass consisting of gentle to undulating rugged mountain ranges to coastal plains and low lying atolls. Rainfall is evenly distributed throughout the year with occasional exceptionally dry and wet seasons, however, November through April is considered the wet season.

1.2. Population

The country is relatively young in terms of population with the first census was carried out in 1931 of around 94,066 and gradually increased to 409,042 in 1999 and rapidly boomed to 595,613 in 2012. The population growth rate has fallen by 1.0% from 3.4% in the 1976 census to 2.4% in 2010. Census was carried out on a decennial interval (every 10 years).

The table one (1) below shows the population on age range:

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td></td>
</tr>
<tr>
<td>5-9</td>
<td></td>
</tr>
<tr>
<td>10-14</td>
<td></td>
</tr>
<tr>
<td>15-19</td>
<td></td>
</tr>
<tr>
<td>20-24</td>
<td></td>
</tr>
<tr>
<td>25-29</td>
<td></td>
</tr>
<tr>
<td>30-34</td>
<td></td>
</tr>
<tr>
<td>35-39</td>
<td></td>
</tr>
<tr>
<td>40-44</td>
<td></td>
</tr>
<tr>
<td>45-49</td>
<td></td>
</tr>
<tr>
<td>50-54</td>
<td></td>
</tr>
<tr>
<td>55-59</td>
<td></td>
</tr>
<tr>
<td>60-64</td>
<td></td>
</tr>
<tr>
<td>65-69</td>
<td></td>
</tr>
<tr>
<td>70-74</td>
<td></td>
</tr>
<tr>
<td>75-79</td>
<td></td>
</tr>
<tr>
<td>80-84</td>
<td></td>
</tr>
<tr>
<td>85+</td>
<td></td>
</tr>
</tbody>
</table>

Source: Solomon Islands Facts

2.0. Introduction

The main focus of the discussion is to review the Solomon Islands’ policy and programs to promote private sector development and small business. What this entails; what are the policies and programs that are in place on the ground that promote and enhance the development of private sector and the small businesses in the country? What current policies and programs are hampering progress of private sector and small business development that needs reviewing? What policy option(s) can we make that enhances this sector development aspiration?
In order for the private sectors and small businesses to operate successfully, there should be policies that spell out what the distinct role of the: (1) central government in relation to the ultimate role of private sectors and small business in creating wealth for its populace and (2) what roles the private sector in the overall development of Solomon Islands collectively.

Private sector, and small businesses for that matter, is the growth engine for any economy. Given that scenario the central government has this very important role of creating an environment that is conducive for these businesses to flourish by way of sound policies and programs.

The roles of the government in relation to these backdrops are:

- To facilitate, promote and expedite private sector development
- To provide necessary infrastructure for private sector and small businesses to accelerate and
- To enact relevant laws and policies that enhanced and encourages private sector and small business entrepreneurship development.

3.0. Literature Review

A lot of countries in the world have been trying to address the development of SMEs even as early as, mid-1960s. However it was not until the turn of the 20th century that robust acceleration of small and medium enterprises are starting to gain recognition that called for greater enhancement from respective country’s government, especially in the East Asia region. For example in Philippines and Indonesia, their respective government have recognised that SME has contributed significantly to creating jobs for 70-80 percent in the manufacturing sector. As a result a lot more countries in the East Asia region joint the party and diversify their SME performance that become the main focus of many governments during the global economic crisis in the period 2007 right through to 2009.

This trend has spread to other countries such as Thailand and extended to the Pacific region to include countries like Fiji, Vanuatu, Tonga and Samoa. In the global horizon, the G-20 countries are committed and have embraced the approach by providing financial services to SMEs and promoting its regulatory and policy initiatives.

Other country opted to promote the Singapore’s success story and embraces their model by first developing an environment for small business growth through up-skilling of their human resources, support in the form of management and financial support which results in the creation of growth enterprises which eventually lead to the creation of large companies.

Other countries such as Thailand introduces financing scheme set up by their government to promote SME which eventually developed into a bank now known as Small and Medium Enterprise Bank (SME Bank)

What can Solomon Islands learn from these experiences of some of the world economies that have started from scratch with merger resources?

There are three reports that are currently available in the Ministry of Commerce that has been used as the baseline of this research work, which uncovers three main areas that attempts to critically scrutinize why SME have struggled to developed despite ample financial resources pumped into the responsible Ministry by both the Multilateral and Bilateral donors to SME in the country. The reports are:

- Solomon Islands Small and Medium Enterprises – Human Resource Development Survey
  (ProBus Consulting Services, January 2011)
• SME Access to Finance and Capital in Solomon Islands (Advanced Consultancy Services, December 2011)
• SME’s Business Environment Study Report (Consultant- Mr. William Parairato)


This report mainly covers two important areas and focuses purely on the Human Development aspects of SMEs in the country. These two areas are;

3.1.1. SME Human Resource Capacity Building

Current training undertaken by the SME by the current training providers are inadequate, uncoordinated and ad-hoc. There is huge capacity to be built to a level whereby SME can adequately address its manpower requirements to getting the SMEs off the ground.

There is lack of government intervention to strengthen human resource capacity for SME entrenched in the country.

Inconsistent training provided with no follow ups and mentoring mechanism in place to gauge success and failure.

The Parent Ministry has shift focus from SME HRD capacity building to in-house staff development.

