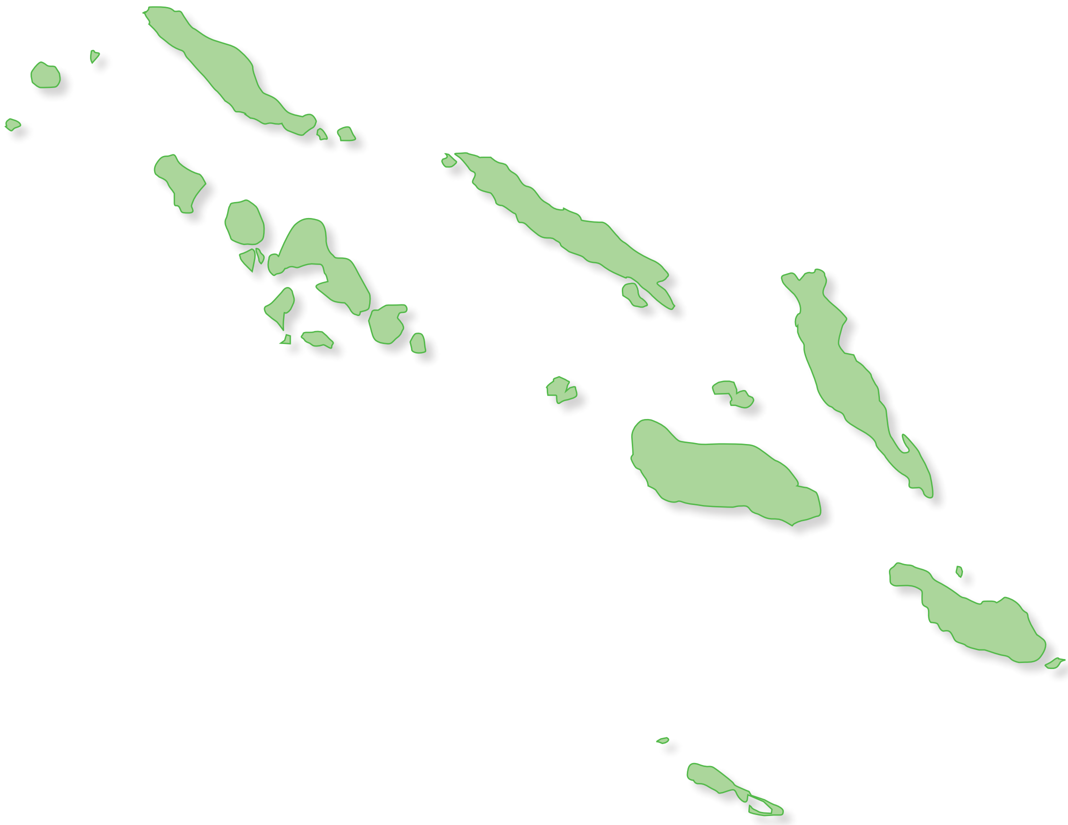

Solomon Islands

Diagnostic Trade Integration Study

2009 Report

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List of acronyms

AAL	Agriculture, agro-processing and livestock sector
AASI	Aquarium Arts Solomon Islands
ADB	Asian Development Bank
ADF	Asian Development Fund
AG	Attorney-General
ANZ	Australia and New Zealand
APEC	Asia Pacific Economic Co-operation
APTC	Australia-Pacific Technical College
ARDS	Agriculture Research and Development Strategy
ASIM	Association of Solomon Islands' Manufacturers
ASMP	ASYCUDA Support Mechanism for the Pacific
ASYCUDA	Automated System for Customs Data
AusAID	Australian Agency for International Development
BCOSI	Business Council of Solomon Islands
B	billion
BoP	Balance of Payments
CA	Cotonou Agreement
CAD	Consumer Affairs Division, MCILI
CBD	Convention on Biological Diversity
CBSI	Central Bank of Solomon Islands
CCD	Convention to Combat Desertification
CCMC	Council of Chiefs Management Committee
CEMA	Commodities Export Marketing Authority
CEPA	Cocoa Exporters and Producers Association
CFC	Christian Fellowship Church
CGA	see entry for VCGA
CIF	Cost, insurance and freight
CITES	Convention on International Trade in Endangered Species
CL	Commissioner of Lands
CNURA	Coalition for National Unity and Rural Advancement
COLP	Code of Logging Practice
CoSPSI	Commercialisation of Seaweed Production in Solomon Islands
CPI	Consumer Price Index
DBH	Diameter at breast height
DEC	Department of Environment and Conservation

DOC	Department of Commerce
DoT	Department of Tourism
DET	Department of External Trade
DTIS	Diagnostic Trade Integration Study
EBA	Everything but arms
EC	European Commission
EEZ	Exclusive economic zone
EHD	Environmental Health Division, Ministry of Health
EIA	Environmental Impact Assessment
EIF	Enhanced Integrated Framework
ENGO	Environmental Non-Governmental Organization
EPA	Economic Partnership Agreement
EPPCL	Eagon Pacific Plantations Company Ltd.
ERU	Economic Reform Unit
EU	European Union
FAO	Food and Agriculture Organization
FAQ	Fair Average Quality
FCL	Full Container Load
FFA	Forum Fisheries Agency
FIAS	Foreign Investment Advisory Service (part of the World Bank)
FIB	Foreign Investment Board
FIC	Forum Island Country
FID	Foreign Investment Division
FIP	Forest Investment Program
FLO	Fair Trade Labelling Organization
FOB	Free on board
FSC	Forest Stewardship Council
FTA	Free Trade Agreement
FTC	Family Tree Ceremonies
FVO	Food and Veterinary Office
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GNP	Gross National Product
GoV	Government of Vanuatu
GPL	Guadalcanal Plains Landowners
GPLA	Guadalcanal Plains Land Acquisition
GPPOL	Guadalcanal Plains Palm Oil Ltd.
GRT	Gross registered tonnage
GSP	Generalised System of Preferences
GTZ	Gesellschaft für Technische Zusammenarbeit (German technical co-operation organisation)
ha	hectare
HDI	Human Development Index
HIES	Household Income and Expenditure Survey
HRD	Human Resources Development
ICLARM	International Centre for Living Aquatic Resource Management (now the WorldFish Center)
ICSI	Investment Corporation of the Solomon Islands
ICSID	International Centre for the Settlement of Investment Disputes

IEPA	Interim Economic Partnership Agreement
IF	Integrated Framework
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IF-NIU	IF-National Implementation Unit
IF-NSC	IF-National Steering Committee
IMF	International Monetary Fund
IPAM	Institute of Public Administration and Management
IPR	Intellectual Property Rights
IRD	Inland Revenue Division
ITC	International Trade Centre
IVS	International Visitor Survey
JICA	Japan International Co-operation Agency
KFPL	Kolombangara Forest Products Ltd.
LDC	Least developed country
LMOC	Labour Mobility Oversight Committee
LSL	Lever Solomons Ltd.
m	million
M3	A broad measure of the money supply
MAC	Ministry of Aviation and Communication
MAF	Ministry of Agriculture and Forestry, New Zealand
MALD	Ministry of Agriculture and Livestock Development
MCILI	Ministry of Commerce, Industries, Labour and Immigration
MDG	Millennium Development Goal
MDPAC	Ministry of Development Planning and Aid Coordination
MFAET	Ministry of Foreign Affairs and External Trade
MFMR	Ministry of Fisheries and Marine Resources
MFN	Most favoured nation
MGA	Main Group Archipelago
MHMS	Ministry of Health and Medical Services
MLS	Ministry of Lands and Survey
MoFT	Ministry of Finance and Treasury
MOU	Memorandum of Understanding
MRD	Ministry of Rural Development
MSG	Melanesian Spearhead Group
MSG FTA	Melanesian Spearhead Group Free Trade Agreement
MTDS	Medium Term Development Strategy
MTFS	Medium Term Fiscal Strategy
NBPOD	New Britain Palm Oil Development
NBSAP	National Biodiversity Strategy and Action Plan
NCG	National Coalition Government
NCW	National Council of Women
NEMS	National Environment Management Strategy
NERRDP	National Economic Recovery and Reform Development Plan
NFD	National Fisheries Development
NFPS	National Forest Policy Statement
NGO	Non-Governmental Organization
NISIT	National Institute for Standards and Industrial Technology (PNG)
NPF	National Provident Fund
NSO	National Statistics Office

NTFC	National Trade Facilitation Committee
NTFP	Non-timber forest Products
NZAID	New Zealand Agency for International Development
OCO	Oceania Customs Organisation
ODA	Official Development Assistance
OFCF	Overseas Fisheries Co-operation Foundation
OHS	Occupational Health and Safety
OIE	World Organisation for Animal Health
PACER	Pacific Agreement on Closer Economic Relations
PACP	Pacific ACP
PACREIP	Pacific Regional Economic Integration Programme
PCU	Price Control Unit
PIC	Pacific Island Country
PICTA	Pacific Island Countries Trade Agreement
PIFS	Pacific Island Forum Secretariat
PMO	Prime Minister's Office
PNA	Parties to the Nauru Agreement
PNG	Papua New Guinea
POP2	Producers' Organization Project (Vanuatu)
PPP	Purchasing power parity
PRC	Peoples Republic of China
PRTDP	Pacific Region Tourism Development program
PS	Permanent Secretary
PSC	Public Service Commission
RAMSI	Regional Assistance Mission to Solomon Islands
RCF	Revolving Credit Fund
RCLF	Rural Constituency Livelihoods Fund
RDP	Rural Development Project
RIPEL	Russell Islands Plantations Ltd.
ROC	Republic of China (Taiwan)
RoO	Rules of Origin
RSE	Recognised Seasonal Employer
RTFP	Regional Trade Facilitation Program
SBD	Solomon Islands dollar
SFIA	Solomon Forest Industries Association
SIAQS	Solomon Islands Agriculture and Quarantine Services
SICCI	Solomon Islands Chamber of Commerce and Industry
SICED	Solomon Islands Customs and Excise Division
SICHE	Solomon Islands College of Higher Education
SIDS	Small Island Developing States
SIEA	Solomon Islands Electricity Authority
SIFMP II	Solomon Islands Forest Management Project II
SIG	Solomon Islands Government
SIHDR	Solomon Islands Human Development Report
SIMCT	Solomon Islands Ministry of Culture and Tourism
SIME	Solomon Islands Marine Exporters
SIMROS	Solomon Islands Marine Resources Organizational Strengthening
SINEW	Solomon Islands National Estate Workers Union
SINPF	Solomon Islands National Provident Fund
SIPA	Solomon Islands Ports Authority

SIPL	Solomon Islands Plantation Ltd.
SIQS	Solomon Islands Quarantine Services
SIS	Small island states
SISBEC	Solomon Islands Small Business Enterprise Centre
SISO	Solomon Islands Statistics Office
SIVB	Solomon Islands Visitors Bureau
SIWA	Solomon Islands Water Authority
SIWIBA	Solomon Islands Women in Business Association
SME	Small and Medium-sized Enterprises
SMEC	Small and Medium-sized Enterprises Council
SOE	State-owned enterprise
SPARTECA	South Pacific Regional Trade and Economic Co-operation Agreement
SPC	Secretariat of the Pacific Community
SPFM	Small Project Fund Matrix
SPS	Sanitary and phytosanitary
SPTO	South Pacific Tourism Organisation
STI	Sexually-transmitted infections
t	(metric) tonne
TA	Technical assistance
TBT	Technical barriers to trade
TCSP	Tourism Council of the South Pacific
TNC	The Nature Conservancy
TRTA	Trade-related technical assistance
TSAP	Transitional Support to Agriculture Program
TVET	Technical Vocational Education and Training
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	United Nations Development Program
VATA	Value-Added Timber Association
VATET	Vanuatu Tourism Education and Training Project
WB	World Bank
WCO	World Customs Organisation
WCPFC	Western and Central Pacific Fisheries Commission
WTO	World Trade Organisation
WWF	Worldwide Fund for Nature

Foreword

The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF) was established in October 1997 under the auspices of the World Trade Organisation (WTO).

The IF was conceived as a country-driven process leading to the integration of trade policy into national development strategies, and to co-ordinated delivery of trade-related technical assistance (TRTA) by development partners in response to identified needs. Following lessons learnt from early IF experiences, the Enhanced IF (EIF) was subsequently developed as a means of improving the delivery of TRTA. Under the EIF the pool of funds available is larger. Accordingly, the EIF can be seen as an instrument of coherence to ensure optimal use of scarce resources in support of Least Developed Countries (LDCs) to become full players and beneficiaries of the world's economy and the multilateral trading system. To this extent, it is a unique international initiative based on a partnership through which the six core agencies, the International Monetary Fund (IMF), the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), the World Trade Organisation (WTO) and the World Bank, combine their efforts with those of LDCs and donors to respond to the trade development needs of the beneficiary countries.

An essential part of the IF process is the preparation of a Diagnostic Trade Integration Study (hereafter referred to by its acronym, DTIS) as the analytical foundation for policy recommendations and actionable TRTA/capacity-building interventions. The DTIS has five major components:

1. A review and analysis of the country's **economic and export performance**;
2. A description and assessment of the country's **macroeconomic environment and investment climate**;
3. A focus on the international **policy environment** and **specific constraints** that exports from the country face in international markets;
4. A focus on a small number of **key labour-intensive sectors** where the private sector can contribute to a significant expansion of output and exports and a good *a priori* case can be made that the poor stand to benefit either in terms of employment and/or lower prices;
5. A set of **policy reform priorities** and required capacity-strengthening at the sectoral level to capitalize on the major opportunities identified in the strategy.

On the strength of the detailed analysis, the DTIS provides an action matrix comprising policy reform measures and capacity-strengthening activities to serve as the basis for trade-related assistance and support.

The Solomon Islands Integrated Framework began in 2006 at the request of the Government, and an information workshop was held in Honiara in 2007. A DTIS preliminary workshop was held from 5–9 May 2008. The main mission took place during July and August 2009. The DTIS team leader was Daniel Gay, who put together the DTIS using background papers contributed by consultants in a number of areas. These contributions were in some cases distributed between different chapters during the editing process. The consultants, with their areas of expertise, are as follows: Kate Barclay (fisheries); Yurendra Basnett (human development); Duncan Burnett and Richard Pauku (agriculture); Viliame Caniogo (macroeconomic environment); Dan Lui (trade facilitation); Ruben Markward and Andrew Nanau (forestry and logging); Ameir Mbonde and William Parairato (business environment and investment policy); Simon Milne and Joyce Maetoloa (tourism); Fred Saeni (land); Julia Tijaja (trade policy). Daniel Hetherington wrote the sections on financial services and air transport and provided valuable comments throughout. James Callender contributed the section on land reform. Throughout the main mission each consultant held detailed discussions with relevant Ministries and Departments, NGOs and other stakeholders.

