



# Doing Business in Solomon Islands

## Location

The Solomon Islands stretches in a double chain of islands from east to west over 1,400 kilometres. Papua New Guinea is to the west of the Solomon Islands and Vanuatu is to the south east.

The Solomon Islands comprises 999 islands of which there are six main islands, one of which hosts the capital, Honiara, on Guadalcanal. The total land area of the Solomon Islands is 28,900 square kilometres.

The population is largely located in rural coastal areas with approximately 50,000 people in Honiara. English is the official language of the Solomon Islands but Solomon Islands Tok Pisin is the lingua franca for the majority of people. There are 63 distinct languages in the country, with numerous local dialects.

## Government

Independence was gained from Britain in 1978 and the country remains a parliamentary democracy. There are three tiers of government – the national government, nine provincial governments, each led by a Premier, and area councils (local councils).

The Governor General represents Queen Elizabeth II as its Head and the Solomon Islands continues to be part of the Commonwealth. The single-chamber National Parliament comprises 50 members, elected under a 'first past the post' voting system for a four-year term. The Prime Minister is elected by an absolute majority of members of parliament. While Members of Parliament naturally form loose groups, party structures in the Solomon Islands are fluid.

The legal system is based on British law and an independent judiciary system comprises magistrates' courts, the High Court and the Court of Appeal.

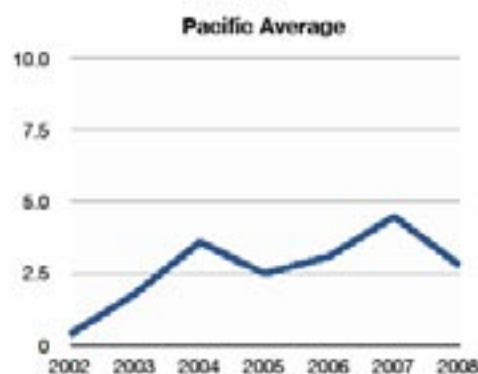
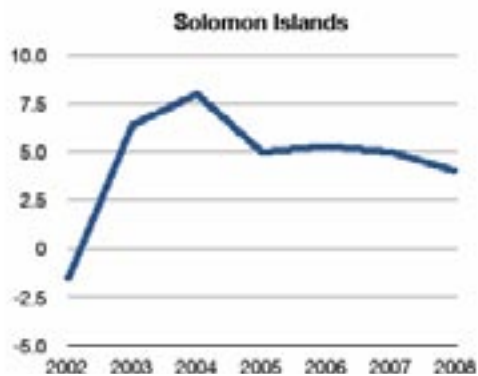
## At a Glance:

<b>Population:</b> 483, 083 (2006)
<b>Land Area:</b> 28,900 square kilometres
<b>EEZone:</b> 1,340,000 square kilometres
<b>Political Status:</b> an independent democratic country since 1978
<b>GNP:</b> US\$280 million (2005)
<b>Major Industries:</b> fisheries, forestry, copra, palm oil, cocoa and gold
<b>Merchandise Exports (Value):</b> US\$109 million (2005)
<b>Major Exports:</b> timber, fish (fresh, frozen, smoked and canned), copra, cocoa and palm oil
<b>Merchandise Imports (Value):</b> US\$194 million (2005)
<b>Major Imports:</b> machines, transport and equipment; manufactured goods; food and live animals; mineral fuels and chemicals
<b>Currency:</b> Solomon Islands Dollar
<b>Average Foreign Exchange:</b> US\$1 = SBD\$7.67

A short period of civil unrest following elections in April 2006 had a fairly small impact on the overall economy. Riots broke out in the capital, Honiara, after a new prime minister was named, resulting in serious damage to property. The Regional Assistance Mission to Solomon Islands (RAMSI), an initiative of the 16-country Pacific Islands Forum in 2003, was reinforced with police and army personnel, who restored order. The prime minister resigned following a vote of no confidence and a five-party Grand Coalition for Change Government took office in May 2006, led by the new Prime Minister Manasseh Sogavare. Subsequently, RAMSI's military component was scaled down and urban reconstruction began.

In December 2007 a vote of no confidence was carried out and Manasseh Sogavare was replaced by new Prime Minister Derek Sikua.

GDP Growth (%) 2002-2008



Source: ADB Asian Development Outlook, 2007. 2007 and 2008 are estimates.