3.1.2. SME HRD support services

Training not relevant and does not address the specific needs of SME operators and owners to adequately manage their business.

No monitoring and mentoring after the training to guide SME to success.

Generally, SME HRD capacity building is not strategically implemented. A lot of capacity building need to start with the Ministry of Commerce who looks after the SME to get them to appreciate why SME exist and how to mentor and nurture them to creating the national wealth.

On SME HRD support services, the central government need to strategically and sustain ably provide systemic support for SMEs.

3.2. SME Access to Finance and Capital in Solomon Islands

This report highlights the areas that are seen to be lacking by the SME thus preventing them from accessing Finance and Capital for their business;

• Lack of proper control and coordination of funds channelled through the government intended for SME.
• Stringent lending policy by commercial banks
• Lack financial management skills-lack of confidence from lenders
• Lack appropriate and legally documented collaterals and
• Lack proper market research and information to supply to banks and lending institutions.

These are broadly the huge array of inadequacies that need to be strengthened by relevant authorities including government when it comes to accessing finances by SME. For the rural based SME, it will surely be a long journey. Capacity building remains paramount from top-down.
3.3. SME’s Business Environment Study Report

The study of Business Environment in which SME are operating in is very significant because it should give us an instrument to assess the current situation in Solomon Islands including impediments and challenges facing the SME’s formation and operation.

The study focussed on two main issues:

- Business environment and SMEs development
- Business environment and issue of doing Business in Solomon Islands

The study discovered that even though SME contributed significantly to the economy of the country, the impediments and challenges still remains with slight improvement to the doing business indexes in Solomon Islands compared to other countries in the region which stands at 74 against 183 other countries.

In terms of the SME development, as highlighted by the two other reports need a lot of work to be done. Capacity building and robust government support and intervention remain crucial at this stage to really make a huge head-way for SME.

Background of the Private Sector Development and Small Business in Solomon Islands.

In the Pacific Islands Trade and Invest website: www.pacifictradeinvest.com (July 29, 2011) it quoted what the current Prime Minister (Gordon Darcy Lilo) said when he was the Finance Minister then, in 2011, that Solomon Islands needs to develop policies geared towards encouraging the development of small and medium enterprise. He further stressed that economic development should not solely depend on Foreign Investment Division (FID) around which most policies are centred.

This implies and confirmed that there is very little work done to come up with comprehensive policies which are more relevant to small and medium businesses that 85% of Solomon Islanders are in despite having done so and focusing on foreign investors.

On the other hand there is a very comprehensive policy on Foreign Investment which is regulated by the Foreign Investment Act 2005 which the regulating body is the Foreign Investment Board.

4.0. Methodology

The methodology used in conducting the research work is as follows;

- The literature review and documentary analysis by various written literatures
- Interview government officers from the government ministries, NGO organizations, Central bank of Solomon Islands, SISMEC staff, private sector representative, Guadalcanal Plains Palm Oil Limited and commercial Bank representative – ANZ
- Interviewed small business owners and operators and
- Internet search plus notes provided by the facilitator.
- However, group discussion was the highlight of this project after interviews and information collected were discussed strategically, critically analysed and blended together and the project was completed successfully, effectively drawing conclusion and recommendations suggested.
5.0. Investment Policy

The government places emphasis on the encouragement of foreign investment in the private sector as a basis for growth and development. The net economic benefit of the proposed investment is the dominant consideration in accessing both the acceptability of an investment and the degree of assistance it will be accorded. While the Foreign Investment Act 2005 requires that the assessment of foreign investment rest with the Registrar of Foreign Investment Division (FID), certain guiding criteria still exist. The most important is the impact of investment on:

- Widening the productive base
- Strengthening the technical and marketing expertise of the private sector
- Generating either net export income or import cost saving
- Providing employment and training, especially in regional areas

Another key element in the assessment is that investment activities being applied for the foreign investor is/are not listed under the reserved list or prohibited list.

5.1. Investment Incentives

The Act provides certain incentives as well as procedures for obtaining the incentives.

Tax Holidays for Enterprises:
- Up to 10 years tax free holidays

Tax Exemptions on profits and income:
- Up to 10 years exemption from withholding tax on dividend.
- Up to 10 years exemption from withholding tax on interest paid to non-resident.

Reduction of Exemption before Taxation
- Double deduction for expenditure on apprenticeships and tertiary education
- 150% deductions for cost of inter province transport of raw materials
- Duty free entry for capital equipment and drawbacks on re-export items
- Special addition incentives for tourism developments
  Hotels and resort establishment including other tourism settings are eligible for these special incentives and
- Free movement of capital and profit remittances

Writing off Expenditures
- Accelerated capitals write off of 40% in the first year and 5% per annum thereafter for manufacturing enterprises and
  50% for tourism development projects

5.2. Programs and projects to promote small business and entrepreneurship

In the absence of the motivating policies, there are initiatives taken by certain financial institutions such as:

(a) The Central Bank of Solomon Islands (CBSI) in trying to encourage SMEs to obtain credits under their program called the Credit Guarantee Scheme. The scheme is aimed at assisting the development of small business operators in Solomon Islands of which the Central Bank of Solomon Islands stand in as the guarantor to the participating lending financial institutions. Emphasis is given to small and medium enterprise involved with rural or export business ventures. They can obtain loans in the range of SDB$50,000 to SBD$100,000 and the maximum term of the loan is 5 years.
(b) New Zealand Government has funded the establishment of the Solomon Islands Business Enterprises Centre (SISBEC) in 1998 with the primary aim is to provide business training and support services for SMEs and those planning to start a business. The training was based on cost sharing and is usually at USD$30 in regional centres and USD$20 in rural centres. There should be a follow up consultation provided by the centre after 12 months is completed. (Source: www.pitic.org.au (Pacific Islands Trade and Investment Commission, Sydney report 2008)

(c) UNDP PACIFIC BUSINESS CENTRE also provides some form of assistance by offering policy advice and technical assistances to some business related and private sector development areas in the Pacific Island countries which includes Solomon Islands, which includes: Business mentoring program and development, Young entrepreneurs training, Integration of financial literacy and entrepreneurship education in school curriculum, promoting private sector partnerships for pro-poor outcomes and lot more areas. (Source: www.pitic.org.au (Pacific Islands Trade and Investment Commission, Sydney report 2008)

(d) Inherent Commercial Banks in the country (Bank South Pacific, ANZ and Westpac) do provide loans to credible business houses, not confined to SMEs, with sound financial standings and appropriate collaterals. This arrangement is not a regulated scheme to assist SMEs as such but based on merit under their strict lending policies. Interest rate in this arrangement has disadvantaged the SMEs as it is excessively high at between 12-18% per annum. Most small businesses in the country are rural based with almost very little or no financial records are kept which obtaining loan through this avenue proof futile. However, only one financial institution that continued to take huge risks in this regard is the Credit Corporation (SI) Ltd.

(e) Some government ministries do have financial assistance program that attempts to address the need to assist small and upcoming business in the form of projects over the years. Their success rate in achieving their intended objectives cannot be measured and lack proper strategic method of appraisal, disbursement and monitoring; hugely driven by political motives and affiliation. Such project funds can be seen in the Ministry of Tourism for eco-tourism activities, Ministry of Agriculture for Livelihood projects and Ministry of Commerce for small commercial businesses. These are some classic examples of funds available to SMEs but lack proper coordination to see these funds utilized productively in where there are intended that should yield better outcomes.

The funds highlighted above were established in the absence of a policy to guide what the government is planning to achieve and how this can be realized.
The table two (2) below shows a summary of general organisations providing finance and capital in Solomon Islands:

<table>
<thead>
<tr>
<th>Name</th>
<th>Type of Organisations</th>
<th>Service rendered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Bank of Solomon Islands</td>
<td>Regulator</td>
<td>Credit Guarantee Scheme</td>
</tr>
<tr>
<td>ANZ Bank</td>
<td>Financial Institution</td>
<td>Loan</td>
</tr>
<tr>
<td>BSP Bank</td>
<td>Financial Institution</td>
<td>Loan</td>
</tr>
<tr>
<td>WESTPAC Bank</td>
<td>Financial Institution</td>
<td>Loan</td>
</tr>
<tr>
<td>Credit Corporation</td>
<td>Financial Institution</td>
<td>Loan</td>
</tr>
<tr>
<td>SIPEU Credit Union</td>
<td>Other Financial Institution</td>
<td>Member Loans</td>
</tr>
<tr>
<td>SINTA Credit Union</td>
<td>Other Financial Institution</td>
<td>Member Loans</td>
</tr>
<tr>
<td>SI Teachers Credit Union</td>
<td>Other Financial Institution</td>
<td>Member Loans</td>
</tr>
<tr>
<td>Ministry - Tourism</td>
<td>Government Department</td>
<td>Project Funding</td>
</tr>
<tr>
<td>Ministry - Agriculture</td>
<td>Government Department</td>
<td>Project Funding</td>
</tr>
<tr>
<td>Development and Livelihood</td>
<td>Government Department</td>
<td>Project Funding</td>
</tr>
<tr>
<td>Ministry - MICLI</td>
<td>Government Department</td>
<td>Guarantee Scheme</td>
</tr>
</tbody>
</table>

Table 2: Organisations providing financial support (SME access to Finance and Capital in Solomon Islands report, G. Kosui and A. Manepora Dec, 2011)

5.3. Multilateral and Bilateral donor partners contribution to Private sector and SMEs

There are substantial financial inputs from donor partners to both private sector and SME in the country. Republic of China (Taiwan) contributed substantial amount of money (SBD$ 10M/per year) into the so called Rural Development under the pretext of Constituency Development fund for the last decade or so. World Bank funded most of the infrastructure development such as bridges, roads, New Zealand and Australian government put in a lot of investments in Human resource development especially schools. The Japanese government, through it Overseas development program, contributed significantly on health service especially on malaria control and school infrastructure as well.

5.4. Government’s Contribution to Private sector and SMEs

There are tangible contributions by the government through our multilateral and bilateral donors in providing avenue and mechanism to support Small Businesses in the country however; these contributions are too broad and not guided by policies that specifically address to stimulate their establishment and growth. The formation of the Development Bank of Solomon Islands in early 1980s was one example of that commitment.

The intention of that establishment was well thought through but the policy on developing the disbursement was not there to prepare the small businesses to accommodate their finances. Training, management was seriously lacking in those days. This has resulted in non repayment of loans, poorly managed projects and disbursement was not well managed and the bank collapses.