During November 2008 the draft DTIS report was circulated amongst Government ministries, IF partners and national stakeholders. The document was presented and discussed at the DTIS validation workshop from 11–12 December 2008, at which all relevant Ministries and stakeholders were represented. The document was amended in light of comments received at this workshop, and from IF partners, with particular emphasis on the recommendations and action matrix. To the greatest extent possible an attempt was made to reconcile the various comments bearing in mind the aim of the IF to raise the profile of trade and to ensure Government ownership.

The team would like to express its sincere thanks to the Honourable Minister for Foreign Affairs and External Trade, William Haomae, as well as the Director of Trade, Hence Vaekesa, for their time and support in facilitating the DTIS. The staff of the IF National Implementation Unit, Stephenson Talogwari, George Tuti and Jenny Barile have been particularly helpful.

The team would also like to register its appreciation for the professional guidance and support of the UNDP Trade and Human Development Unit in Geneva and in particular to David Luke, Luca Monge-Roffarello and Luisa Bernal. The staff at UNDP Solomon Islands and UNDP Fiji should also be thanked for their administrative assistance.

The following approximate exchange rates are used throughout:[a]

[a] As of 9 August 2008

1 USD = **7.8** SBD
1 EUR = **11.7** SBD
1 AUD = **6.9** SBD

Executive summary

The period of the 'Tensions' in Solomon Islands, from 1999 to 2002, forms the backdrop to recent developments. In 1998 a militant group, the Guadalcanal Revolutionary Army (later renamed the Isatabu Freedom Fighters) began a violent campaign against people from the island of Malaita with the aim of removing them from Guadalcanal. In 1999 the violence escalated when the Malaitan Eagle Force, a militant group made up of disenfranchised Malaitans, reacted violently. Honiara, along with other parts of Guadalcanal, became lawless and unstable. During the conflict as a whole an estimated 20,000 or more people were displaced and up to 200 killed (UNDP 2004). GDP fell 24%, many businesses closed and the central authorities struggled to govern effectively. By 2002 the Government was insolvent.

In 2003, at the request of the Solomon Islands Government, the Australian-led Regional Assistance Mission to Solomon Islands (RAMSI) was put together to restore law and order. After the RAMSI intervention the Government reprioritised its budget and consolidated and renegotiated its debts. A large-scale technical assistance program is underway in a number of areas.

Despite RAMSI's successes and rapid economic growth in the years after its intervention, a number of macroeconomic challenges remain, which are discussed in **Chapter one**. These include moving away from reliance on logging as a source of export earnings and fiscal revenues. Some of the causes of the Tensions still exist, including the economic divide between urban areas, provincial capitals and rural areas. Inflation has become an increasing challenge in recent months, although the slowing global economy and the division between the capital and outlying areas may somewhat reduce the need for greater fiscal austerity and tighter monetary policy, despite rapid growth in the money supply over recent years. Given the difficulties that many firms face in obtaining credit, the expansion of financial services, particularly outside the capital, may serve the dual ends of making growth more equal and assisting with the expansion of productive capacity.

Solomon Islands, like many other Least Developed Countries (LDCs) and Pacific island economies, has considerable market access to both developed and developing economies. The key challenge is to develop the supply side to take advantage of this market access, which will require building the institutional capacity to better develop and implement trade policy. To a large extent the task of Government in years to come is to defend the policy space required to enact strategic policies, and to develop the required capabilities. This will require significant donor co-operation, in some areas in the form of a 'hands-off' approach, rather than increased intervention. Wider consultation on economic and trade policy is also vital, along with greater inter-Ministerial coordination.

Chapter two, on cross-cutting issues, identifies land and financial services as among the most pressing issues facing the business environment and productive capacity. Some recommendations are made as to how to improve the use of land and access to financial services. The chapter also includes shorter sections on transport and infrastructure; utilities and energy; information communications technology.

Chapter three examines the business environment and investment policy, with particular emphasis on small and medium-sized enterprises (SMEs). The chapter first presents some features of doing business in Solomon Islands and makes an assessment of the most pressing priorities. Next, some key characteristics of the public and private sector are outlined, with some examples of some of the challenges facing representative private-sector players. After this is a discussion of investment and investment policy, followed by a look at the key institutions affecting the business environment, as well as training and human resources development.

Chapter four addresses trade facilitation, which currently receives relatively little attention. Considerable institutional improvements can be achieved. The first priority should be to re-establish the National Trade Facilitation or Trade Policy Committee and formulate an active work program. Customs reform should involve a clearer, costed and sequenced modernisation program. Solomon Islands is likely to encounter increased SPS challenges in the years ahead, particularly if it successfully builds productive capacity and diversifies exports, and a number of recommendations are made in this area. Reform in the area of standards and conformance should focus mainly on metrology in the first instance, while a training program with Papua New Guinea's National Institute for Standards and Industrial Technology may be a useful step towards greater regional co-operation.

Chapter five, on trade policy, first provides a summary of the trade regime including trade taxes, non-tariff issues and relevant legislation. Policy objectives are then identified, with suggestions for designing and implementing these objectives. The chapter provides a descriptive analysis of the existing institutional framework for trade and trade-related policy making, with discussions on the current constraints and opportunities for improvement. A suggested basic position on trade negotiations is also presented.

Chapter six, on trade and human development, focuses on inequality and poverty, which are of particular concern when economic activity is becoming increasingly concentrated around natural resources such as logging and minerals. Gender and health issues receive considerable attention, along with the environmental impact of mineral extraction. Numerous opportunities exist—many trade-related—to address these challenges. This chapter analyses the challenges, documents some opportunities and puts forward a set of policy recommendations aimed at ensuring that human development is achieved across the country and that resources are used in a sustainable and equitable manner.

Chapter seven outlines the key challenges facing the country's largest economic sector—logging and forestry. Forest resource governance is inadequate, both economically and environmentally, while girls and women tend to suffer most and receive the fewest benefits from the industry. Using participatory methods, the chapter shows how the state's actions and inaction have contributed to resource exploitation. The chapter also shows how existing opportunities in plantation forestry and downstream processing could lead to sustainable growth. The chapter discusses the obstacles and opportunities for future sources of income from the trade of environmental services like carbon credits, forestry plantations, especially sustainable logging; value-addition and linkages; land ownership as it relates to forestry and logging.

Chapter eight assesses the agriculture, agro-processing and livestock (AAL) sector in terms of identifying the trade gaps which need to be filled in order to mainstream trade into development planning and poverty reduction strategies and to assist in the co-ordinated delivery of trade-related technical assistance. More specifically, the focus of the chapter is on the improved commercialization and value enhancement to both traditional agricultural products and emerging higher value commodities. The chapter assesses and prioritises key issues such as the potential for growth and sustainability; current bottlenecks and trade gaps; value creation and addition; expansion, and the integration of stakeholders along the production and supply chains. Current initiatives are assessed and possible future areas of donor assistance proposed.

Chapter nine addresses fisheries and aquaculture. In the short to medium term the industrial tuna sector is one of the sectors capable of filling the gap left in foreign exchange as logging declines. Small-scale fisheries and aquaculture have less potential to contribute to national aggregate economic figures but are vital in terms of food security and livelihoods for rural areas. The chapter examines the background to the fisheries sector, including its contribution to the economy and governance issues, before moving on to a description and analysis of tuna fisheries and processing, coastal and nearshore fisheries, and aquaculture.

Chapter ten begins with an overview of the tourism sector's development, before making an assessment of the current size and characteristics of the sector and its clients. While the industry is at an embryonic stage, the country's natural geography make it an ideal tourist destination, and considerable progress can be achieved in this area. A comparative assessment of Solomon Islands tourism product is then presented—focusing on strengths, weaknesses, opportunities and threats. The discussion subsequently focuses on ways in which visitor yield can be enhanced—with a particular emphasis on poverty alleviation.

Recommendations

Given the limitation of resources and the small size of the economy, it is particularly important to prioritise among economic sectors and activities. Areas within economic sectors need to be assessed relative to one another, and in light of the small size of the economy, innovation and value-addition should be a strategic theme throughout. Prioritisation must take the form of adapting the policy framework to fit particular sectors rather than a direct attempt by Government to intervene in specific activities. A similar lesson can be learnt from DTIS developed in other countries (Biggs 2007). To this end a number of recommendations were prioritised at the DTIS validation workshop. These priorities are highlighted in the action matrix at the end of this section.

Cross-cutting, policy-related and institutional measures are likely to yield greater benefits than the promotion of individual economic activities. In such a small country it is important to try to achieve as many objectives with as few policy measures as possible. This will also lead to greater donor and Government policy co-ordination and coherence. Trying to second-guess the market by targeting microeconomic projects is likely to fail. The recommendation for a shift in emphasis away from specific economic project-based support comes in light of the lessons learnt from neighbouring countries and other specific sectoral projects.

A number of cross-cutting issues can be tackled under a single initiative, such as the adoption of a trade policy; an Information Communications Technology (ICT) policy; energy policy; institutional strengthening of the IF-National Implementation Unit (IF-NIU) and Department of Trade. Each of these initiatives involves a number of productive sectors and Government ministries, and can achieve significant gains at relatively limited cost.

Given the need to prioritise, issues which receive relatively less discussion in the initial matrix of DTIS priority recommendations include the creation of new institutions such as a development bank (which is not recommended) and credit unions; Government-supported microfinance, which has a lower chance of success than private or non-government initiatives; or intellectual property. Financial services and land reform have been identified as two critical issues, and as a result receive a relatively large amount of coverage in the recommendations. Other cross-cutting recommendations such as those on telecoms reform, infrastructure and transport largely revolve around support for ongoing initiatives. Further work will be required as developments proceed.

The following is a list of recommendations by chapter. The list is not intended to be undertaken simultaneously; rather it will be completed in stages, subject to approval by the National Steering Committee. A fuller explanation of the issues at stake can be found in the relevant chapter. Further costing work will be required in collaboration with stakeholders and other donors. An attempt has been made to reduce reliance on short-term technical assistance, since considerable domestic technical capacity already exists in a number of areas. Likewise, many Government officials have expressed a desire to avoid recommendations which centre around external technical assistance for new reports or papers, so such activities have been recommended only in the areas of highest priority.

1 MACROECONOMIC FRAMEWORK

1.1 Despite the strong economic recovery following the crisis in 2000, the Solomon Islands economy remains divided between urban areas, provincial capitals and rural areas. To support the Government's planned initiatives for the rural economy, there is scope for:

- Continuing to expand the provision of financial services with a view to extending the formal monetary sector in the provinces, taking into account existing initiatives. Recommendations are made in the section 2 below on cross-cutting issues.
- Continuing to develop of rural development plans and the MTDS so that Government and donor development funds are distributed appropriately between the urban and rural areas. Donor spending has had a macroeconomic impact, which may have contributed to the urban/rural divide.

1.2 **In light of the imminent decline in logging revenues, plans for tax reform are critical.** Plans must also cover the provinces and draw lessons from other regional countries. At this time the introduction of a Value-added Tax (VAT) is not considered appropriate, although a study on its potential impact may prove valuable. Tax reform must be inclusive and reflect policy objectives. This may require the amendment of the Customs and Excise Act and relevant subsidiary legislation to better co-ordinate trade policy development. Suggestions include:

- Putting in place a formal consultation mechanism involving the Ministries of Finance and Treasury (MoFT), Foreign Affairs and External Trade (MFAET) and Commerce, Industries, Labour and Immigration (MCILI) (in addition to existing cabinet processes), to ensure that tax changes are compatible with Solomon Islands' overall development objectives; its negotiating position on international trade agreements; as well as its existing World Trade Organisation (WTO) and other commitments (see recommendation 5.1);
- The formation of an inter-ministerial task force on tax reform that includes the private sector and core ministries, such as MCILI, MoFT, MDPAC and MFAET. The task force would co-ordinate technical aspects of the reform and act as a platform for consultation;
- The appointment of an international negotiating team to achieve appropriate revenue-raising arrangements for the resource-related industries. With regards to mining, the Government has considerable bargaining power, and may wish to follow the example of other countries

in developing a dedicated agreement outlining the responsibilities of the Government and investors, and clarifying laws on repossession and taxation. The Government should consider undertaking comparative analysis on other mining investments in the region.

1.3 **Support the work undertaken by AusAID with the Public Service Improvement Program which commenced in 2008**. Skills such as basic IT use, budgeting, developing and implementing policy and guidelines are central to effective public service delivery. Potential focal areas are examining modalities for the delivery of relevant training especially to rural based public servants as well as examining potential training providers other than the Honiara-based Institute of Public Administration and Management (IPAM). A civil service induction program may be appropriate, aimed at building skills in time management, communication, IT skills, performance appraisal, delegation, management, project management and budgeting.

1.4 **It is an opportune time to rationalise the public sector workforce** ensuring that the demand for additional staff is driven by competence rather than by reference to previous staff allocations. As part of this process, the gender imbalance in the country's largest employer should be addressed.

1.5 **Support ongoing efforts to reform state-owned enterprises (SOEs).** Government's exposure in SOEs and subsidiaries is a potential source of debt distress. The Government has made good progress with reducing its previously high debt levels. However, risks remain—especially given the imminent decline of logging revenues and possible tax reform. The underperformance of SOEs in some areas is also a source of economic inefficiency.

1.6 **Effectively mainstream productive capacity strategy into national development planning**. Future formulation of national development plans or similar documents, such as the MTDS, should involve inter-ministerial consultation at the technical level from the outset, and the process should be ongoing rather than project-based. The MDPAC, with the support of the IF-NIU, should utilise the IF-National Steering Committee (IF-NSC) as the formal consultative mechanism on productive sector development strategy. The IF-NIU needs to be well resourced and staffed. In the meantime, the DTIS can be used as a productive sector strategy and template for aid coordination.

2 CROSS-CUTTING ISSUES

2.1 **Continue land reform efforts**, including recording land rights; facilitating land dealings; establishing dispute resolution machinery; improving land administration services. The 'family tree approach' may be a model appropriate to particular areas.

2.2 **Examine the possibility of creating a standard financial instrument representing logging access rights**, including an accompanying legal process to gain full community sign-off, with the intention of enabling commercial banks to accept the value of uncut logs as collateral for investment loans to rural communities. The outcome should be the creation of a financial instrument that is accepted by commercial banks in Solomon Islands, which communities choose to use to secure loans. The recently passed Secured Transactions Act may be of assistance here.

2.3 **Conduct quantitative research, based on a household survey in Honiara, assessing the extent to which different salaries contribute to productive investment through remittances**. The outcome should be research providing a basic understanding of the extent to which informal lending contributes to rural access to finance.

2.4 In order to improve geographical coverage of the Central Bank of Solomon Islands (CBSI) guarantee scheme, **subsidise the additional cost incurred by a partner commercial bank in assessing a loan application from a rural area compared to one from Honiara**. The result should be a more equitable distribution of CBSI-guaranteed lending, with a greater proportion being leant to companies in rural areas.

2.5 **Enable other telecommunication firms to enter the market**, with the overall aim of increasing mobile and internet coverage. Focus particularly on domestic cellular and internet services. New entrants should be permitted to offer mobile phone and internet services. Existing service providers should not be required to pay royalties to Solomon Telekom. Telecoms liberalisation may be modelled on the Vanuatu example, including the setting up of a Utilities Regulatory Authority.