## Economic Profile and Performance

The economy grew by an estimated 5.3% in 2006 with log production continuing at a high (and unsustainable) rate, fish production expansion, and palm oil making a contribution for the first time since 1999. The services sector also expanded and there was new investment in the Gold Ridge gold mine. Inflation accelerated to 8.2% in 2006, with high oil prices and rapid credit expansion the main causes. The pegging of the Solomon Islands dollar to a weakening US dollar led the domestic currency to depreciate by 5–9% against its major trading-partner currencies.

Firm international prices for major commodity exports (logs, fish, and palm oil) stimulated export growth of 13.5% in 2006, but imports expanded by 26.9%, primarily as a result of greater fuel and investment related imports. The merchandise trade gap widened and the current account deficit worsened to 15.8% of GDP from 10.8% in 2005. Increases in aid inflows equivalent to over 25% of GDP and in foreign direct investment (mostly into the palm oil and gold industries) contributed to an improved overall balance of payments. Gross official reserves rose to \$103.6 million at end-2006.

In an effort to begin dismantling barriers to business, the Government adopted a National Transport Plan in September 2006 and permitted competition in the monopolized telecommunications sector. The 2007 budget also has tax and tariff reforms, including the reduction of the top rate of import duties from 20% to 10%, and the ending of duty exemptions on log exports.

## Economic Outlook

The ending of export duty exemptions perceives a slowdown in logging and a decline in log exports. Non timber activities are forecast to grow at higher rates, with agriculture and mining leading the way. Inflation is projected to decelerate to 8.0% and 7.5%, as domestic credit expansion eases and the pegging of the exchange rate to the US dollar is maintained. The current account deficit is expected to be about 10% during 2008.

Source: ADB Asian Development Outlook 2007

## Industry Sectors

The key industry sectors and their characteristics are as follows:

**Agriculture:** The Solomon Islands' exports of agricultural products have traditionally come from the larger commercial operations in palm oil, copra, coconut oil and cocoa. Most of the population is engaged in subsistence agriculture (cassava and sweet potato) and some cash crops (copra, cocoa, taro, yams, vanilla and coffee). There is extensive agricultural resources offering opportunities for a wide range of agri-business projects including the downstream process of coconuts; cocoa production; chillies; fruits; abattoir; dairy; etc.

**Fisheries:** The substantial tuna resources in the Solomon Islands waters are fished and processed by a range of operators. The domestic fishing fleet was controlled by Solomon Taiyo, a joint venture with the Japanese that exported processed and canned tuna to Japan and other international markets. This operation has now scaled down its production, pending a re-organization of ownership. Other nations (Taiwan and the

Republic of Korea, etc.) are permitted to harvest in Solomon Islands territory under various multilateral and bilateral agreements. There are also good opportunities for aquaculture projects involving prawns and milk fish.

**Forestry:** This sector is a major contributor to the country's foreign exchange and government revenue. In 1999, a moratorium on the issue of new licenses was introduced and a concession on the mainly foreign logging companies was terminated. Most exports are in a round log.

**Manufacturing:** The tuna-canning operation was the largest single employer in the country. The scaling down of this plant has had a significant impact on the domestic economy. Other manufacturing operations in the Solomon Islands are on a relatively small scale and include food and beverages (flour mill, brewery, soft-drink production), fiberglass boats, timber products, building materials and a limited range of clothing for the local market. Only very limited volumes of manufactured products are exported from the Solomon Islands: simply processed timber, vegetable oils, coconut oil and handicrafts.

**Mining:** To date, only one mine, Gold Ridge Mining on Guadalcanal, has been established. Its operations closed in 2000. There are also various known commercially feasible deposits of minerals, including gold and nickel, on other islands. Petroleum fields have also been identified but these have not yet been exploited.

**Tourism:** This is not a large industry in the Solomon Islands, however with an eventual return to the 'Happy Isles' (as the Solomon Islands is known) it has the potential to develop and contribute to the countries economy. The Solomon Islands is well known for its diverse, quality diving and has numerous locations to the west of the country that would be ideal for tourist resorts.

## Imports/Exports

Total exports in 2006 were valued at US\$109 million. This included timber, fish (fresh, frozen, smoked and canned), copra, cocoa, and palm oil. The Solomon Islands main export destinations were Japan, the People's Republic of China, the Philippines, the United Kingdom and the Republic of Korea

Imports amounted to US\$194 million, and were sourced from Australia, Singapore, Japan, New Zealand and the United States. Imported commodities included machines, transport and equipment; manufactured goods; food and live animals; mineral fuels and chemicals.