On a much broader perspective, the government does have policies that, again, geared towards broader areas of development which focus to assist large private sectors in the country. This was the drawing up of broad sectoral policies in the different development oriented ministries such as:

Agriculture sector policy, Fisheries sector policies, Forestry, Mining, Tourism and manufacturing. This was merely to pave way for large investors to develop huge undertakings.

The table three (3) below shows some of the investments under the respective sector and the effective and ineffectiveness:
<table>
<thead>
<tr>
<th>Sectoral Policies</th>
<th>Assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign Investment</strong></td>
<td><strong>Effective</strong></td>
</tr>
<tr>
<td>Government encourages both local and foreign investors to widen and advance the productive base of the economy through the employment of appropriate technology, production methods, management skills and expertise.</td>
<td>The Foreign Investment act of 1990 was amended to streamline cumbersome processes and procedures to a simpler and quicker system contained in the 2005 Investment Act. - Simple registration process-online. - Better monitoring mechanism in place. - Establishment of Tax and Exemption committee as opposed to Exemption done by the Minister of Finance.</td>
</tr>
<tr>
<td><strong>Agriculture sector Policy</strong></td>
<td><strong>Effective</strong></td>
</tr>
<tr>
<td>Government enhances the traditional crops like copra, cocoa and oil palm and encourages cattle and rice farming in the hope to reduce dependency on imports.</td>
<td>- GPPOL establishment. - Planned resuscitation of Vangunu oil palm plantation in Western province. - Proposed Auluta Oil Palm project. - Revitalised cattle industry resulting in cattle import from Vanuatu.</td>
</tr>
<tr>
<td><strong>Fisheries Sector Policy</strong></td>
<td><strong>Effective</strong></td>
</tr>
<tr>
<td>The government enhances the small and medium investors on sustainable harvesting of coastal and deep water resources and encourages investment that will contribute to sustainable harvesting, increase scientific understanding, better marine resource management, fishing farming and downstream processing of fish and related products</td>
<td>- Improvement of the existing Tuna Cannery at Noro, Western Province - Relocation of the ICLAM Research Centre to Western Province - Promotion of Seaweed Farming - Planned establishment of Tuna Loin Factory in Suava Bay &amp; Tenaru</td>
</tr>
<tr>
<td><strong>Forestry Sector Policy</strong></td>
<td><strong>NOT effective</strong></td>
</tr>
<tr>
<td>The government in the light of widespread unsustainable logging practices is encouraging agro-forestry plantations and downstream processing of forest products to minimise the negative effects of logging and reducing the rate of unsustainable tree harvesting.</td>
<td>- Unsustainable logging continues in the country</td>
</tr>
<tr>
<td><strong>Manufacturing Sector policy</strong></td>
<td><strong>NOT effective</strong></td>
</tr>
<tr>
<td>The government recognises the limited downstream processing and is encouraging investors with fiscal incentives to prompt value added production.</td>
<td>- No manufacturing companies except for the Furniture companies that caters for both the local and export market</td>
</tr>
<tr>
<td><strong>Mining Sector policy</strong></td>
<td><strong>NOT effective</strong></td>
</tr>
<tr>
<td>The government recognises the importance of this sector and noted the difficulties associated with customary landownership and encourages investors to seek proper guidance through the Mines and Mineral Board as to the legal processes and procedures.</td>
<td>- Only one mining company in operation here - Cumbersome process for obtaining mining licences. Too much political interferences &amp; bureaucratic mingling e.g. Bugotu-Nickel</td>
</tr>
</tbody>
</table>
Tourism Policy
The government recognises the huge potential for investment and desire to build appropriate infrastructure to enhance the growth of the industry.

Effective
- Establishment of the School of Tourism & Hospitality at SICHE
- Training programs initiated by the Visitors Bureau
- Upgrading of Munda Airport, Western Province

Source: www.investsolomons.com.gov.sb

Key issues that emerge from existing sectoral policies (Private Sector and SMEs)

From the analysis we can pick up key areas that failed the private sector and SME development in the country. This will be discussed briefly below:

(i) Weak and ineffective policies
   - Lack of comprehensive and motivated policies for SME while more emphasis on Foreign Investments
   - Lack central government intervention.

(ii) Outdated Regulations
   - There a number of current regulations and legislation that requires urgent amendments to take on board initiatives that encourages and fosters more so SME development and of cause private sector development.

(iii) Poor and unreliable infrastructures
   - Currently and generally infrastructures are poor in all facets, roads, bridges, utilities, banking institutions are either non existence or poorly managed and maintained and run in isolation to the overall development plan of the country.

(iv) Weak governance
   - Political instability leads to poor governance in the country. When a new government comes into power they develop a completely new policy framework that distorts the whole development aspirations of the country.

(v) Weak micro financing
   - With the collapse of the Development Bank of Solomon Islands as the only Bank that focuses on rural development, donor funding was the only micro financing option left but with highly bureaucratic and guided by their own agenda, requirement and conditions attached.

Suggested remedies to promote Private Sector and SMEs

6.0. Business incubators

Business Incubator is a facility designed to assist businesses to become established and profitable during their start-up phase. The facility houses different programs that provide resources for new and existing small businesses including:

- Free or low cost counselling, workshop and classes
- Opportunity for approved businesses to use shared services (such as fax, telephones, email, etc.) and lease space
- Small business financing through a business loan fund
• Develop and support stronger link between academia and the industry and
• Many more type of assistances.