2.6 **Lock in commitments to an open telecommunications sector to regional trade agreements**. This should be aimed at preventing future administrations from backtracking on telecoms liberalisation.

2.7 **Support the establishment of an Information Communications Technology (ICT) policy to provide a framework for the expansion of ICT**, including funding, research and development. In conjunction, develop an e-business strategy and make it central to business development efforts. Internet access is currently vastly overpriced and e-business virtually nonexistent. Given that the Internet can render geographical distance less important, e-business has special relevance. Considerably more investment could be attracted if the correct ICT regime were in place.

2.8 **Support the EU/ADB project for the establishment of a tenure/subsidy system for nonviable outer-island routes** The irregularity and unreliability of transport remains a key barrier to trade, and therefore poverty reduction, in the outer islands.

2.9 **Establish a renewable energy policy**, with the overall aim of reducing reliance on imported fuels and reducing pollution. Such a policy may look at Guadalcanal Plains Palm Oil Ltd. (GPPOL)'s use of palm-oil by-product, as well as coconut power, and renewables such as hydro power, solar power, wind and wave power.

2.10 **Assist the Government to develop a strategic plan to prepare the country for increased competition in air transport**. The main elements of this plan should include:

- A review of unprofitable domestic routes, particularly those which are unlikely to achieve profitability in future, and a high-level decision as to which the Government wants to support financially;
- Design of an open, transparent and results-based tender process, allowing airlines to bid for subsidies on those routes which the Government has chosen to support, with significant financial penalties for failure to deliver specified performance;
- Development of a detailed schedule of maintenance tasks required to keep international and domestic airports in a safe and operable condition;
- Design of an open, transparent and results-based tender process, allowing private sector firms to bid for contracts to conduct airport maintenance tasks, with significant financial penalties for failure to meet specified standards;
- Consideration should be given to commissioning an analysis of several of the most important land disputes affecting the airline industry, with a view to recommending which could be resolved within the shortest timeframe and with the least resources, and suggesting the outline of a possible solution in each case.

3 BUSINESS ENVIRONMENT

3.1 **Put in place a development-focused investment policy and better targeted investment incentives.** Although there is disagreement within Government over how to achieve this, it is generally agreed that the incentives regime can be clarified and rationalised. This will require amendments to the Foreign Investment Act and Income Tax Act, including:

- Formulating a development-focused investment policy taking into account the discussion in chapter 3 of the DTIS;
- Schedule II Part II of the Income Tax Act on tax relief on export profits to also encourage value adding in the priority sectors;
- The MCILI extending one-stop-shop services, such as information on licenses, to domestic investors;
- Establishing a trade help-desk to provide information on markets and the utilisation of free and preferential market access possibly at the Marketing and Export Development Division (MEDD) of the MCILI. If this were done, it may make sense to support the recent proposal for the MEDD to move to the Department of External Trade;
- Making the incentives regime, as reflected in the Income Tax Act, more scale-sensitive and sector-strategic, e.g. the Government may wish to restrict tax holidays in extractive industries and create a more favourable tax structure and incentives for small businesses.

3.2 **Identify an appropriate private-sector organisation to establish a mentoring scheme with Government or donor support.** The scheme should select appropriate candidates, particularly new university graduates interested in entrepreneurship, and fund expenses and a minimal living allowance enabling a 3–6 month internship 'shadowing' a successful entrepreneur in Solomon Islands. The scheme should find a means of providing support to alumni in the process of establishing a new business where demand exists (e.g. writing business plans and financial proposals).

3.3 **Refocus the mandate of the co-operatives division in the Ministry of Commerce on liquidating the failing co-ops**, and concentrate on assisting any functional co-operatives or producer associations to address supply constraints and improve efficiency. The operational co-ops broadly need reorganisation, capacity-building and working capital. Currently, the co-operatives division is handicapped by understaffing and a lack of capacity. Technical assistance may be sought to engage a specialist on co-operative and producer association development to review the existing Co-operative Society Act (1969) and recommend a strategy that promotes export-oriented producer associations and downstream processing that involves smallholders, input and farm implement suppliers, banks and exporters.

4 TRADE FACILITATION

4.1 **Re-establish the national trade facilitation or trade policy committee** (NTFC) with a small budget, clear terms of reference and workplan/strategy for trade facilitation. In order to give the committee greater focus, the following suggestions are made:

- At an appropriate point, the IF-NSC redesignate itself as the National Trade Facilitation Committee;
- The terms of reference for the NTFC rest clearly on the oversight and delivery of a National Trade Facilitation Program and the promotion of regional initiatives in trade facilitation;
- The NTFC meet half-yearly or three times a year, at least once a year with the participation of representatives from the private sector trading community;
- As with the IF-NSC, it be supported by a co-ordinating officer with a small budget for operations and some responsibility for disseminating relevant information, taking minutes and follow-up;
- It potentially reports to the Parliamentary Committee on Foreign Affairs;
- Include private sector representatives, in addition to the existing members from all relevant Ministries.

4.2 **Make full use of resources available under the Regional Trade Facilitation Program and other funding sources,** such as the Pacific Regional Economic Integration Programme (PACREIP).

4.3 **It is suggested that the existing RAMSI customs modernisation program** prioritises: progressively greater automation, risk assessment procedures, compliance with WTO valuation, HS classification, schedule of legislative reform and training, improvement of services in outer islands.

4.4 **Explore the possibility of the Solomon Islands Customs and Excise Division (SICED) joining the other Melanesian Spearhead Group member countries in using the same standard Customs automated platform, ASYCUDA.**

4.5 **Introduce an officer or unit within the Department of Customs responsible for training and implementation of a Human Resource Development plan.**

4.6 On Sanitary and Phytosanitary (SPS): execute *(i)* **the request from DEH for strengthening the competent authority for fisheries exports and** *(ii)* **the request from CAD to resource the National Public Health Laboratory** to carry out tests with respect to other potential export products.

4.7 **Support the implementation of the new food safety regulation** (e.g. through recruitment of qualified inspectors, funding for training of trainers, public information sessions in provinces, additional equipment for the national laboratory, etc.)

4.8 **Initiate a standards and conformance program**, focusing mainly on metrology in the first instance, and spearheaded by the MCILI, comprising:
- Legislative reform, through finalising and implementing the draft weights and measures regulations;
- Infrastructure, i.e. the rebuilding of a metrology laboratory that will offer services to the private sector and concentrate on enforcing and improving consumer standards across Solomon Islands;
- A training program with PNG's NISIT as a first step towards greater regional co-operation, building on the mandate already discussed at the region-wide level and leading eventually to a more regional approach and greater economies of scale.

5 TRADE POLICY

5.1 **Conduct an inclusive, strategic and timely review of the country's tariff structure.** Target outcomes include:
- An import duty structure that reflects Solomon Islands' sector prioritisation and promotes value addition;
- The review should be done in time for EPA and most importantly PACER Plus negotiations;
- An export tax structure on fisheries products that does not penalise downstream processing. Some fisheries licenses, such as fish farm licenses, need to be reconsidered;
- A WTO-compatible goods tax structure, policy objectives retained in the tariff structure.

5.2 **Revise the duty exemption procedure and guidelines and amend the current exemption schedule**. This requires amendments to the subsidiary Customs and Excise Act legislation (on the statutory exemptions list). Targets are:
- Clarify exemption schedule 16, define 'substantial transformation' using sector-differentiated change in tariff heading;
- Consider a separate schedule for capital goods and inputs in manufacturing; decide if each is to be given full or partial exemptions;
- Introduce full exemptions for capital goods and inputs used in the priority sectors (the more transparent and neutral alternative would be

- to do this through the tariff structure);
- Make exemptions guidelines more specific, use less 'best endeavour' language (e.g. rural community development);
- Make information on exemption criteria publicly available. Details on exemptions granted should be regularly published for greater transparency.

5.3 **Rationalise the export incentives regime.** Commission a stocktake and cost-benefit assessment of grants and assistance schemes in all ministries, and suspend those that are susceptible to misuse.

5.4 **Strengthen the trade and trade-related legislative framework.**
- Update the list of goods in the Price Control Act, remove references to brand names, and include only goods of direct relevance to rural/vulnerable communities;
- Consider developing a Trade and Commerce Act to provide MFAET with legislative power to co-ordinate international trade policy, including trade taxes and investment policy.

5.5 **Relevant agencies should take the lead and responsibility in implementing trade agreements.**
- The Customs and Excise Division, AG Chamber and MCILI (Marketing and Export Development Division) need to take charge of the implementation of the revised MSG FTA and PICTA, supported and guided by the DET;
- Duty concessions granted under preferential trade agreements need to be reintroduced to the Customs and Excise Act statutory exemptions.

5.6 **Strengthen the Department of External Trade.** The Department needs to be adequately resourced, in terms of human, administrative, technical (legal) capacity and in-office presence. In the medium term the department needs greater budgetary autonomy for core expenses like stationery, computer and office equipment. Stakeholders need to be better involved in and informed on negotiation progress and future plans. An effective information dissemination system can be established via the existing website. An officer may be tasked with regularly updating the website with details of forthcoming international trade meetings, meetings of the NTFC and other important events. The MFAET should use MCILI provincial officers to provide information about trade agreements and negotiations.

5.7 **Develop an inclusive and nationally owned framework to co-ordinate trade negotiations.** Under leadership of the Department of External Trade, formally involve and institutionalise core economic ministries in the formation of trade negotiation policy—i.e. MDPAC, MCILI and sectoral ministries. Address more immediate needs (EPA and PACER Plus) by utilising the IF-NSC membership to solicit inputs into and develop positions in specific negotiations areas.

6 TRADE AND HUMAN DEVELOPMENT

6.1 **Mainstream trade, poverty and human development policy**. At the national level, the broader development policy discourse in Solomon Islands lacks recognition of the importance of mainstreaming of trade and human development. It is suggested that the Solomon Islands IF Unit within the Department of External Trade be tasked with ensuring that trade issues are mainstreamed and the IF National Steering Committee be mandated to ensure that ongoing national policy discussions take into account the interlinkages between trade and human development issues.

6.2 **Establish a close working relationship between the IF Unit and the national HIV/AIDS co-ordinating mechanism.** HIV/AIDS must not be treated merely as a 'health' issue but rather as a larger 'human development' issue.

6.3 **Promote policies and programs that aid in increasing rural productivity**. Notwithstanding the importance of plantations, rural households and communities will benefit from any agro-based export-oriented upturn only if: *(a)* they are able to increase land productivity through the application of appropriate technologies; *(b)* engage in the division of labour (specialization) required for cash crop production; or *(c)* establish linkages in the form of downstream processing or upstream supply.

6.4 **Strengthen the centre through decentralization.** The existing AusAID decentralisation project rightly provides assistance in this area, and should be supported. Expanding the social and economic policy space of respective provinces should be accompanied by the authority to raise resources and implement programs. The centre should elevate itself to focus on coordination, harmonisation of objectives to meet national standards and aspirations, and most importantly, to ensure equitable outcomes.

6.5 **Increase labour productivity through enhancing regional partnerships and use of regional vocational training centres.** The quality of education and training should be improved, and it should be relevant to the national context. The Ministry of Education has mooted plans to build vocational training centres. While laudable, starting from scratch involves substantial investment costs which must be justified against spending elsewhere. Vocational training is primarily driven by labour demands and the nature of economic growth. The Government will find it difficult to second-guess the market by training students in the right areas. Before substantial growth in the industry has taken place, it should initially partner and use vocational centres available in the region (such as Vanuatu's Hospitality, Tourism and Leisure Training Centre, which opened in April 2007). This will be much cheaper than building new facilities. The currently small tourism sector does not justify building dedicated tourism training facilities.

6.6 **Promote policies that induce backward and forward linkages**, particularly tax and investment policies, as outlined in section 5. It is crucial to ensure that growth is equitable. Promoting smaller-scale enterprises that are linked to the large enterprises can play a critical role in achieving inclusive growth.

6.7 **Link trade negotiations with human development**, acknowledging the following:

- Allow the policy space to provide targeted subsidies to rural producers to integrate into existing export value chains;
- Encourage incoming Foreign Direct Investors to take human development into account. Prioritise investments which have the potential to reduce inequality and spread economic activity across a wider geographical area. Currently, the exemptions on foreign investment are mostly on small-scale activity, arguably the area where such investment would have the greatest local impact;
- Ensure that revenue losses from tariff reduction can be compensated, enabling existing levels of social spending to be maintained or increased;
- Ensure that trade policies (including intellectual property legislation) promote health and education benefits through access to medicine, resources for education and health and other items;
- Ensure full involvement of women in trade policy decision-making.

6.8 **Strengthen aid coordination through policy and expenditure harmonization**. To sustain present achievements Government and donors must maintain their commitment to aid coordination under the Paris Declaration. Aid amounts to the largest investment in the country, yet it can be fragmented by conflicting donor goals. To this end:

- If the state is to be made strong enough to operate autonomously in the long run, it should not only be allowed to run its affairs within the framework of universally accepted principles but politicians and civil servants should not be judged harshly for perceived mistakes;
- A Development Budget approach to public expenditure management may be considered (as in Vanuatu). Under this system, all donor commitments go through a single budgetary channel with the aim of administering, managing and improving the quality of public expenditure and donor funding.

6.9 In the context of existing policy work being done on natural resources, **enact a policy commitment to developing the mining industry and other resource-related industries using international best practice and in an atmosphere of full transparency.** As suggested in point 1.2, the use of an international team of negotiators would help maximise fiscal revenues. Environmental lessons from the region should be heeded, and all investors in this industry should be encouraged to adhere to international standards.

6.10 **Begin collecting detailed feedback from participants in the Regional Seasonal Employment (RSE) scheme**, to form the basis of analysis of the use of remittances as investment capital. Preliminary analysis can be conducted with one year's worth of information, but a more useful analysis may not be possible for two or three years.

- Put in place legislation ensuring that recruitment is conducted by private-sector agents. Assistance may be requested from the Vanuatu Department of Labour.

7 FORESTRY AND LOGGING

7.1 The imminent end of the logging industry will mean a loss of some 5,000 jobs. **Dialogue and planning for this loss should start now and be included as part of the budget planning process**. A detailed impact study together with possible strategies would be a useful platform for discussions.

7.2 **Improve the capacity of the Ministry of Forestry in policy analysis and formulation** and review all forestry and logging policy documents to ensure they are clear, and that major priorities remain resistant to changes of government. An overall policy for forestry and logging should be developed, based on evidence and supported by stakeholders.

7.3 **Through further dialogue with stakeholders, sections of the Forestry Bill 2004 may be removed and turned into a separate legislation**, especially Parts 3 on Planning, 5 on Local Harvesting Licenses and 8 on Reforestation and Timber Plantations.

7.4 **Undertake a value-chain study for logs and timber**. Such a study should identify who buys the logs, their end use, the values of the logs and the extent and nature of transfer pricing. The study should also identify opportunities for timber trade beyond the Pacific Rim countries, especially the Middle East and Europe.