## Labour and Human Resources

Positive developments in the private and public sectors has seen vibrant labour market conditions in 2006, with those employed reaching 29,890; an increase of 4,034 from previous year. While there is no shortage of unskilled labour, it may be difficult to fill supervisory positions. All foreign workers require work permits. Entry of new foreign employees must be approved by the Commissioner of Labour and be based on evidence that:

- No trained Solomon Islander is available to fill the position;
- The foreign employee is qualified, experienced and able to train Solomon Islanders to undertake the task; and
- Provision has been made for localizing the position through suitable training, so that a Solomon Islander may eventually fill the position;

In terms of labour market regulations, the Labour (Minimum Rates of Wages) Order of 1996 sets minimum wage rates and conditions in the Solomon Islands. The minimum wage rate for all workers:

- In the fishing and agricultural sectors is US\$0.23 an hour; and
- US\$0.29 an hour in other areas;



# Doing Business in the Solomon Islands

A compulsory superannuation contribution scheme applies for the benefit of all employees under the National Provident Fund. Every employer must make monthly contributions equal to 7.5% of each employee's wage to this fund. The employee contributes another 5%.

The Workmen's Compensation Act covers employees for work-related injuries and illness and the Labour Act relates to industrial relations, collective bargaining, dispute resolution and trade training and testing schemes

There are 14 trade unions affiliated to the Solomon Islands Council of Trade Unions. The two major employer associations are the: Chinese Association; and the Federation of Employers.

All education is in English and professional and managerial Solomon Islanders speak English in a very natural manner. Unskilled workers, particularly in areas outside of Honiara, usually do not speak fluent English. Most people communicate with each other informally in Solomon Islands Pisin (similar to the Tok Pisin spoken in Papua New Guinea and Vanuatu).

There are 52 secondary schools in the Solomon Islands and attendance is limited to those passing selection tests. Currently 35% of students graduate from primary to secondary schools.

The Solomon Islands College of Higher Education provides courses up to degree level but many students attend universities in nearby countries. This college provides courses designed for the lower and middle level human resource needs of the country. An associated trade centre offers opportunities in carpentry, car maintenance and sheet metal working.

## Infrastructure

A lack of infrastructure has constrained the country's economic development and only around 11% of rural areas (largely on the main island of Guadalcanal and the second-largest island, Malaita) have access to roads suitable for vehicles. The road system around the capital is reasonably good.

Main roads in Honiara including parts of East Guadalcanal have been rehabilitated and sealed, whilst bridges along Malaita have also been improved.

The international airport has been upgraded and international routes are serviced by the national carrier, Solomon Airlines including code share arrangement with Qantas, Air Vanuatu, Air Niugini and Air Pacific. The 20 domestic airfields are catered for by Solomon Airlines and Western Pacific.

The main sea ports at Honiara and Noro are proficient in handling 20-foot containers and are serviced by a number of international shipping companies. Domestic sea freight services are provided by a number of local companies.

Telecommunications is provided by Solomon Telecom, a joint venture with Cable and Wireless of the United Kingdom. International telecommunications are of a high standard but internal communications can be difficult.

Power cuts are frequent and charges to private sector for electricity are generally high. Electricity is only available on the larger islands; however, the government through the Electricity Authority is committed to improving the services across the country.

A full range of commercial banking services is provided by several

banks; whilst legal and accountancy firms are also in operation in the Solomon Islands.

## Investment Policy and Regulations

The regulatory framework covering foreign investment includes the Foreign Investment Act 2005 and the Foreign Investment Regulations 2006. Reforms of business laws are expected to make it easier to do business. Furthermore Solomon Islanders are encouraged to engage in businesses through provision of training and establishment of credit guarantees operated by the central bank.

The economic outlook is positive, on the assumptions that investor confidence is sustained by political stability and that the Government implements its public sector and economic reform agenda at a moderate pace.

The following features are encouraged by the Foreign Investment Division for investments:

- Strengthening the technical and marketing expertise of the private sector;
- Maximizing the use of local raw materials in the production stages;
- Promoting export and import substitutes;
- Creating employment and training to the local people;
- Integrating or transferring knowledge and technology to the country's economic system; and
- Having a vision for long term investment;

A number of activities are not open to foreign investment, including retailing and the right to fish in inshore areas, the reef and lagoons (subject to traditional ownership/use rights).