In the W. Parairato study report on SMEs Business Environment 2012 he did suggest travelling down that path for fostering a strong business entrepreneurship in the country. Most business in the country cannot survive the first 12 months of its operation. To help accelerate this initial stages of its start-up phase this facility will be go a long way in assisting these businesses meet the high overhead costs associated with the business operation.

7.0. Business mentoring

The utmost aims of most businesses are to make profit out from initial investments. The businesses range from small to large scale in any form that can generate income to sustain individual and corporate level. The business creates employment and increases government revenue through taxes.

However, the government must take lead in creating conducive business environment for its citizens and foreign investors to conduct business. In Solomon Island context, there is no objection to such. According to the private sector policy analysis undertook by the group, we noted that the government does not have any business mentoring scheme for its Small Medium Enterprises (SMEs). The SMEs dwell on their experiences to get the business growing although some bankrupt along the way.

However, regionally, New Zealand has a very good successful story of mentoring more than 50, 000 SME owners (Business mentors NZ). They have more than 2000 new clients and have 1700 volunteer mentors and 17 agents. The government of Solomon Islands should outsource the expertise of Business Mentor NZ to help in the areas of Business Mentoring and develop its own blend here.

8.0. On-line Tool Kit

The Information Communication Technology (ICT) is fast advancing in the world as the technology concerns. The world is like a tennis ball in the palm of the hand and can be connected within split of a second. So there is no exception to conducting business in line with ICT.

Currently, the ICT in Solomon Islands is very expensive due to monopoly from our Telekom Company. The government has no incentives for SMEs concerning online toolkit for conducting business and quite expensive to access and operate, although some SMEs outsource such from various websites externally.

However, www.myonlinebusinessstoolkit.com has a wonderful and simplified tool kits for any SMEs and private sector to operate business with. Such websites are very good for business and can be used to expand and operate business efficiently and government can look for such means to uphold its private sector growth.

9.0. Small business training programs

Comprehensive and Stringent training program for small business be introduced to both high learning institutions such as Solomon Islands College of Higher Education (SICHE) and Don Bosco Technical Institute. Industry specific training be made available through Small and Medium Enterprise Centres throughout the main provincial centres, that take on the general populace who are either already in business or about to start a business venture.
All these trainings must have huge contribution by the government through the donor partners both multilateral and bilateral.

10.0. Role of Chamber of Commerce (Solomon Islands)

10.1 The Solomon Island Chamber of commerce and industry (SICCI) is the organization that was set up predominantly to oversee and steer the success of the private sector. It is responsible for ensuring small businesses in their start up to keep growing and be sustained in the long run, and to expand with the view to contribute to the overall economy.

10.2. The SICCI plays a representative role of private businesses (small and large) and the private sector as a whole in the Solomon Islands

10.3. One of the roles of SICCI is in advocating for the private sector.

10.4. To work constructively with the government, the Solomon Islands community and international donor organisations.


11.0. Financial Advice and Loan supervision

The financial advice to the private sector and SME is very important for the sector to remain in operation more sustainably. However, most business does outsource financial loans from private banks and indebted to pay interest on whatever amount borrowed. In such situations, government incentive to provide financial advice and loan supervision is highly recommended.

11.1. Financial Advice

The realization for the establishment and nurturing of Small and Medium enterprises playing an important part in Solomon Islands economy started even from independence and thereafter. Seeing that SME’s is part of a growing economy of the Solomon Islands (as in any other growing economy), there was the will to render financial support to small businesses.

“After independence in 1978 support to SMEs in the Solomon Islands has evolved from on-the-job advice to heavy guided technical Orientations and support from donors. The conventional approach by MICIL was through advice and training to province based businesses. In 1990s, MICL with assistance from UNDP & UNIDO, local NGO’s and Solomon Islands College of Higher Education (SICHE) co-hosted workshops help small SMEs”. (Kosui & Manepora’a; SME Access to Finance and Capital in SI: p14)

The above clearly shows that there was the determination for proper financial and business advice that is needed to support the small businesses. There was no set up of an organization or office that is entirely devoted to supporting and driving the activities of small businesses in the Solomon Islands.

Until recently, the Small and Medium Enterprise (SMEC) is the institution that is taking the place of SMEs head on. These are the areas that SMEC is proliferating in, in supporting small businesses; financial services; which allows for SMEs to have access to finance as there is the SME trust fund to be tapped by SMEs.
11.2. Loan Supervision

The DBSI was supposed to be the bank that helps small business to thrive. Its failure was because of non-repayment of loans by farmer who are recipients of those loans and other related factors. With its downfall, close supervision and other roles and responsibilities to nurture small businesses go down with it.

The Central Bank of Solomon Islands (CBSI) tried to resolve to instituting credit guarantees but failed every time it tries to. Even with the support of other organizations, there were lots of difficulties faced.

Not until recently there were financial arrangements by the CBSI with the commercial banks to assist small businesses. Three of these arrangements were; the Small Business Finance Scheme (SBFS), credit unions, and the ANZ Micro finance Rural Banking. Commercial Banks that were involved were ANZ and Bank South Pacific. This has helped the SMEs but still there are those small remote businesses which are not reached.