7.5 **Financial resources need to be allocated to raise public awareness about the commercial sexual exploitation of children in logging areas.** Awareness programs should articulate the rights of children and legislation might be developed that requires offences to be reported.

7.6 **Conduct a stocktake of the interactions between logging companies and the surrounding communities** to gauge the types and extent of co-operation that is possible. Emphasis should be on identifying ways of increasing smallholder plantations in areas close to plantation establishment, and possibly out-grower schemes. Part of this initiative should support Kolombangara Forest Products Ltd. (KFPL) to expand, linking interested farmers and communities to the company.

7.7 **Government, sawmill operators and local timber companies may wish to collaborate and strategise on ways to develop the downstream processing subsector**, with domestic companies at its core. Part of this initiative would be to establish Value-added Timber Association (VATA) as a producer's organization. The outcome should be a long-term strategy on downstream processing.

7.8 **Undertake a national awareness program to inform resource owners about the rationale of the programs of reforestation and plantation establishment**. Awareness for plantation establishment should have landowners as first priority in plantation or woodlot establishment on their land, followed by community plantations, then joint ventures with existing Solomon Islands based companies, and finally, joint ventures with foreign investors. Mechanisms for property rights and rentals should be clarified, especially understanding of land registration and joint venture arrangements.

7.9 **Mobilize women and youth to participate in income-generation and employment opportunities in forestry and logging through access to land**. Identify communities willing to host women and youth woodlots and plantation programs, and supply them with inputs and provide backup services, to demonstrate the potential for social equity in the sector. Outcome: At least 10 woodlots or plantations established initially in the provinces, beginning with matrilineal communities.

7.10 **Formulate a policy position on carbon finance**. This would make way to seeking assistance to establish the necessary steps for a national carbon monitoring system, which would be followed by undertaking a national carbon stock assessment. Along with this Government should explore efforts to involve Tetepare island in a Direct Barter initiative.

8 AGRICULTURE, AGRO-PROCESSING AND LIVESTOCK

8.1 **Set up a task force on examining credit access options for cocoa and copra licensed exporters, rural traders and primary processors.** This may involve:

- Assessment and a needs analysis of cocoa and copra stakeholders;
- Review of rural credit/trade finance systems operating globally and regionally, particularly the Vanuatu experience;
- Review the donor supported Revolving Credit Fund (POP2) and resultant guarantees to National Bank of Vanuatu (NBV) of overdraft facilities to cocoa, copra and coffee stakeholders;
- Review micro finance schemes run by private sector organisations.
- For all, the lessons learned and replication potential for Solomon Islands needs to be explored.

8.2 **The Transitional Support to Agriculture Program (TSAP), in collaboration with the Cocoa Exporters and Producers Association (CEPA) to initiate and implement a fair trade and organic cocoa certification program with FLO.** This may involve:

- Validation of the proposal submitted to Government by CEPA for support to the Association's start up costs;
- Assessment of whether the existing structure of CEPA is suitable for access to the fair trade market; i.e. should the producers and exporters be formed into two separate groups under an umbrella organization;
- Review procedures and costs of CEPA obtaining its own export licence;
- Assessment of the procedures, resources and costs needed for registration and certification under fair trade and organic agencies.

8.3 **Conduct a feasibility study on the rehabilitation of the cattle industry, looking at regional and international experience.** This may involve:

- A needs assessment on the costs (capital and operational), human resources, expertise, capacity-building required to rehabilitate the MAL's Tenavatu cattle farm;
- Assessment of the experience of Vanuatu in developing a successful cattle industry, particularly the recent EU-supported cattle development program, in co-operation with the Vanuatu Government and private

sector farmers and abattoirs, and involving smallholders in raising 'weaners' for the market. This includes analysing lessons learned, and the replication potential for Solomon Islands;
- Preparation of a prospectus to attract foreign direct investment to the industry;
- Preparation of a road map for the long-term sustainability of the industry.

8.4 **Implement a program, including overseas study tours and quality standards assurance, on knowledge and capacity-building of high value food processing** and marketing techniques for private sector entrepreneurs. Government policy to encourage value addition, and the food sector, including coffee, nuts, spices, fruits and kava, is particularly appropriate for support in this context. Other countries in the region, particularly, PNG, Vanuatu, and Fiji have accessible expertise in these areas.

8.5 MALD to cooperate with GPPOL to determine TOR on the **formulation of a national oil palm strategy**, with both international and local input.

8.6 **Support the revival of coconut agro-processing through the appointment of an independent international panel of arbitrators to resolve the Russell Islands Plantations Ltd. (RIPEL) dispute**. The RIPEL issue and the Government's inaction are sending negative signals to foreign investors. Solomon Islands should be moving towards the elimination of unprocessed copra exports, as was Government policy before 2000.

9 FISHERIES, AQUACULTURE AND FISH PRODUCTS

9.1 **Support the capacity and governance improvements in MFMR being generated by the Solomon Islands Marine Resource Strengthening (SIMROS) project**, including:
- Measures that have increased revenue from distant water fleet fees;
- Data collection systems introduced by SPC (improvements are still needed in observer and port sampling data collection systems);
- Changing aquaculture governance to provide a framework for aquaculture development rather than aiming to do aquaculture development;
- Maintenance of rural fisheries centres as providers of ice for rural fishers as a Government service;
- Development of effective co-management of coastal marine resources between MFMR and coastal communities, which should include working with coherent political and social reef-owning groups rather than equating 'community' with 'village'; baseline stock assessments and ongoing monitoring of relevant stocks; education for coastal communities on life cycles of relevant species; consultative decision making about maximum sustainable yields and rules for enforcing management measures; gazetting and implementation of ordinances to bolster community monitoring and enforcement of rules.

9.2 **Develop consultative decision-making processes and strategies under the planned Fisheries Management Advisory Council** to handle a range of cross-sectoral issues that arise for fishing and aquaculture developments, including:

- The possibility of regional or plurilateral negotiation of fisheries licensing agreements in order to maximise the benefits from existing fish stocks;
- A scheme for supporting communities to develop codes of conduct relating to internal migration. Government could support communities to do this by hosting an internal migration strategy summit, commissioning a comparative study on migration practices, and providing administrative and communication support for the development and maintenance of codes of conduct;
- Social management strategy for industrial fisheries for sexual health and social amenities in port and tuna processing areas;
- Negotiations to facilitate SIG membership of the World Animal Health Organisation (OIE);
- Negotiations to facilitate SIEA consideration of alternatives to diesel-based electricity production to make power costs more competitive and address likely future eco-labelling criteria;
- Facilitate information to rural producers and communication between rural producers and buyers so that producers understand what is involved in the work of 'middlemen' in terms of export administration and can better understand the value chains in which they operate, and avoid simmering discontent based on beliefs that 'foreigners' are 'ripping them off';
- Lobby for a taxation regime based on increasing revenue through greater economic activity rather than increasing taxes on inputs (to avoid discouraging business development);
- Facilitate discussion between various fisheries and aquaculture organizations and organizations from other sectors, to see if a consortium of users might be able to negotiate viable rates with specialist air freight companies rather than relying on Solomon Airlines;
- Facilitate discussion between small-scale fisheries and aquaculture interests about the potential for gourmet smoked and fresh fish processing at Noro to add value before exporting. A small-scale processing facility could be donor-provided and owned by MFMR but contracted out for private sector businesses to run.

9.3 **Improve the viability of tuna processing** with measures including:

- Developing trade and sectoral policies to improve the competitiveness of canning/loining in Solomon Islands, for example, through innovations in conditions attached to commercial fishing licenses to leverage more of the wealth from higher up the tuna value chain;
- Locating additional tuna processing plants in Noro or Honiara rather than in greenfield sites so as to improve the viability of the operations due to 'hub' effects, such as existing infrastructure, shipping routes, and human resource pools;
- Investigating the possibilities for premium markets for Solomon Islands processed tuna for ethical and/or quality reasons. Any private sector investor would investigate this for themselves, but due to the potential development benefits from a more viable tuna processing industry, there

may be a case for Government– or donor-funded project to assist with supplying premium processed tuna markets.

9.4 **Support the MHMS to complete the requirements for the Competent Authority so that Solomon Islands can attain List 1 status as an exporter to the EU market**. Once List 1 status is achieved continue supporting the MHMS to maintain the high level of service required of a Competent Authority.

9.5 **Place rural fisheries and aquaculture developments within an integrated rural development strategy**. Aspects for such a strategy that are important for fisheries and aquaculture development include:

- Projects such as the provision of artisanal pole-and-line vessels must be based on realistic understandings of village economies, including the following:
  - Rural fishers are unlikely to devote themselves full-time to fishing for years on end;
  - Commercial fishing businesses are commercial as much as they are fishing, so people taking on loans for fishing vessels should have a proven commercial track record as well as proven fishing skills;
  - Villages and community groups are not united enough to manage cash-earning businesses; family or clan groups are usually the most effective units for cash-earning activities.
- PFNet Centres to be expanded into Rural Information Centres, connected to the National Library as a central repository for materials such as technical advisor reports, and connected to schools in villages as centres for lifelong learning. To be staffed by Information Officers to help rural producers use the internet, and supported by internet business training;
- Financial services to be extended into rural areas to enable rural producers to use bank accounts, including electronically. Credit for rural business development to be made available via a arrangements outlined in section 2 above to allow rural producers to try (and fail) in cash-earning business on a manageable scale before moving into larger riskier enterprises.

10 TOURISM

10.1 **Improve access for local tourism enterprises to business start-up or expansion funding**, including microfinance (but administered privately rather than by Government departments, in line with the recommendations under section 2 above)**.** There is a need to look to new ways to develop SMEs, especially those owned and operated by local people. Tasks might include:

- Assist outer islands tourism enterprises to directly and collaboratively market their products. In particular web-based networking strategies should be pursued and strengthened where feasible (see 10.2 below);
- Support and nurture the development of an industry-driven tourism association—and the development over time of sector associations such as diving and small accommodation. Ensure that there are good linkages between these associations and SIVB and SIMCT.

10.2 **Use the internet to tap into high-yield markets and make it a major focus for future marketing.** The strength of Solomon Islands lies in the mix of experiences that it can offer visitors of all types. Tasks might include:

- Conduct a website audit of current online resources for the industry, with a focus on basic content and usability but also on network and linkage formation;
- Strengthen understanding between the telecommunications and the tourism sector and explore key bottlenecks—perhaps through the organization of a knowledge sharing workshop;
- Develop an effective strategy for internet focused marketing of tourism;
- Review and benchmark current online marketing activities against efforts by regional competitors—especially Vanuatu.

10.3 **Involve local communities at all stages of the tourism development process**. Community is an integral and growing part of 'alternative' tourism experiences throughout the world. Only with community involvement can the true poverty alleviation potential of tourism be tapped in a sustainable fashion. Yield enhancement depends not only on improving visitor experience, but also on enhancing the experience of tourism for the host communities. Tasks should include:

- Conduct a review of awareness building activities—with a focus on enhanced coordination of activities and more sustainable outcomes;
- Develop awareness in sectors that link to tourism and where levels of understanding appear to be low;
- Analyse current methods designed to encourage community participation in tourism planning and product development and identify gaps and problems. Identify tools, approaches and examples that can facilitate community involvement in planning and land-based issues;
- Develop indicators of tourism success that can be evaluated by the community;
- Acknowledge the growing importance of internal tourism, including inter-island visits by churches and sports groups.

10.4 **Conduct research on linkage structures and leakage associated with the tourism sector**. Past evidence shows that leakages from the tourism sector are relatively high (SPTO 2005). Local linkages may have increased a little in recent years—driven in part by the increased cost of transporting goods from overseas and an improvement in the reliability of local food suppliers. Tasks should include:

- Create innovative approaches to sustaining and developing linkages—i.e. competition for the preparation of local food in ways that meet tourist demands;
- Identify ways to build upon the tourism sales potential stemming from coconut oil, and coffee (such as Vanuatu's Tanna coffee).

10.5 **Increase the number of trained tourism staff.** Solomon Islands is also lacking individuals with middle management and SME development skills. Bearing in mind point 6.5 above, tasks include:

- Identify critical skilled labour 'weak points' in the industry. It may be worth opening up the sector completely to Pacific islanders under the

PICTA labour mobility agreement. This would allow tourist operators to address critical shortfalls in highly specific skills quickly and effectively, drawing on a wider labour pool. It might also help to identify skills shortages, if properly monitored. Local labour will remain cheaper than foreign, so there will remain an incentive to replace foreigners with local staff in the medium to long-term. Regional opening of the tourism sector may also allow low-skilled Solomon Islanders to emigrate temporarily to other Pacific islands in order to upskill;
- Conducting a labour-market needs assessment;
- Developing an effective advisory board for the SICHE tourism training initiative;
- Ensuring effective partnership between public and private sector in training provision;
- A thorough evaluation of the role of labour in creating the visitor experience. How is labour educated and trained as part of the tourism experience?

10.6 **Improve data on visitor characteristics, tourist spend, industry linkage structures and outer island travel**. Given the close link between yield enhancement and visitor experience it is imperative that visitor data does not just contain demographic information but also psychographic material—with a focus on satisfaction. Tasks:
- Clear understanding and definition of research needs and clearer definition of tourist types;
- Development of a cost-effective tool to gather data and the creation of an ongoing barometer of visitor satisfaction, spend and industry performance. This should be web-based to reduce costs of data collection and entry. A barometer is necessary if progress towards meeting yield targets is to be measured effectively;
- An evaluation of how statistical information is disseminated to those that need it—and how this can be improved;
- Information on the number/percentage of visitors travelling on packages
- More knowledge is required on the role the internet plays in booking product elements;
- More detail is needed on visitor information needs after arrival.

10.7 **Any attempts to develop yield must be based on an understanding of environmental sustainability and climate change with reference to the tourism industry**. This may involve:
- Technical assistance to assess vulnerability and enhance preparedness and adaptation to climate change. For example, what percentage of tourism product or plant is vulnerable to events? What adaptation strategies need to be introduced?
- Development of improved awareness of environmental issues by the tourism sector;
- Integrate global change issues into tourism planning and development legislation and policy frameworks;
- Awareness building in the area of business environmental performance, reviewing existing resources and refining them to enhance tourism business environmental performance.

10.8 **The SIVB needs to show industry that it is providing real value for money** and to be realistic in its expectations of increased levels of Government funding. The organization has strong staff and a good knowledge base to build on, but it requires further resourcing to reach its potential—and to assist the nation in reaching its visitor arrival estimates. The Department of Tourism and the broader SIMCT need to communicate more effectively with the industry—especially about initiatives that influence long-term training outcomes. It is also critical that SIMCT enhances knowledge and understanding about the sector in other Government Ministries so that a 'whole of government' approach to tourism begins to take shape.