In summary, the restricted activities include:

- cultivating plant crops exclusively for sale on the domestic market;
- timber milling operations producing not more than 2,500 metric cube sawn timber per year;
- retail trading of household goods and services on premises with an area of less than 200 square meters;
- producing handcrafts and cultural artifacts;
- operating buses, taxis and hire cars;
- farming of livestock for sale exclusively for domestic market;
- gathering of wild forest products for sale exclusively for domestic market;
- laundry services not part of hotels;
- restaurants, cafes and other eating and drinking business other than specialty business, and operating within an area of less than 25 square meters;
- market vending and roadside stalls;
- static guarding services for offices and domestic dwellings with an employment of less than 20 employees;
- office and lawn cleaning services not associated with hotels; and;
- domestic help services;

## Land

About 88% of all land is owned by tribal groups and like other Pacific Islands; the government recognizes customary land ownership. The rest of the land and boundaries are recorded in a registry and are guaranteed by law rather than custom.

Non-Solomon Islanders can only lease registered land, while Solomon Islanders can obtain a freehold interest in registered land. Foreign investors can lease land from customary owners but most prefer to lease registered land.

## Taxation and Other Regulations

Company tax rates in the Solomon Islands:

- Resident company – 30%;
- Non-resident company – 35%

Income tax is charged by assessment on the total income (excluding exempt income) derived by any person (individuals, corporations or body of persons excluding partnership).

Personal Income Tax Rates:

US\$1 – US\$2,090	11%
US\$2,091 – US\$4,181	US\$230 + 23% of excess over US\$2,090
US\$4,182 – US\$8,363	US\$710 + 35% of excess over US\$4,181
US\$8,363 and above	US\$2,313 + 40% of excess over US\$8,363

Withholding tax is deducted from a range of specified payments to residents and non residents at varying rates. The payer is responsible for deducting the tax at the time of payment.

Every dividend payment that is not exempt from tax has its dividend tax deducted by resident companies within 15 days of date of payment of dividend. The rates are:

- Residents – 20%
- Non-residents – 30%

Arrange of other income-generating activities (for example, interest, professional services, royalties, lease income, etc.) also attract withholding tax at rates from 5% to 15%.

The sale value of goods imported for home consumption in Solomon Islands is 130% of the sum of the cost, insurance and freight (CIF value) plus customs duty payable. Income tax incentives are available depending on the type and value of investments made and can be requested through the Commissioner of Inland Revenue.

Export duties are levied at the following rates applied against determined values:

- Minerals 15%
- Shells 10%, 30%
- Live fish 10%
- Fish, chilled or frozen 5%, 20%
- Crustaceans, mollusks 10%
- Timber various specific, ad valorem and combined rates
- Copra 30%
- Live animals 10%
- Crocodile skin 10%

Administration of exchange control and transactions between residents and non-residents must have the Central bank's approval which is usually granted. Repatriation of profits is allowed.

Exchange control approval is required on the importation of capital, repatriation of capital, transfer of profits, dividends, interest and royalties, borrowing of overseas funds, repayment of interest or a loan to a non-resident lender, crediting a non-resident account, transfer of property, goods, rights to services, etc. to non-residents, operation and settlement of inter-company accounts, transfers overseas of sale proceeds of Solomon Islands assets, direct investment overseas and lending of Solomon Islands currency outside the Solomon Islands. Exchange control approval is also required for companies incorporated in the Solomon Islands to issue and register shares in the name of non-residents.

## Investment Opportunities

The government has developed a list of desired investment areas for potential investors; it also encourages joint ventures for foreign investors with local companies. Detailed information can be obtained from the Foreign Investment Division.

The National Government is cognizant of the inputs of FDI and therefore places high priority for sectoral development and growth. With its long term development vision, investments are encouraged on areas which include but not restricted to the following:

- Off shore fisheries development;
- Aqua Culture development;
- Manufacturing of goods of all types;
- Tourism development;
- Commercial farming;
- Forestry development, particularly timber and related products;
- Mineral prospecting;
- Export oriented productions;
- Agriculture development;

## Business Development Assistance

### FOREIGN INVESTMENT DIVISION Department Of Commerce, Trade & Industries

The Division administers the Foreign Investment Act and Regulation 2005 and stimulates investments whilst at the same time aims to promote and encourage investments in the Solomon Islands. The Division has three main sub-divisions; the Promotion Units, Evaluation Unit and the Monitoring Unit.