12.0. Assessment of the effectiveness of current policies, programs, incentives and projects

12.1. Foreign Investment Policy Review

<table>
<thead>
<tr>
<th>Policy Statements</th>
<th>Statements</th>
<th>Assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Widening the productive base.</td>
<td>Strong governance&lt;br&gt;Reliable and independent legal system&lt;br&gt;Reliable Infrastructure&lt;br&gt;Pragmatic policies&lt;br&gt;Security&lt;br&gt;Reliable health services&lt;br&gt;Reliable information Communication Technology&lt;br&gt;Land registration procedures</td>
<td>Ineffective:&lt;br&gt;-Reoccurring land disputes from landowners.&lt;br&gt;-Vague policies with no clear strategies.&lt;br&gt;-Difficult to monitor performance.&lt;br&gt;-Lacks transparency and accountability.&lt;br&gt;-Government to work on quick land recording process to ease acquisition process.</td>
</tr>
<tr>
<td>Strengthening the technical and marketing expertise of the private sector.</td>
<td>Export and import procedures&lt;br&gt;Improve the Logistics (shipping and airlines)&lt;br&gt;Exporters association/clusters</td>
<td>Effective:&lt;br&gt;-Small businesses and small scale farmers sell their products to large companies example: GPPOL oil palm out-grower arrangement, KFPL forestry out-grower arrangement.</td>
</tr>
<tr>
<td>Provide employment and training, especially in regional areas.</td>
<td>Human capital development through increase scholarships&lt;br&gt;Provide training through regional workshops</td>
<td>Effective:&lt;br&gt;-Create employment to 20% of the population.&lt;br&gt;-Provide training as attachment to training institution such Solomon Islands college of Higher Education (SICHE) and Don Bosco and other Rural Training centers.</td>
</tr>
<tr>
<td>Incentives</td>
<td>Statements</td>
<td>Assessments</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Tax Holidays for Enterprises.</td>
<td>Up to 10 years tax free holidays</td>
<td>Effective</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-More new investors coming into the country such as: B-Mobile, Bank South</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pacific, GPPOL, Gold ridge Mining etc.</td>
</tr>
<tr>
<td>Tax Exemptions on profits and income</td>
<td>Up to 10 years exemption from withholding tax on dividend. Up to 10</td>
<td>Effective</td>
</tr>
<tr>
<td></td>
<td>years exemption from withholding tax on interest paid to non-resident.</td>
<td>-Companies enjoying such privilege to alleviate on loan repayment.</td>
</tr>
<tr>
<td>Reduction of Exemption before</td>
<td>Double deduction for expenditure on apprenticeships and tertiary education.</td>
<td>Effective</td>
</tr>
<tr>
<td>Taxation.</td>
<td>150% deductions for cost of inter province transport of raw materials.</td>
<td>-Allows for large companies to training and take on apprentices.</td>
</tr>
<tr>
<td></td>
<td>Duty free entry for capital equipment and drawbacks on re-export items.</td>
<td>-More investors in the province rather corrugating to Honiara such as Noro</td>
</tr>
<tr>
<td></td>
<td>Special addition incentives for tourism developments. Hotels and resort</td>
<td>Fishing co.</td>
</tr>
<tr>
<td></td>
<td>establishment including other tourism settings are eligible for these</td>
<td>-Allow large companies to import machinery to strengthen their business</td>
</tr>
<tr>
<td></td>
<td>special incentives. Free movement of capital and profit remittances.</td>
<td>activity and increased production.</td>
</tr>
<tr>
<td>Writing off Expenditures.</td>
<td>Accelerated capitals write off of 40% in the first year and 5% per annum</td>
<td>Effective</td>
</tr>
<tr>
<td></td>
<td>thereafter for manufacturing enterprises. 50% for tourism development</td>
<td>-Build confidence in business to purchase assets to boost production.</td>
</tr>
<tr>
<td></td>
<td>projects.</td>
<td></td>
</tr>
</tbody>
</table>

Table 4 – Review of Foreign Investment Policy
## 12.2. Small and Medium Enterprise (SME) Policy

<table>
<thead>
<tr>
<th>GOALS</th>
<th>Policy Statements</th>
<th>Policy options</th>
</tr>
</thead>
</table>
| **4.3.2 PRIVATE SECTOR –LED GROWTH** | **Policy No. 4.3.2.(a) Promote a development strategy anchored in the private sector as the engine room for growth, wealth creation, employment generation and poverty reduction.** | **-Review current foreign investment policy to be compatible to doing business in Solomon Islands BEST PRACTICES.**  
**-Reduce lengthy and tedious processes.**  
**-Provide attractive Investments incentives for investors.**  
**-Major upgrade of important infrastructures and utilities that supports businesses.**  
**-Consolidate a Round table meeting with investors and government to define their roles and responsibilities.**  
**-Privatize all state-own enterprises to interested investor or local companies.**  
**-Government becomes facilitator and playing the coordination role under the Infrastructure Ministry.**  
**-Draw up a plan of Action for private sectors to implement and complete their roles.**  
**-Establish a thorough monitoring mechanism to check progress of plans.** |