10.9 **The future vision of the industry needs to be focused on yield**, developing product and spend rather than the current focus on increasing visitor numbers at potentially unrealistic rates. This will, in effect, reduce yield. Such an approach runs the risk of working against the development of a locally controlled, community linked tourism industry that spreads its benefits across sectors and provincial boundaries. Tasks include:

- Improve coordination of the various organisations and agencies that are charged with developing and promoting tourism;
- Build upon recommendations from the Strategic Plan for the future development of SIVB, SIMCT and provincial tourism offices.

10.10 **Build the handicrafts trade.** Solomon Islands crafts are rightly praised for their beauty of form and diverse cultural roots. Woodcarving, stonework, weaving and a number of other crafts create a range and quality of art that is authentic and appealing to travellers and ranks very well within the Pacific. Tasks will include:

- Handicrafts need to be highlighted more effectively for visitors on the web (pre-arrival) and there needs to be more information on availability once in the country;
- Identify overseas markets for export, provide training for exporters to understand overseas market needs in terms of quality and assist with training in areas like negotiation and sales skills;
- The Government does not provide direct assistance to rural-based carvers and handicraft producers. It may be worth considering helping a private-sector organisation to extend loan guarantees specifically to this industry;
- Very few handicrafts are sold with an accompanying 'story'. Interpretation of what a particular craft means to the traditional culture, who made the craft etc is very interesting to the visitor. Retailers and producers need to receive more skills to produce better interpretation of more authentic products;
- The idea of a handicraft producers' association has been raised. It may also be worth considering the development of public spaces in which producers can make and sell their wares—perhaps even within the museum itself;
- The museum is the cultural 'jewel in the crown' of the Honiara tourism sector and also has a handicraft retail outlet within its grounds. Signage, interpretation and even basic information on access is largely lacking. It may be useful to look at renewing the largely moribund Cultural Association of Solomon Islands.

11 INSTITUTIONAL FRAMEWORK FOR MAINSTREAMING TRADE

11.1 Management of the IF will remain a key challenge. **An experienced international technical assistant will need to be hired** for at least one year to move the process forward. This individual should be tasked with:

- Managing the IF process, in conjunction with the Director of Trade and existing IF-NIU members;
- Identifying and training one or more promising new economics graduates in trade policy, with a view to taking a more senior role within the trade department and/or within the IF national structure;
- Co-ordinating inter-Ministerial work on trade policy.

11.2 **Establish a unit or appoint an official within the IF steering committee with responsibility for managing information, including collating consultancy reports** and establishing them in a library.

11.3 **Support an economic think tank and/or policy forum, bringing together prominent economists and public policy specialists.** This process may alternatively be conducted on a regional level.[b] Homegrown or regional research is currently scarce, and there is overreliance on donors, international consultancy reports and other international publications. The domestic human resources exist for such a forum, which may publish periodic papers.[c]

11.4 **In the near term, conduct a donor roundtable aimed at establishing donor commitments on the DTIS.**

11.5 **Conduct a biannual review of donor activities, aimed at ensuring maximum coordination among donors.**

[b] Using an institution such as the Pacific Institute of Public Policy based in Vanuatu (www.pacificpolicy.org).

[c] For example, some suggested initial publications might be separate papers based on the original versions of the DTIS sectoral chapters on fisheries, tourism, agriculture and forestry.

DTIS Action Matrix

No.	Action recommended (* indicates priority)	Requirements			Agencies involved	Expected duration
		Implement existing policy	Change policy/ legislation/ Reform Institutions	Technical assistance/ investments		
1	**Macroeconomic framework**					
1.1*	Expand the provision of financial services with a view to extending the formal monetary sector in the provinces. Continue development of rural development plans and MTDS.	✓	✓	✓	Various, including CBSI, MoFT, MFAET	Long-term
1.2*	Plan for tax reform, including institutional measures for consultation.		✓	✓	MoFT, MFAET, MDPAC, MCILI, AG Chamber	Short-term
1.3*	Support the work undertaken by AusAID with the Public Service Improvement Program which commenced in 2008	✓	✓	✓	Various, including AusAID, MDPAC	Short to long-term
1.4	Rationalise the public sector workforce ensuring that the demand for additional staff is driven by competence rather than by reference to previous staff allocations	✓			Various, including MDPAC, MoFT	Short to medium-term
1.5	Undertake a study on the current status of SOEs and their possible reform.			✓	MCILI and others	Short-term
1.6	Effectively mainstream productive capacity strategy into national development planning.	✓			MoFT, MFAET, MDPAC, MCILI	Short to long-term
2	**Cross-cutting issues**					
2.1*	Continue land reform efforts, including recording land rights; facilitating land dealings; establishing dispute resolution machinery; improving land administration services.	✓	✓	✓	MOLNR and others	Ongoing
2.2*	Examine the possibility of creating a standard financial instrument representing logging access rights			✓	Consultation needed between AG, CBSI, banks, Ministry of Lands	Short-term
2.3*	Conduct quantitative research, based on a household survey in Honiara, assessing the extent to which different salaries contribute to productive investment through remittances.			✓	CBSI, partner research institution	Short to medium-term
2.4*	In order to improve geographical coverage of the CBSI guarantee scheme, subsidise the additional cost incurred by a partner commercial bank in assessing a loan application from a rural area compared to one from Honiara.		✓		CBSI, MoFT, commercial banks, donors	Short to medium-term

No.	Action recommended (* indicates priority)	Requirements			Agencies involved	Expected duration
		Implement existing policy	Change policy/ legislation/ Reform Institutions	Technical assistance/ investments		
2.5*	Enable other telecommunication firms to enter the market by whatever means necessary, with the overall aim of increasing mobile and internet coverage	✓		✓	Donors, Ministry of Communication and Aviation, Solomon Telekom	Short-term
2.6	Lock in commitments to an open telecommunications sector in regional trade agreements		✓		DET, Ministry of Communication and Aviation	Medium-Term
2.7*	Support the establishment of an Information Communications Technology (ICT) policy to provide a framework for the expansion of ICT, including funding, research and development	✓			MCILI and various Govt. departments	Short to medium-term
2.8	Support the EU/ADB project for the establishment of a tenure/subsidy system for nonviable outer-island routes	✓		✓	MoFT, MDPAC, donors.	Medium-Term
2.9	Establish a renewable energy policy, with the overall aim of reducing dependence on imported fuel and reducing environmental despoliation		✓		MDPAC, Ministry of Mines and Energy, others	Short-term
2.10	Help the Government to develop a strategic plan to prepare the country for liberalisation of air transport		✓	✓	Donors, MAC	Short-term
3	Business environment					
3.1	Put in place a development-focused investment policy and better targeted investment incentives		✓		MCILI (FID), MDPAC, MoFT (IRD), AG, Chamber	Medium-Term
3.2	Identify an appropriate private-sector organisation with strong ties to the business community to establish a mentoring scheme with Government or donor support		✓	✓	MCIE, private-sector organisation, donors	Short to medium-term
3.3	Refocus the mandate of the co-operatives division in the Ministry of Commerce on liquidating the failing co-ops. Consider amending the Co-operatives Act		✓	✓	MCILI	Short to medium-term
4	Trade facilitation					
4.1*	Re-establish the National Trade Facilitation or Trade Policy Committee	✓		✓	DET and trade stakeholders	Short-term
4.2	Make full use of resources available under the Regional Trade Facilitation Program and other funding sources	✓			DET, IF-NSC, recipient agencies	Short to medium-term
4.3	Conceive a clearer, costed and sequenced customs modernisation program		✓		SICED	Medium-Term
4.4	Explore the possibility of adopting ASYCUDA, in line with other regional countries			✓	SICED, international agencies, possibly UNCTAD	Short to medium-term
4.5	Introduce an officer or unit within the Department of Customs responsible for training and implementation of a Human Resource Development plan		✓		SICED	Short-term

No.	Action recommended (* indicates priority)	Requirements			Agencies involved	Expected duration
		Implement existing policy	Change policy/ legislation/ Reform Institutions	Technical assistance/ investments		
4.6*	On SPS: execute *(i)* the request from DEH for strengthening the competent authority for fisheries exports and *(ii)* the request from CAD to resource the National Public Health Laboratory to carry out tests	✓			DEH, CAD	Short-term
4.7	Support the implementation of the new food safety regulation	✓		✓	DEH	Short to medium-term
4.8	Initiate a standards and conformance program, focusing mainly on metrology in the first instance	✓			DCIL	Short to medium-term
5	**Trade Policy**					
5.1	Conduct an inclusive, strategic and timely review of the country's tariff structure		✓		MoFT, MFAET (DET), MCILI, MDPAC	Short to medium-term
5.2	Review the duty exemption procedures and guidelines		✓		MoFT, MCILI, MDPAC	Short to medium-term
5.3	Rationalise the export incentives regime		✓		AG Chamber, MDPAC, MoFT, MCILI (FID), MFAET (DET)	Medium-Term
5.4*	Strengthen the trade and trade-related legislative framework		✓		MCILI, AG Chamber, MFAET	Medium-Term
5.5*	Relevant agencies should take the lead and responsibility in implementing trade agreements	✓			MoFT (C&E), MCILI, MFAET (DET), AG Chamber, MSG Secretariat, PIFS	Short-term
5.6*	Strengthen the Department of External Trade		✓	✓	MFAET (DET), IF-NIU MCILI	Medium to long-term
5.7	Develop an inclusive and nationally owned framework to co-ordinate trade negotiations		✓		MFAET, MDPAC, MCILI, IF-NIU	Medium to long-term
6	**Trade and human development**					
6.1	Mainstream trade, poverty and human development policy		✓		MDPAC, IF-NSC, IF-NIU, All relevant ministries	Ongoing
6.2	Establish a close working relationship between the IF Unit and the national HIV/AIDS co-ordinating mechanism		✓		IF-NSC, IF-NIU, MHMS, national HIV/AIDS co-ordinating mechanism	Short-term
6.3	Promote policies and programs that aid in increasing rural productivity	✓		✓	IF-NSC, IF-NIU	Long-term
6.4	Strengthen the centre through decentralization	✓		✓	Various	Short to long-term

No.	Action recommended (* indicates priority)	Requirements			Agencies involved	Expected duration
		Implement existing policy	Change policy/ legislation/ Reform Institutions	Technical assistance/ investments		
6.5	Increase labour productivity through enhancing regional partnerships and usage of regional vocational training centres		✓		Various, possibly training institutes in Vanuatu, PNG and Fiji	Medium-Term
6.6	Promote policies that induce backward and forward linkages, particularly tax and investment policies		✓		MoFT, DET, MCILI	Medium to long-term
6.7	Link trade negotiations with human development		✓		DET, others.	Immediate, but long-term
6.8	Strengthen aid coordination through policy and expenditure harmonization	✓		✓	Various	Medium-Term
6.9	Enact a policy commitment to developing the mining industry using international best practice and in an atmosphere of full transparency		✓		DET, IF-NIU, others.	Short to medium-term
6.10	Begin collecting detailed feedback from participants in the RSE scheme, (amongst other uses) to form the basis of analysis of the use of remittances as investment capital		✓		DET, with the support of the Divisions of Labour and Immigration in MCIE	Analysis can begin short-term, but more useful analysis longer term
7	**Sustainable forestry and logging**					
7.1	Dialogue and planning for the imminent end of the logging industry should start now and be included as part of the budget planning process		✓		MF, MoFT, Ministry of Public Service, Ministry of Environment, VATA, Development Partners	Short-term
7.2	Improve the capacity of the Ministry of Forestry in policy analysis and formulation	✓	✓	✓	MF, SIFMP II, Ministry of Finance and Treasury, Ministry of Planning, Ministry of Environment, Ministry of Women Youth and Children, private sector especially small sawmill operators, VATA, Development partners, NGOs	Immediate, but ongoing
7.3	Subject to further dialogue with stakeholders, sections of the Forestry Bill 2004 may be removed and turned into a separate legislation		✓	✓	MF, Cabinet, Ministry of Prime Minister, Ministry of Environment, Attorney General's Office, Parliament, industry, Development Partners, NGOs	Short-term

No.	Action recommended (* indicates priority)	Requirements			Agencies involved	Expected duration
		Implement existing policy	Change policy/ legislation/ Reform Institutions	Technical assistance/ investments		
7.4	Undertake a value-chain study for logs and timber			✓	MF, Ministry of Finance and Treasury, Cabinet, Department of Customs, URS, overseas customs agencies, private sector, VATA	Short-term
7.5	Allocate financial resources to raising public awareness about the commercial sexual exploitation of children in logging areas		✓	✓	The Christian Care Centre, Ministry of Women, Children and Youth, NCW, MF, Police, NGOs, Development Partners	Short-term
7.6	Conduct a stocktake of the interactions between logging companies and the surrounding communities			✓	MF, Ministry of Lands, Provincial authorities, KFPL, EPPL, Development Partners, NGOs, Land-owning communities, Forest Industries, VATA	Short-term
7.7	Government, sawmill operators and local timber companies may wish to collaborate and strategise on ways to develop the downstream processing subsector		✓		MF, Industries in Honiara, VATA, Ministry of Finance and Treasury, Ministry of Planning, NGOs, Development partners, shipping companies	Short to medium-term
7.8	Undertake a nationwide awareness program to inform resource owners about the rationale of the programs of reforestation and plantation establishment		✓	✓	MF, Ministry of Lands, Provincial Authorities, Development Partners, Landowners, NGOs	Medium-Term
7.9	Help women and youth to participate in income-generation and employment opportunities in forestry and logging through access to land		✓		MF, Ministry of Women Youth and Children, Provincial Authorities, communities, NGOs, Development Partners	Medium-Term
7.10	Formulate a policy position on carbon finance		✓		MF, Cabinet, Ministry of Prime Minister, Ministry of Environment, Attorney General's Office, Parliament, industry, Development Partners, NGOs	Short-term
8	**Agriculture, agro-processing and livestock**					
8.1*	Set up a task force on examining credit access options for cocoa and copra licensed exporters, rural traders and primary processors		✓		Banks, DOT, MoFT, TASP, Donors, Licensed commodity exporters, CEPA	Short-term