Application Process:

- Apply for Registration intended for investment through the Registrar of Investment;
- Complete an official investment Form;
- Lodge application form to the Registrar of Investment with a fee of SBD\$200.00 to the Treasury Division;
- Registrar reviews and registers the investor;
- On approval of investment activity, Registrar records prescribed information relating to the investment activity and issues a certificate of registration; and
- Incorporate company;

Observation of Labour and Immigration Acts must be adhered to by investors; Work Permits are issued by the Commissioner of Labour and Residence Permit from Immigration.

## SMALL BUSINESS FINANCE SCHEME

The above scheme is aimed at assisting the development of business activities within the Solomon Islands of which the Central Bank acts as the guarantor to the participating lending financial institutions. Prominence is given to Small and Medium Enterprises involved with rural or export business ventures.

Those eligible for the Scheme:

- Individual Solomon Islanders;
- Cooperatives or Companies owned and controlled by Solomon Islanders; and
- Joint Venture companies (50% must be owned by Solomon Islander);

Loans are in the vicinity of SBD\$50,000 to SBD\$1,000,000 and the maximum term for such loan is 5 years.

## SOLOMON ISLANDS SMALL BUSINESS ENTERPRISE CENTRE (SISBEC)

Primarily funded by the New Zealand Government, the Solomon Islands Small Business Enterprise Centre (SISBEC) is modeled on similar business enterprise centres in New Zealand. SISBEC commenced operating in 1998. Its objectives are to provide business training and support services for small enterprises and those planning to start a business.

The following assistance is provided:

- Starting a business;
- Business proposal preparation;
- Book keeping;
- Skills for women in business;
- Marketing and customer service;

Training is based on cost sharing and is usually at US\$30 in regional centres and US\$20 in rural areas. A total of four free follow-up consultations will be provided through the 12 months after the course is completed.

Those attending a training course need only fill out a simple application form and pay the fee. Applicants requiring individual assistance should contact SISBEC directly to discuss their requirements. Most will, however, be encouraged to participate in a relevant training course before such support is provided.

## UNDP PACIFIC CENTER

The Pacific Centre offers policy advice and technical assistance in the following business related and private sector development areas:

- Partnership building with commercial financial institutions to bank the unbanked in the Pacific;
- Business mentoring program development;
- Young entrepreneurs training;
- Integration of financial literacy and entrepreneurship education in school curriculum;
- Partnership with Pacific Islands Private Sector Organisation to strengthen business networking and policy dialogue for sustainable economic growth;
- Human development implications of labour mobility schemes;
- Integrated framework for trade for LDCs;
- Promoting private sector partnerships for pro-poor outcomes.

## Useful Contacts

### BANK OF SOUTH PACIFIC, SOLOMON ISLANDS

Head Office  
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SOLOMON ISLANDS  
Phone: (677) 21 874  
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### CUSTOMS & INLAND REVENUE DEPARTMENT - MINISTRY OF FINANCE AND TREASURY

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### FOREIGN INVESTMENT DIVISION - DEPT. OF COMMERCE, EMPLOYMENT & INDUSTRIES

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Website: [www.commerce.gov.sb](http://www.commerce.gov.sb)

### IMMIGRATION DEPARTMENT

PO. Box G26  
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### LABOUR DIVISION - DEPARTMENT OF COMMERCE, EMPLOYMENT AND TRADE

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### SOLOMON ISLANDS CHAMBER OF COMMERCE AND EMPLOYERS

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# The Pacific Islands Trade & Investment Commission, Sydney

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## Who We Are and What We Do

We are one of four overseas agencies of the Suva-based Pacific Islands Forum Secretariat (PIFS). PIFS has other overseas offices located in Japan, New Zealand, and the People's Republic of China.

We work closely with a network of government and private sector agencies in the 14 Pacific Islands who are members of Pacific Islands Forum.

Our aim is to improve the capabilities of their private sector; in particular in enterprise, export and tourism development.

## Our Functions

1. To assist Pacific Island enterprises develop sustainable business and trade activities.
2. To assist Pacific Island governments and private sector service providers develop their tourism potential.
3. To support private sector growth in the Pacific Islands, including promoting intra-regional investment.
4. To support business linkages between government and enterprises in the Pacific Islands and Australia through efficient and effective dissemination of market information.