<table>
<thead>
<tr>
<th><strong>4.3.3 DEVELOPMENT OF GROWTH CENTRES</strong></th>
<th><strong>Policy No.4.3.3.(a) Establish Economic Growth Centres</strong></th>
<th><strong>-A SWOT analysis for each province</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance the potentials of rural dwellers to engage more in the</td>
<td><strong>Policy No.4.3.3.(a) Establish Economic Growth Centres</strong></td>
<td><strong>-A SWOT analysis for each province</strong></td>
</tr>
</tbody>
</table>
| formal sector and hence economic growth and improved quality of life. | and Rural Economic Communities in rural Areas. The Concept advances the idea of developing and establishing infrastructures such as roads, wharfs, and bridges to support the transportation and marketing of products to local and overseas markets. | -The plan must have People (landowners) participation and involvement.  
-Potential business areas identified  
-Major infrastructures development corresponding to the identified Development options.  
-Consolidate a Round table meeting with donor partners to identify relevant areas to be financed and developed.  
-Draw up a 5 year Development plan defining the role each donor partners and private sector to be responsible for.  
-Government becomes facilitator and playing the coordination role under the Aid Coordination Ministry.  
-Put in place an Implementation strategy and monitoring mechanism to religiously monitor the progress of the plans.  
-Establishment of business incubators centres attached to the learning institutions.  
-Draw up diligent Mentoring system and mechanism.  
-Policy No. 4.3.3.(b)  
Introduce cottage industries in the Growths Centres, in areas such as food processing, adopting appropriate technology in the growth centres through the introduction of appropriate technology.  
-Ministry of Commerce to have Online tools kits for business to access easily and quickly.  
-Ministry of Commerce makes available Export market expert assistance.  
-Business and Marketing Plan support for potential entrepreneurs.  
-Policy No. 4.3.3.(c)  
Establish specific rural micro financing and savings schemes in support of these growth centres.  
-Lending institutions to have Micro financing schemes facilities available to small businesses.  
-Establishment of the SME Bank full blown businesses.  

Table 5 – review of small and medium enterprise policy
13.0 Discussion of Findings

From the preceding collated information, the following areas are prevalent all throughout the assessment that must be addressed holistically.

13.1. Weak and ineffective Policies

Private sector and Small and Medium Enterprise development is the key to strong economic growth for any developing economy like Solomon Islands. It has the potential of providing employment up to 70-80% of the population while the private sector cater for the remaining 10-20% if properly nurtured, developed and implemented thus reducing the unemployment rate to significantly low as 5-10%.

The countries in the East Asia region such as Philippines, Thailand were able stand up against the global financial crisis in 2007 to 2009 because of their very strong SME development with the total commitment by their respective government to provide regulatory legislation and policies.

Successive governments have tried tirelessly to come up with workable approach to achieving their goals thus reducing the ever increasing unemployment, experience the total opposite. Economic growth rate is staggering low, at time fall below the negative as in the 2009 figures at negative 1.2%.

The current government, (NCRA) of Gordon Darcy Lilo has caught the glimpse of light at the end of the tunnel and come up with a policy framework that depicts the Singapore model with the development of growth centers that try to foster and encourages small and medium enterprises. It is irony in the sense that it takes almost three decades after Independence for a government to recognize the importance of the Small and Medium Enterprises to come up with a policy for SME in the country.

The policy is still in its infant stage to really gauge its success and effectiveness. It takes the will power of the government to strategically implement the policy sequentially and appropriately. What the government should be doing is to get every party to the implementation to remain focus. Mass education is important to get everybody to grasp what the underlying intention of the policy and what it tries to address. For without the collective understanding of the general principle of the policy other parties will do things in isolation and travelling the opposite direction doing their own way.

13.2. Outdated regulations

There are out dated legislations that must be quickly reviewed that may have repercussion to the development aspirations of the Development Plan, be amended and repealed immediately. Law reforms are crucial to update laws that out-lived there usefulness and become hindrances to the progress of the country and its economy.

Foreign investments have proven to be effective only when the Investment Act 1990 have been amended in 2005 to provide improved investment incentives that give the investor a lot of room to maneuver especially in the initial stages of business life. The incentive is generous but beneficial to investors in having to acquire huge assets and inventories to get the business running upon hitting the ground as early as possible.

13.3. Poor and inadequate infrastructures

Bilateral and Multilateral donor partners should focus more on infrastructure development that are relevant to the Development plan and must not work in isolation to that plan. Building of new roads upgrading the current ones, build wharfs where it is needed, upgrade and build new airports where it is absolutely needed, improve the telecommunication links, subsidize shipping services to uneconomical routes.
Electricity and water has been entrenched problem in Honiara and the main provincial centres that must be addressed immediately to get them up to adequate level that can sustain the demands of the businesses. Improved health services with high incident of malaria scare off potential investors and also reduces productive time through lost days due to sick.

13.4. Weak governance

Singapore have seen the importance of Developing SME in the mid-1960s and has taken them less than three decades from bust to boom to become a business hub in the Asia-Pacific region and the world with merger resources and small land mass with huge population. A lot of countries in the developing countries both in the Asia and Pacific regions have opted to follow the Singapore approaches.

For the last three decades after Independence in 1978, Solomon Islands have been focusing on foreign Investments and large scale, labour intensive businesses in the hope of creating wealth and employment and foreign currency and expertise. Thirty years down the line the country’s unemployment rate is increasing by the day and poverty is encroaching because people tend to believe that employment is readily available therefore migrate to the main town in the hope of finding decent jobs but to no avail. Jobs are limited and scarce which find them dislocated and stranded in no-one’s land. Social problem has increased significantly, law and order becomes entrenched to a boiling point and people looking up to the government in the hope of getting employed and the rippling effect continues.