No.	Action recommended (* indicates priority)	Requirements			Agencies involved	Expected duration
		Implement existing policy	Change policy/ legislation/ Reform Institutions	Technical assistance/ investments		
8.2*	The TSAP, in collaboration with CEPA to initiate and implement a fair trade and organic cocoa certification program with FLO		✓	✓	TSAP, Agriculture, others	Medium-Term
8.3	Conduct an international feasibility study on the rehabilitation of the cattle industry	✓			Ministry of Agriculture, other agencies	Short-term
8.4	Implement a program, including overseas study tours and quality standards assurance, on knowledge and capacity-building of high value food processing and marketing techniques for entrepreneurs		✓		Ministry of Agriculture, TSAP, other agencies	Medium-Term
8.5*	Government may wish to cooperate with GPPOL to determine terms of reference on the formulation of a national oil palm strategy, including both international and local input		✓		Ministry of Agriculture, GPPOL, other agencies	Short to medium-term
8.6	Support the revival of coconut agro-processing through the appointment of an independent international panel of arbitrators to resolve the RIPEL dispute		✓		Ministry of Agriculture, other agencies	Short-term
9	**Fisheries, aquaculture and fish products**					
9.1	Support the capacity and governance improvements in MFMR being generated by the SIMROS project	✓		✓	MFMR, SIMROS	Ongoing
9.2	Develop consultative decision-making processes and strategies under the planned Fisheries Management Advisory Council		✓	✓	MFMR	Medium-Term
9.3	Improve the viability of tuna processing, using the measures outlined in the DTIS recommendations		✓		MFMR	Short-term/ ongoing.
9.4*	Support the MHMS to complete the requirements for the Competent Authority so that Solomon Islands can attain List I status as an exporter to the EU market	✓		✓	MHMS	Short to medium-term
9.5	Place rural fisheries and aquaculture developments within an integrated rural development strategy		✓		MFMR	Medium-Term
10	**Tourism**					
10.1	Improve access for local tourism enterprises to business start-up or expansion funding		✓		Ministry of Culture and Tourism, others	Medium-Term
10.2	Use the internet to tap into high-yield markets and make it a major focus for future marketing		✓		Ministry of Culture and Tourism, others	Short to medium-term
10.3	Involve local communities at all stages of the tourism development process		✓		Ministry of Culture and Tourism, others	Medium-Term

No.	Action recommended (* indicates priority)	Requirements			Agencies involved	Expected duration
		Implement existing policy	Change policy/ legislation/ Reform Institutions	Technical assistance/ investments		
10.4	Conduct research on linkage structures and leakage associated with the tourism sector		✓		Ministry of Culture and Tourism, others	Short-term
10.5	Increase the number of trained tourism staff		✓	✓	Ministry of Culture and Tourism, others	Medium-Term
10.6	Improve data on visitor characteristics, tourist spend, industry linkage structures and outer island travel		✓	✓	Multiple but with focus on Statistics and SIMCT	Short to medium-term
10.7	Any attempts to develop yield must be based on an understanding of environmental sustainability and climate change with reference to the tourism industry		✓		Ministry of Culture and Tourism, others	Medium-Term
10.8	The SIVB needs to show industry that it is providing real value for money		✓		SIVB	Short-term
10.9	Focus the future vision of the industry on yield, developing product and spend rather than the current focus on increasing visitor numbers at potentially unrealistic rates		✓		Ministry of Culture and Tourism, others	Medium-Term
10.10	Build the handicrafts trade		✓		Ministry of Culture and Tourism, others	Medium to long-term
11	**Institutional framework for mainstreaming trade**					
11.1*	Hire an experienced international technical assistant for at least one year to move the IF process forward and train officials		✓	✓	IF-NSC, IF-NIU	Short-term
11.2	Establish a unit or delegate responsibility to a person within the IF steering committee with responsibility for managing information, collating consultancy reports and establishing them in a library		✓		IF-NSC, IF-NIU	Short-term
11.3	Support an economic think tank and/or policy forum, bringing together prominent economists and public policy specialists		✓		IF-NSC, IF-NIU, others	Medium-Term
11.4*	In the near term, conduct a donor roundtable aimed at establishing donor commitments on the DTIS			✓	IF-NSC, IF-NIU, donors	Short-term
11.5*	Conduct a biannual review of donor activities, aimed at ensuring maximum coordination among donors			✓	IF-NSC, IF-NIU, donors	Medium-Term

CHAPTER ONE

Macroeconomic environment

1.1 INTRODUCTION

This chapter presents the macroeconomic background to recent events and discusses some contemporary macroeconomic issues. First is a description of economic growth prior to the Tensions of 1999–2002, followed by an outline of the economic impact of the Tensions and a look at the RAMSI intervention. The next section describes the composition of GDP, including a section on mining, which because of its emerging status is treated as a macroeconomic issue rather than as a separate chapter. The following section takes a detailed look at trade trends by composition and destination. The final section discusses monetary, fiscal and debt policy.

1.2 BACKGROUND

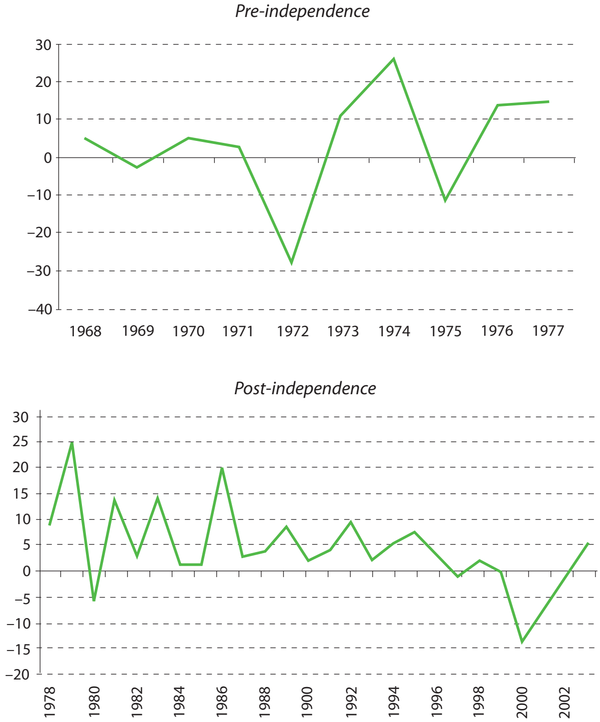
Following independence in 1978, economic growth in Solomon Islands steadily declined. Reliance on a narrow export commodity base; fluctuating international commodity prices and a lack of economic diversification kept annual GDP growth low and volatile. The economy grew at around 4.5% per annum for the 10 years after independence, slightly lower than the 5% average growth for the decade preceding independence. Annual growth fell further in the nineties, to around 3.5%, little higher than the rapid annual population growth of 2.9%.

While successive governments acknowledged the need for reforms to address structural weaknesses and to diversify exports, the political will to implement these reforms was lacking. For nearly 30 years the country has relied on logging as a key driver of economic growth. The presence of a relatively easily exploitable resource reduced the need to identify alternative forms of economic growth. Export taxes on logging were also a reliable source of fiscal revenues independent of direct taxes on citizens, so they remained politically palatable. Rather than embark on industry reforms and diversification, it was easier for Government to persist with a fiscal revenue stream that was already available and readily obtainable than to impose new and potentially disruptive forms of taxation. Poor accountability meant that the funds were often misspent or misappropriated. The logging industry of Solomon Islands is an example of what Sachs (2005) has termed a 'resource burden'. The industry in effect precluded diversification into other areas, making it difficult for industry to move up the value-adding ladder and limiting export diversification.

A study by the ADB and the Commonwealth Secretariat (2005) observes that poor governance—excluding the crisis—cost the country around SBD2.8B of

FIGURE 1.1 **GDP growth trends (annual %), pre/post-independence**

Source: IMF (2001)
ADB (2003)



growth between 1978 and 2003. This was equivalent to 11.4 times the value of 2003 GDP. Mismanagement and corruption pervaded the political system and the public service, weakening economic policy. While assessments of governance are difficult and often subjective, the ADB and Commonwealth Secretariat single out Solomon Islands, PNG and Fiji as regional countries that have suffered from particularly bad governance. 'Governance' does not refer only to the Solomon Islands Government (SIG); it is the whole range of individuals, institutions and processes that 'guide and restrain the collective activities of a group' (Keohane and Nye 2002). From this perspective aid donors, the private sector and civil society groups have contributed to the current state of instability as well as politicians and public servants.

Towards the end of the 1990s the prospects for growth had become slightly more optimistic. The country's main export markets in Asia had themselves rebounded from crisis. Solomon Islands policy and structural reform programs that had begun in 1998 included macroeconomic stabilisation, restructure and reform of the public service, and the privatisation of SOEs and joint venture companies. Specific actions included the tightening of fiscal and monetary policies, regularising debt, introducing a productivity-based reward system within the public service and privatising certain Government entities. Overall, these actions aimed at restoring confidence in Government.

In 1998 a militant group, the Guadalcanal Revolutionary Army (later renamed the Isatabu Freedom Fighters) began a violent campaign against people from the island of Malaita with the aim of removing them from Guadalcanal. In

1999 the violence escalated. The following year the Malaitan Eagle Force (MEF), a militant group made up of disenfranchised Malaitans in partnership with the police paramilitary force, reacted violently. The Government was paralysed, and the MEF and its outfits overran Honiara, which, along with other parts of Guadalcanal, became lawless and unstable. During the conflict as a whole an estimated 20,000 or more people were displaced and up to 200 killed (UNDP 2004).

Apart from the immediate impact on people's lives (discussed in the chapter on human development) the deteriorating law and order situation on Guadalcanal had a severe bearing on the macroeconomy. During the crisis period, GDP contracted by 24%, the scale of which was then unprecedented in the Pacific region. Business closures included the largest palm oil plantation in Solomon Islands, traditionally the third highest export earner, and Gold Ridge Mining (later purchased and reopened under Australian Solomons Gold) which had just completed its first full year of operations. The figure below shows per capita incomes for the five Pacific LDCs for 1996, 2001 and 2006. Per capita income for Solomon Islands was already the lowest among the Pacific LDCs prior to the crisis, and declined further during this period. Kiribati and Papua New Guinea have historically had a comparably low per capita income, although Kiribati's per capita GDP has since grown to over USD1,000.

Government found it difficult to enunciate or implement policy, including the round of reforms that had started in 1998. Civil unrest and Government paralysis quickly translated into a fiscal crisis. Government revenues declined and controls on expenditure effectively disappeared. On several occasions armed gunmen held up the Ministry of Finance and forced officials to sign over large sums of money. Government defaulted on a series of obligations that included civil service pay, domestic and foreign debt and provincial grants. Debt default included concessional loan obligations to the ADB, IMF and other agencies. Solomon Islands had a large external debt in the late 1990s, a situation which was compounded by the 20% devaluation during the crisis period. The cut in civil service salaries including superannuation commitments further demoralised staff already besieged by the breakdown in law and order in Honiara. By 2002 the Government was insolvent.
The turning point came in 2003 following the RAMSI intervention. RAMSI's immediate focus was restoring law and order in Honiara and Guadalcanal. The interven-

FIGURE 1.2 **GDP per capita (USD) for 1996, 2001, 2006—Pacific LDCs**

Source: ADB Economic Outlook (1998, 2002, 2007)

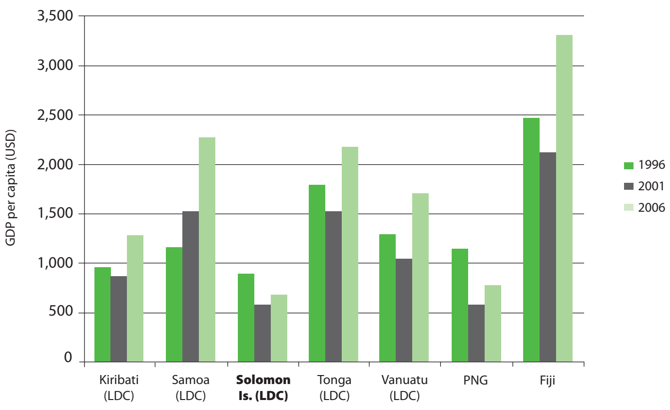


FIGURE 1.3 **Government revenue and expenditure during Tensions**

Source: ADB (2007), CBSI (2007)

tion also enabled the re-engagement of donors and the international community. Business began to pick up. Government insolvency and the presence of external RAMSI advisers meant that difficult financial decisions could be confronted immediately. After the RAMSI intervention the Government reprioritised its budget and consolidated and renegotiated its debts (discussed below). Public expenditure management improved, and the Government ran budget surpluses from 2003 to 2006, although Government expenditure has since grown rapidly.

The table below shows that RAMSI is by far the largest source of donor assistance, and is funded mainly by Australia and New Zealand in addition to their bilateral programs. New Zealand funded the majority of the recurrent budget during that period while RAMSI funded the bulk of the development expenditure budget. Much of the ODA development component is disbursed directly by donors via line Ministries or as direct assistance rather than through central finances.

TABLE 1.1 **Source of ODA as a percentage of total ODA**

Source MoF (2008)

ODA donor	2005	2006	2007
Australia (bilateral)	7%	6%	4%
RAMSI	74%	68%	64%
New Zealand (bilateral)	3%	7%	5%
European Union	3%	4%	12%
Japan	6%	5%	5%
Taiwan ROC	3%	4%	5%

1.3 COMPOSITION OF THE ECONOMY

The division between urban and rural economies is marked. Much of the cash economy is concentrated in the capital city Honiara, alongside the central Government institutions, international donors and the diplomatic community. Honiara is also the main port of entry for sea and air, further concentrating services and business activity in this one area. A survey by the Government Statistics Office in 2006 showed that while the capital has only around 11% of the population, average household incomes are three times those of rural households.

BOX 1.1 **Regional Assistance Mission to the Solomon Islands (RAMSI)**

Source: AusAID (2003)

The breakdown of law and order and governance in the Solomon Islands between 1999 and 2003 led the Solomon Islands Prime Minister to approach the Australian Government to help restore rule of law and the basic functions of government. After consultations with governments in the region, the foreign ministers of the Pacific Forum endorsed a package of assistance to the Solomon Islands through a Regional Assistance Mission to Solomon Islands (RAMSI) under the framework of the Biketawa Declaration (2000). In December 2003 the Solomon Islands Government endorsed three key sectors for assistance under RAMSI—law and justice, economic governance and machinery of government.

The goal of RAMSI is to assist SIG to improve governance institutions and good governance, strengthening the Government's capacity to improve the living standards of the people of Solomon Islands. The Economic Governance Program focuses on strengthening Government finances; encouraging business and economic growth; support for provincial farmers.

The Machinery of Government (MOG) Program aims to strengthen the accountability, efficiency and effectiveness, and responsiveness of Government.

The activities of the program are concentrated in five institutional areas:

i Public service repair and reform;
ii Accountability institutions;
iii Support for parliamentary processes;
iv Electoral system, including institutional support and civic education;
v Provincial governance.

At this stage, RAMSI is in Solomon Islands until 2009 and is currently undergoing a review by the Pacific Forum Members. The Pacific Forum members are Australia, Cook Islands, Fiji, Federated States of Micronesia, Niue, Kiribati, Nauru, New Zealand, Papua New Guinea, Palau, Republic of the Marshall Islands, Samoa, Solomon Islands, Tuvalu, Tonga, and Vanuatu.

While logging is the largest single industry—18% of GDP in 2007—the largest single sector of the economy is services, accounting for 50–60% of GDP over the last 15 years. As in many Pacific countries, central Government forms a large component of this sector. Government expenditure has typically comprised over 30% of GDP.

Honiara's prominence extends to the industrial sector, which has formed a relatively small share of GDP—at around 5–10% since independence. This sector (which includes mining) has picked up in recent years. Partly because of the concentration of industrial output in Honiara, it shrank rapidly during the crisis.[1]

Agriculture is central to rural livelihoods. Around three-quarters of the country's estimated 552,438 population is concentrated in the rural areas and relies on agriculture for subsistence or market production. Agriculture is also the second-largest cash sector, contributing around a third of GDP since independence. Government's efforts to diversify away from agriculture or to increase the engagement of the provinces in other commercial activities have mostly not succeeded. Figure 1.5 shows that within the region, the contribution of agriculture to GDP in Solomon Islands is lower only than Papua New Guinea (PNG).