## Out Special Projects Unit

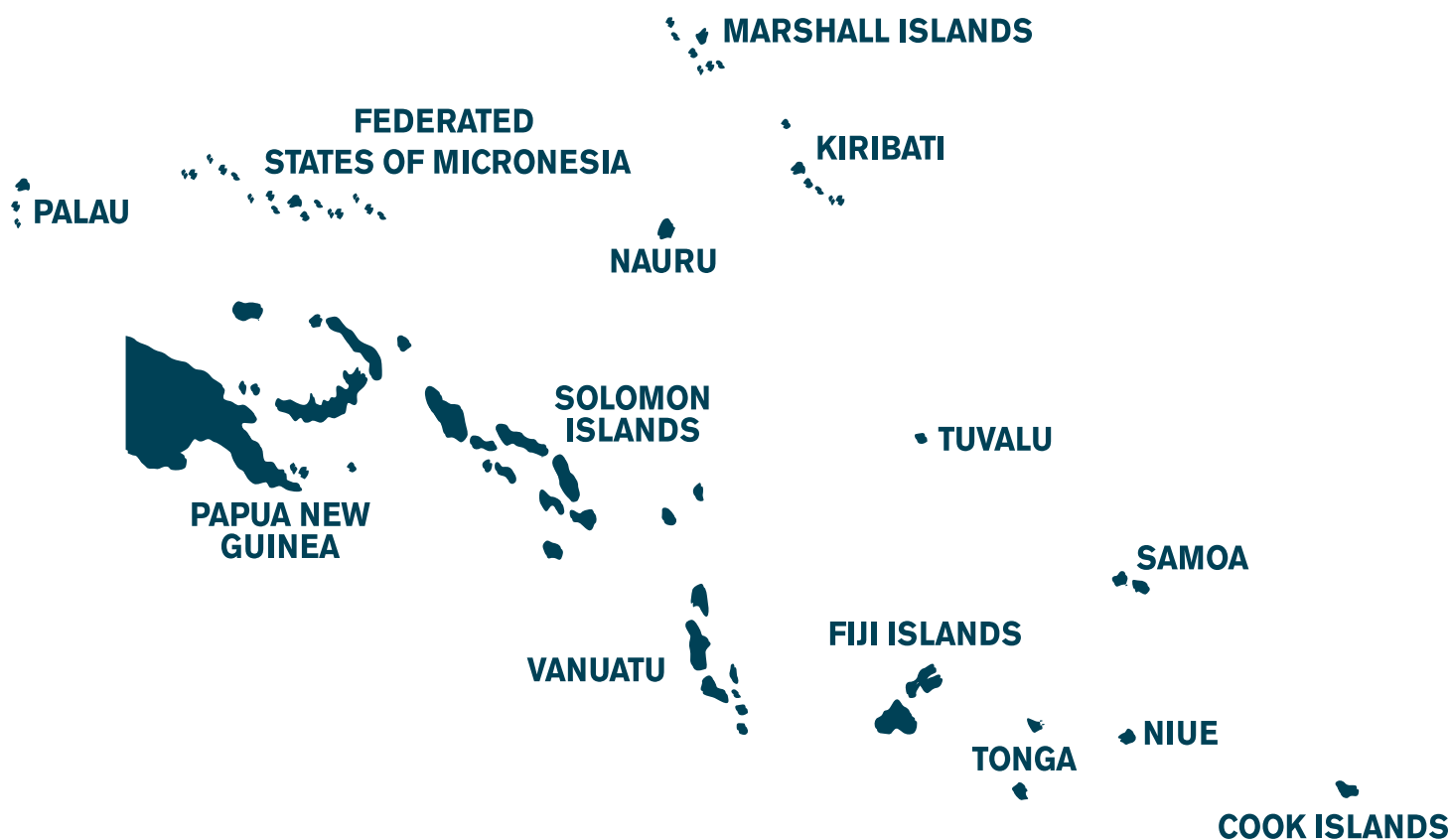
- Supports private sector development in 14 Pacific Islands Countries.
- Promotes intra-regional investment development.
- Supports the business development programs of Small Island States (SIS).
- Supports skills development, including through capacity building initiatives.

## Our Newsletters

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Our newsletter provides practical information about trade, tourism and investment trends in the Pacific Islands and Australia. Pacific Outlook also contains up-to-date information on developments on regulatory changes and requirements for trade and industry in the region.

Our newsletters are published on a bi-monthly basis. Register online at [www.pitic.org.au](http://www.pitic.org.au) for your free subscription.





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