As a result government becomes an employing agency rather than facilitating the development need of the country. Since 85% of land in Solomon Islands in Customary owned, large scale land intensive and labour intensive foreign investors could not go beyond land acquisition stage of the process because of the frequent land disputes. Resolving land matters takes tremendous time for the court system to comprehend. Some cases remain in the queue for number of years unresolved due to reoccurrence of land dispute.

13.5. Weak micro financing

As a result of the policy, three studies have been carried out by the Ministry of Commerce to take stock of its Human resource capabilities, what form of micro financing is currently available and what kind of business environment are we operating in. This is a step in the right direction. These reports point out the strengths, weakness and opportunities that are available and how can that be captured in the policy framework and strategic planning.
Now defunct Development Bank to be revamped to fully address the financial requirement of potential business enterprises with more organized training and mentoring on financial accountability prior to loan disbursement. The function of this institution be thoroughly reviewed to work in harmony with the development plan of the government rather on ad-hoc basis.
14.0 Conclusion

SME development is crucial in a growing economy which can create jobs for the population thus reducing unemployment. Due to population increases, pressure on land, large scale land and labour intensive development are frequently challenged by reoccurring land disputes. Under resourced court and justice system has prolonged land related cases to a standstill that discourages foreign investors from coming into the country. Poor infrastructure such as better road system, wharfs and seaports, reliable utilities such as electricity, telephone communication, water and can be extended to better health services is detrimental concern to the foreign investor wanting to invest in the country.

The government’s facilitating and coordination role to see these important amenities are in place and working perfectly well will build the confidence of investors and not scare them off. The more investors set up business in the country, the more jobs that will be created and thus complement the alleviation of unemployment with small businesses who fill in the gaps to eradicating poverty and attainment of most of the Millennium Goals set by the United Nations, the economy will be experience positive growth with much high and improved in terms of both the Gross Domestic Product and Gross National Product.

The complacency attitude taken by the government with unprecedented political instability due to infighting in parliament is a best recipe for staggering economy and increased poverty resulting in huge social problems due to unemployment.

With Solomon Islands population at almost 600,000 people, an employment age group stands at about 225,000, a proactive, robust government with strong coordination and facilitating role, couple with good and sound policies can equates to running a large company with 225,000 workers with the private sectors and SME becomes the job and wealth creation mechanism of the country.

15.0 Recommendation

We suggest that, the government of the day and the relevant ministries to review weak and ineffective policies that is hindering the prosperity of the private sector and SMEs. Furthermore, the outdated regulations need updating and wider consultation from public to private sector to propose regulation that would be conducive to conduct business. Moreover, the poor and deteriorating infrastructures need more attention from the government and donor agencies to facilitate the private sector needs. However, the government must profess strong governance at all level to uphold its integrity and move the private sector forward through appropriate policies and addressing key issues affecting the private sector. Final but not the least is the weak micro financing facilities available. They are mostly dominated by private banks that are making hard for the ordinary people to excess and start up business. The government really needs to set up an SME bank or any other form of financing such as SMEs guarantee funds, for its citizens to access and support their business or assist with funds.
Bibliography

- Solomon Islands Small and Medium Enterprises – Human Resource Development Survey (ProBus Consulting Services, January 2011)
- SME Access to Finance and Capital in Solomon Islands (Advanced Consultancy Services, December 2011)
- SME’s Business Environment Study Report (Consultant- Mr. William Parairato)
- CBSI 2010 Report.
- NCRA government policy framework, 2011.
- www.myonlinebusinessstoolkit.com
- www.invest.solomon.gov.sb
- www.pitic.org.au
- Foreign Investment Act, 2005
- www.pacifictradeinvest.com (July 29, 2011)

Key Terms and Definitions

The terms and definitions used in this assignment are in the context of Solomon Islands Business environment.

**SME** – ‘Small and medium enterprises’, is characterized by the smallness of business, size of the number of people working, the flexibility of its structure and the subsistence level of scale of and operations in Solomon Islands context.

**Policy** – the course of action and direction set by the Solomon Islands government and financial agencies to enumerate steer the small and medium enterprises.

**Guarantees Scheme** – Schemes established by the Central Bank of Solomon Islands (CBSI) to bridge the non-collateral security position by business owners, enhancing them to have access to finances.

**Sector Policy** – Course of action taken by each sector to improve the growth of sectors from SME’s upwards.

**Business Incubators** – Is a facility that is established to help small business from their small baby steps stage to the growth stage and beyond.

**SMEC** – ‘Small and Medium Enterprise Council’ – this is the Solomon Islands version of Business incubators, to help the small businesses to grow and expand.

**Business Mentoring** – the programs established with partners such as New Zealand on a one-to-one basis with small businesses, changing the business mind-set and focusing on growth and sustainability in the long run.

**Rural Development Program** – the program tailored to impact the rural livelihood of Solomon islanders and speeding up the small business engagement.

**Growth Centers** – SI Government anticipated centers that are viewed to facilitate growth for small businesses, rural administrative focal point in relationship to the provincial centers and Honiara.