[1] By way of comparison, the share of industry in the GDP of neighbouring Vanuatu has shrunk steadily since independence. It now comprises around 9% of GDP.

FIGURE 1.4 **Agriculture and industry, % share of GDP, 1993–2002**

Source: CBSI (2003)

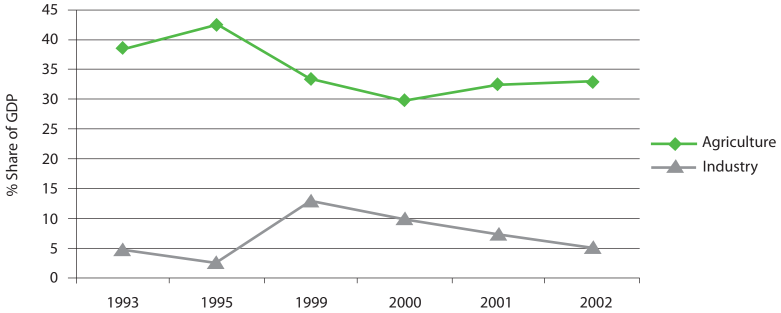
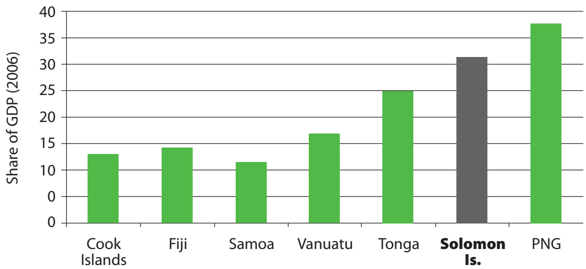


FIGURE 1.5 **Agriculture share of GDP 2006: selected Pacific countries**

Source: ADB (2008)



1.4 ECONOMIC GROWTH

The RAMSI intervention was the catalyst to an economic turnaround. The economic contraction during the Tensions was so severe that subsequent growth came from a low level. This 'base effect' occurred partly because Government and many businesses resumed operations. External debt fell, inflation moderated, and reserves increased.

As shown by the following table, from 2003–2007 GDP expanded at an annual average of 7.18%, the highest among Pacific Island Countries and the fastest rate for over a decade.

By 2007 per capita incomes had recovered their levels of 10 years previously. High growth rates are expected for 2008, 2009 and 2010, at 5%, 7% and 2.5% respectively.

The sheer volume of aid in itself had a considerable macroeconomic impact. As the following figure shows, the increased presence of aid donors meant that aid and official development assistance (ODA) grew from 23% of GDP in 2000, with a dip in 2002 due to the Tensions, to 61% of GDP in 2006, one of the highest proportions in the world. With total ODA and aid of USD205M in 2006, each Solomon islander in effect received an average of around USD370 during that year.[2] On this basis, the donor community has become considerably bigger than Government.

Other than the 'base effect' and aid, a significant proportion of post-crisis growth was driven by logging exports. Between 1997 and 2007 annual logging harvests increased by over 120%. The figure below shows that logs comprise by

[2] Not all of these funds actually pass into the economy since a considerable proportion are salaries for technical assistance, funds which may remain outside the country. ODA may, however, underestimate the true magnitude of aid since some countries do not declare donations under official international norms.

TABLE 1.2 **Selected macroeconomic indicators**

Sources: ADB, IMF estimates, CBSI (2003-2007)

Indicator	2003	2004	2005	2006	2007
Real accounts					
Real GDP (annual growth rate)	6.50	8.00	5.00	6.10	10.30
Prices					
Retail Price Index (Honiara)	10.1	6.9	7.3	11.2	7.7
Change in money supply (% per year)	25.8	13.3	39.8	28.2	28.6
3-month T-Bill rate	5.8	6	3.5	3.5	3.5
External sector					
Current account balance (SBDM)	204	502.5	−88.5	10.7	63.7
BOP overall (SBDM)	140	324.8	120.1	73.5	127.6
Exchange rate (versus AUD)	5	5.45	5.75	5.73	6.41
Growth rate of merchandise exports (% per year)	43%	31%	7%	18%	40%
Growth rate of merchandise imports (% per year)	64%	3%	69%	23%	31%
International reserves (months of Imports)	2.8	3.2	3.5	4	4
Fiscal policy					
Fiscal balance (% of GDP)	0.2	5.1	2.5	1.5	−1.2
External debt/GDP ratio	69.5	60.6	54.2	50	46.5

TABLE 1.3 **Annual GDP growth and per capita growth, 1995–2007**

Source: ADB Economic Database; UN Development Report 2007/8

Country	LDC	1995–2002			2003–2007	
		Annual GDP growth (%)	Annual GDP/capita Growth (%)	Annual population growth (%)	Annual GDP growth (%)	Annual GDP/capita growth (%)
Kiribati	Y	4.60	2.90	1.60	0.98	−0.96
Samoa	Y	−0.10	−3.20	3.20	4.56	3.32
Tonga	Y	2.10	1.60	0.50	1.06	0.70
Vanuatu	Y	0.80	−1.70	2.60	5.80	3.26
Solomon Islands	**Y**	**−2.20**	**−4.90**	**2.90**	**7.18**	**4.44**
Cook Islands	N	3.00	6.30	−3.10	3.42	1.66
Fiji	N	2.40	1.30	1.10	6.06	1.26
PNG	N	−0.10	−3.20	3.20	3.42	0.94

far the biggest single export commodity and that logging output increased more quickly after the Tensions than fisheries export, copra or palm oil.

1.4.1 Mining

Although the mining industry is currently at an early stage of development, it has the potential to become the single largest component of GDP in coming years, contributing to Government finances and foreign exchange earnings. Up to 10 companies are currently prospecting nationwide, mostly for gold and nickel. Export revenues from mining could be large enough that they could compensate for the decline in logging. Australian Solomons Gold was formed in 2005 and plans to begin operations in the Goldridge area of Guadalcanal in 2010. The company, quoted on the Toronto Stock Exchange, expects production to be 135,000 ounces a year during the first five years and 120,000 ounces annually during the subsequent two years. Using gold prices in late 2008, this would amount to around USD120M annually, or up to a third of total current GDP, for a total of seven years.

FIGURE 1.6 **Per capita income (in USD)**

Source: CBSI((2008)

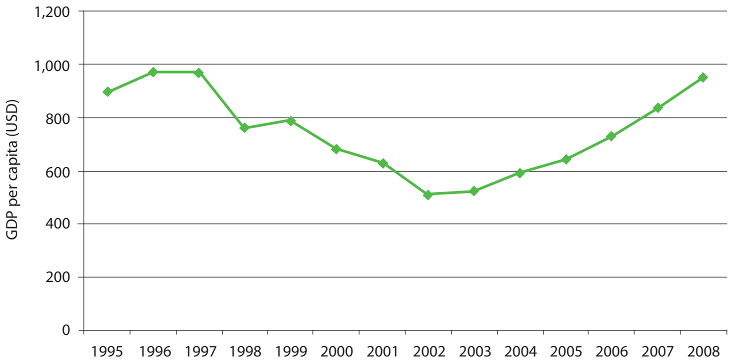


FIGURE 1.7 **Official aid and ODA, 2000–2006**

Source: World Bank development indicators

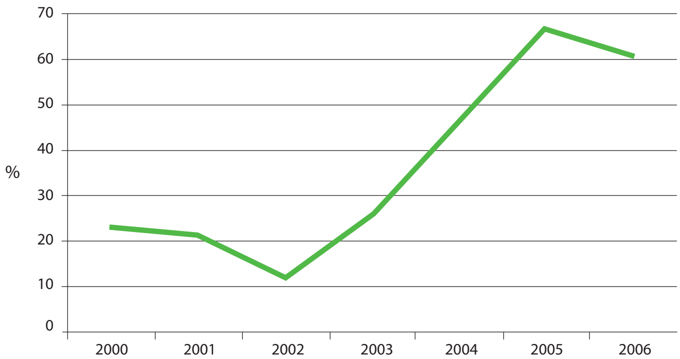
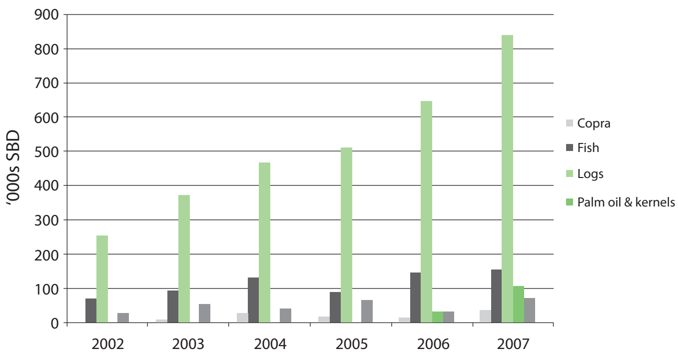


FIGURE 1.8 **Value of commodities export, 2002–2007**

Source: CBSI (2008)



Employment is expected to be around 400, while the company is likely to produce up to 14mw of hydropower for its own purposes. However an arrangement under which the company can offset investment against taxable income means that it is unlikely to make a major contribution to tax revenues.

Sumitomo Metal Mining Co. Ltd. is at an earlier stage but has a bigger potential macroeconomic impact. The company, Japan's largest nickel producer, targets production of up to 30,000t of nickel a year for 30 years starting in 2014. At late 2008 world prices this would be worth over USD300M annually, a sum worth about three-quarters of total current GDP. Interviews with management suggest that overall FDI is expected to be between USD1 and USD2B, historically the biggest single investment in the country. Exploration on the islands of Choiseul and Isabel has proven successful, and the low-grade quality of the ore will require a processing plant. Employment is expected to number between 1,000 and 2,000, while the company plans to build its own wharf, power plant, school, roads and hospital. Management started negotiations with the Government in 2007, although discussions are said to be proceeding slowly. As with Australian Solomons Gold, Sumitomo is requesting a tax concession. It claims to have negotiated a lower taxation rate for a similar nickel operation in the Philippines.

The macroeconomic importance of these developments cannot be understated. In the face of declining logging revenues, and with no other major future sources of revenue, the Government has little option but to consider the developments favourably. The CBSI estimates that GDP would have fallen considerably further in 1999 had it not been for mining revenues. Simple projections suggest that the Sumitomo project alone could raise GDP per capita to above the USD1,000 threshold,[3] an increase in aggregate wealth so large that it would raise the possibility of graduation from LDC status. The additional employment and infrastructure deriving from both Sumitomo and Australian Solomons Gold—and possibly other developments—would have wider benefits. Sumitomo's location on two previously relatively undeveloped islands could help achieve the Government's stated aim of spreading development to the rural areas.

[3] Assuming 4% annual GDP growth from 2008 until 2014; annual production of 30,000t; current nickel prices; 2.8% annual population growth.

Yet critical uncertainties remain for both the companies and Government. Australian Solomons Gold is continuing negotiations over land use and compensation with 1,500 people in 16 tribes. The absence of a clear and transparent legal system or accurate land titles have made progress difficult. When the mine operated under different ownership prior to the crisis, compensation for traditional landowners amounted to USD3M. Similar challenges confront Sumitomo in Choiseul and Isabel.

Of the USD120M in financing required for the Gold Ridge mine, over half will come from equity and the rest from debt. Current stock market conditions and the delay in opening mean that the share price had fallen to historic lows at the end of 2008. Given that the Tensions forced the closure of Gold Ridge and its eventual sale, political risk insurance was difficult to finalise, although this is now expected to come from the Australian Government's Export Finance and Insurance Company. Sumitomo views RAMSI as an important precondition for its own investment.

Both companies, supported by the Chamber of Commerce, have raised concerns over a law, passed without consultation in 2008, prohibiting one company from owning more than three concessions. If put into practice, the law would limit the size of the extractable area available to Sumitomo, potentially making the project uneconomical. Management claim that the company needs to produce 100M tonnes over its life cycle in order to justify the construction of a processing plant.

Government instability and poor governance create uncertainty and confusion. Like logging, the extractive industries remain particularly vulnerable to corruption. In Solomon Islands politicians often feel more affinity to an ethnic group or constituency than to the nation as a whole, and therefore more readily able to appropriate small gains for themselves than to negotiate larger benefits for the nation. For these reasons and more, Sumitomo's project is not certain to go ahead, and the scale of the operations appear similarly open to question.

The critical uncertainties for the country, however, appear even larger than for companies. Tax revenues are the main concern, a point raised during the 2008 IMF article IV mission. It is imperative that the Government achieve a more appropriate revenue-raising arrangement using an international team of negotiators.[4] The Choiseul and Isabel project is of such significance to Sumitomo—it will elevate the company from seventh– to fifth-largest nickel producer in the world—that the Government has considerable bargaining power. In some countries a dedicated law and taxation agreement has been developed, clarifying conditions for parties. In Laos, a Mineral Exploration Production Agreement was drafted to address the overlap between different pieces of legislation and to outline the responsibilities of the Government and the country's largest foreign mining investor. The agreement clarified laws on repossession and taxation. The Government should consider undertaking comparative analysis on other mining investments in the region to ensure that Solomon Islands receives a decent return from its natural resources.

[4] The Commonwealth Secretariat has offered some assistance in the past to evaluate the proposal by the Australian Solomon Gold (ASDG) to reopen the Gold Ridge mine.

Linkages to the rest of the economy are a further concern. Given that the operations will in effect require all infrastructure to be built from scratch on the islands of Choiseul and Isabel, most of the benefits are likely to be concentrated in these areas. This might be considered an advantage, since economic development is currently biased toward the capital. Yet the prospect remains that much of the revenues will simply be taken offshore without circulating in the economy. Output worth USD300M a year sounds a significant sum, but this is the value of nickel sold on the international market rather than funds which will circulate domestically. Given the financial magnitude of the operation, employment of 1,000 to 2,000 is not particularly high relative to traditional industries such as palm oil or copra. If the mine does have an impact on the domestic economy in the form of an upturn in demand for Solomon dollars, this may result in currency appreciation—and possibly Dutch disease. A competitive exchange rate is vital if the country is to achieve export diversification. Finally, the environmental and social concerns are considerable, and are dealt with in chapter six.

1.5 BALANCE OF PAYMENTS (BOP)

In recent years the BoP has been heavily influenced by capital and financial transfers, mainly in the form of large ODA inflows. At the time of RAMSI's launch, the current account was already recovering, mainly due to the recovery in exports along with increased stability and strong global commodity prices. External reserves, after an initial surge in 2004, grew by around 16% in 2007 to nearly four months of import cover, although reserves diminished to a projected 3.1 months of import cover in 2008 and are forecast to fall further during 2009.[5]

[5] IMF (2008) (millions of USD unless stated otherwise)

The import bill rose more quickly than exports between 2006 and 2008, widening the current account deficit to an estimated 6.8% of GDP by 2008. Oil prices rose over 120% between 2004 and 2007. Imports of plant and vehicles, fuelled by the large RAMSI presence and the resumption in construction, doubled in value between 2005 and 2007. Chemical imports, largely owing to the resumption of mining and exploration activity, grew in excess of 130% over the same period. Food prices also rose over 40% between 2006 and 2007. By mid-2008, the world price for rice, for instance, was 140% higher than in 2004. However an increase in the

TABLE 1.4 **Selected Balance of Payments data 2006–2009**

Source: IMF (2008)

	2006	2007 est.	2008 proj.	2009 proj.
Current account balance	−18.8	−10.8	−32.2	−49.9
% of GDP	−5.6	−2.8	−6.8	−9.6
Trade balance for goods	−62.1	−71.1	−94.8	−118.3
Exports	121.4	168.9	200.7	204.1
Logs	*84.6*	*109.6*	*126.5*	*125.1*
Imports	−183.5	−240.0	−295.5	−322.4
Food	*−21.6*	*−30.2*	*−38.0*	*−39.1*
Fuel	*−54.4*	*−56.8*	*−91.0*	*−99.6*
Gross Official reserves	103.5	119.6	100.5	91.7
In months of imports	4.1	4.1	3.1	2.8

transfers account by almost 300% during the same period helped limit any further expansion in the current account deficit.

While large inflows of ODA have supported the BoP in recent years and avoided the need for external borrowing, their stability cannot be guaranteed. The current inflows of aid have also contributed to the centralisation of growth and the cash economy in the urban centres, particularly Honiara. Future donor reprioritisation may mean a reduction in aid.

1.6 TRADE PERFORMANCE

Trading relationships in Solomon Islands are among the most globally integrated of any country in the region. The World Bank measures trade integration at 146.6%[6], higher than Melanesian neighbours (PNG, Fiji and Vanuatu at 88.7, 121.1 and 95.3% respectively) and the low income country average of 80.1%.

The export concentration value of 76.6% is one of the highest among comparable economies, indicating the country's high dependence on just few export commodities and markets[7]. In 2007 merchandise exports made up 67% of total exports, approximately 65% of which were logs.

1.6.1 Direction of trade

Exports

Export markets have changed significantly in the past decade. In 1998, exports to Japan, the European Union (EU) and Thailand accounted for 63%[8] of total exports. By 2007, China became the single largest export market at 51% of the total[9]. Korea is a distant second at 9%, while the combined share of Japan, EU and Thailand has dropped to below 20%.

Exports to regional markets grown consistently, albeit from a low initial level. MSG countries made up 2.34% of Solomon Islands total exports in 2007, an increase from less than 1% in 1998. Exports to Southeast Asia (Malaysia, Indonesia and the Philippines) have also been growing in importance. This suggests that Solomon Islands has become partially integrated into the region's value chains, mainly in upstream activities; however the figures remain volatile.

Exports to Australia and New Zealand remain minimal, despite the existence of quota– and duty-free access to Australia and New Zealand since 1980 under the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA). Australia's share of Solomon Islands' total exports fell from 1.91% in

6 The World Bank Trade integration index represents the percentage of trade to GDP. The latest available data is for 2006-2007. info.worldbank.org/etools/wti2008/2a1.asp

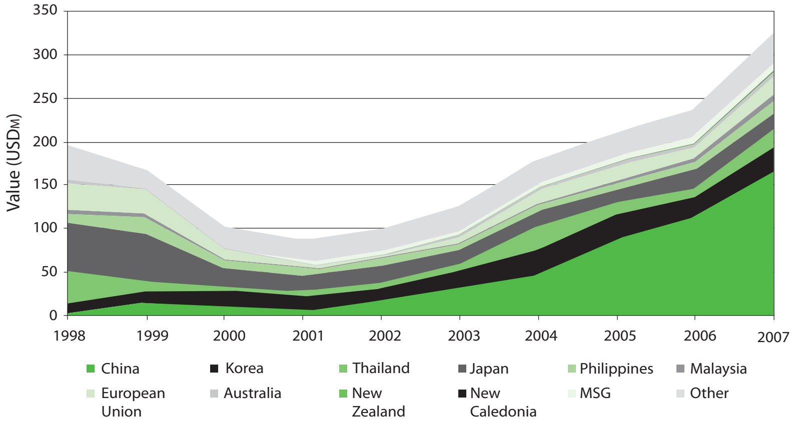
7 World Trade Profile (2008)

8 Japan used to be the biggest single export market, accounting for 42% of total exports in 1996.

9 Until recently, China was a relatively insignificant market, accounting for only 2.1% of total export in 1996. By 2003, China overtook Japan as the biggest export destination for Solomon Islands.

FIGURE 1.9 **Exports by country and region 1998–2007**

Source: IMF Direction of Trade Statistics



1998 to just 1.55% in 2007. New Zealand's share increased marginally, from 0.34% to 0.37% over the same period.

There has also been little success in maintaining market share in the EU, despite preferential access under the Cotonou Agreement (CA) or the preceding Lomé Conventions since 1975. The EU's share declined from 16% of total exports in 1998 to just 6.9% in 2007. Clearly, the volume of formal market access has not proven a major impediment to export development; the main constraints lie with the supply-side and non-tariff barriers[10].
Solomon Islands exports are highly concentrated by country and commodity. Over half of total exports go to China, 96% of which are logs. The same percentage holds for exports to Korea[11]. In 2006 these two markets alone accounted for 82% of Solomon Islands total log exports. Five export markets accounted for 78% of Solomon Islands total exports by value (Table 1.5).

While Solomon Islands is highly dependent on these few export destinations, it is a relatively insignificant import source for them. In 2007, Solomon Islands products accounted for only 0.02% collectively of total imports from China, Thailand and the Philippines, 0.01% of those from Korea and a negligible amount in Japan. Solomon Islands would thus have virtually no bargaining power in any trade dispute with its major export partners.

[10] Including restrictive Rules of Origin (ROOs) under SPARTECA, of which the FICs are currently demanding a review, and the lack of Solomon Islands capacity to fulfill stringent SPS requirements in ANZ markets.

[11] Korean-owned Eagon Pacific Plantation Company (EPPCL) accounted for 70% of plantation log exports. The other 30% by the Kolombangara Forest Plantation Ltd. (KFPL), at least some are expected to go to Korea, while log exports to China are likely to be non-plantation logs. More can be found in the Forestry chapter.

TABLE 1.5 **Top five export destinations in 2007**

Source: IMF Direction of Trade Statistics

	Export Market	Share
1	China	50.73%
2	Korea	8.61%
3	Thailand	6.52%
4	Japan	5.74%
5	Philippines	3.80%

In 2006, 64% of Solomon Islands' prepared fish exports went to Italy, mostly in the form of cooked tuna loins for canning. Solomon Islands's fish industry is thus vulnerable to any changes in fisheries trade regime with the EU. In the same year, 77% of Solomon Islands whole fish exports went to Thailand,[12] also mainly to canneries.

[12] Thailand is the world's biggest exporter of tuna despite not having fish resources in its own waters.

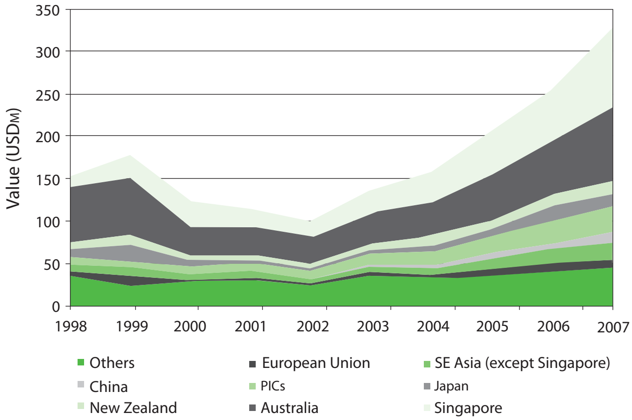
Imports

In 2007, Australia and Singapore accounted for the majority of Solomon Islands imports, at 26 and 28%. Of imports from Singapore, 85.5% were petroleum products. Imports from Japan have declined, while imports from EU remain minimal. At 7%, Southeast Asia (excluding Singapore) has increasingly become a significant source of imports, which come mainly from Malaysia, Indonesia and Thailand. This figure might even be understated due to possible re-export of their products through Singapore or Australia.

There has also been a notable increase in the share of Solomon Islands imports from the Pacific Island Countries (PICs), rising from just 3% in 1998 to

FIGURE 1.10 **Imports by country and region 1998–2007**

Source: IMF Direction of Trade Statistics



9% in 2007. The bulk of these (87%) came from PNG and Fiji, possibly an indication of their more effective utilisation of the Melanesian Spearhead Group Free Trade Agreement (MSG-FTA). The importance of intra-MSG trade may be underestimated as data from Vanuatu was unavailable.

As Solomon Islands begins to trade under Pacific Island Countries Trade Agreement (PICTA) with other non-MSG PICs, it has some potential to improve its regional balance of trade. Interviews with business people confirm that high demand exists for Solomon Islands products in some Micronesian countries such as Kiribati. The current direct flights from Solomon Islands to Nauru provide small potential export markets for Solomon Islands[13]. However these tiny economies will not provide significant demand for Solomon Islands products. Kiribati has a GDP of USD87M and a population of around 93,000, which means that the value of Solomon Islands exports to this country is likely to be small. In contrast, the potential partial opening of New Caledonia, an economy approximately 50 times the size, would have a potentially significant impact.

As regional trade agreements become operational, the Solomon Islands Department of Customs needs to strengthen its data and Rules of Origin (ROO) management (discussed further in Chapter Four). The initial origin of products must be correctly specified to enable accurate documentation of trade flows. In cases where origin misclassification leads to third country goods being unlawfully traded under these preferential or free trade agreements, there is a high risk of revenue loss and the unintended exposure of domestic producers to competition.

[13] I-Kiribati used to come to Solomon Islands to shop when there was a direct flight connection. There are also anecdotal examples of high demand for Solomon Islands lava lava (traditional printed cloth) and kava in Micronesian countries.

1.6.2 Composition of trade

Exports

The composition of the main exports by commodity is shown in the table below.

TABLE 1.6 **Solomon Islands export composition 1999–2007 (share of total value)**

Commodity	1999–2002	2003–2006	2007
Timber, logs	57.40%	67.10%	65.24%
Fish	19.80%	15.41%	11.78%
Palm Oil	5.01%	3.17%	8.19%
Cocoa	4.00%	6.39%	5.51%
Copra	5.20%	2.15%	2.86%
Fish, smoked	0.20%	–	–
Fish, canned	1.37%	–	–
Others	7.02%	5.78%	6.42%

Sources: Solomon Islands authorities and IMF staff estimates. 2007 data are estimates only.

Over the past decade Solomon Islands exports have been increasingly dominated by logs, mostly unprocessed. In 2007, logs accounted for 65% of exports, 17% of GDP and more than a fifth of Government tax revenue. In 2006, logs made up 96% of total exports to China and Korea. In the same year, these countries received 57% of total Solomon Islands exports and 82% of Solomon Islands logs exports.

Agriculture exports gathered momentum after the resumption of palm oil production in mid 2006, complemented with an increase in world agricultural commodity prices. Between 2004 and 2007 the world prices for logs, copra and fish increased by around 40% while those for palm oil grew 63%. In 2007, the three main agricultural crops, cocoa, copra and palm oil made up 17% of total exports. For the first time in the last decade, agriculture has overtaken fisheries as the second biggest export commodity, although this is partly due to the decline in fisheries exports.

There has been a notable reduction in the valued added to exports, as unprocessed logs form an increasing share of the total. In Japan, previously the country's biggest export market, 54% of imports in 1998 were fish, over 15% processed. By 2007, fish exports to Japan dropped to just 10%, while unprocessed logs made up 43% of the country's imports from Solomon Islands.[14]

Future changes in the composition of exports can be expected as palm oil production increases, gold and other mining projects begin, and log exports decline. This is likely to affect Government revenue and have distributional implications across sectors, businesses and households. It will remain important not to overlook the potential of small scale entrepreneurs and exporters,[15] which can be more sustainable sources of growth than large export-oriented extractive industries (see the chapters on the business environment and trade policy).

Imports

Imports have consistently expanded due to an increasingly monetised economy; a relatively undiversified production and manufacturing base; inadequate production capacity to fulfil domestic demand. As mentioned above, the increase in world oil and food prices has further increased the cost of imports.

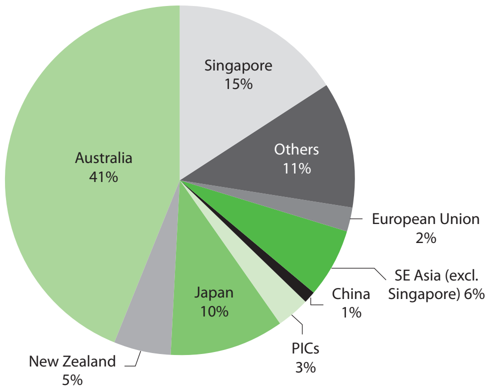
[14] It is worth noting that in terms of value, there has only been a small increase in logs exports to Japan. The change in share is reflected mainly in the decline in Solomon Islands export of fish products to Japan.

[15] One entrepreneur has managed to export taro to Australia despite the difficulties in fulfilling export standards requirements; high transport costs and other challenges.

FIGURE 1.11 **Comparison of import origin distribution, 1997–2007**

Source: IMF Direction of Trade Statistics

1997 (by country and region)



2007 (by country and region)

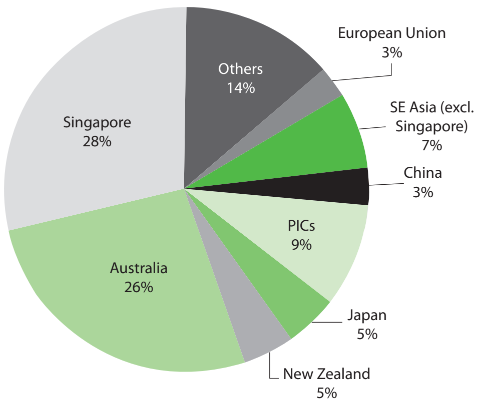


TABLE 1.7 **Solomon Islands import composition 1999–2007 (share of total value)**

Commodity	1999–2002	2003–2006	2007
Oil imports	17.74%	27.59%	23.65%
Food imports	20.90%	22.58%	12.41%
Plants, vehicles & transport equipment	20.28%	30.55%	11.27%
Building & construction materials	8.95%	14.54%	5.20%
Chemical	3.57%	1.43%	1.97%
Beverages & tobacco	2.57%	2.45%	1.43%
Other imports	25.99%	17.21%	43.89%

Sources: Quoted from CBSI, where data provided by Solomon Islands authorities; IMF staff estimate. Import figures from 2001 onwards are based on customs data.
Data for 1997 are adjusted for estimated imports for the construction of the Gold Ridge mine, which were reportedly financed in large part outside the domestic banking system.

A high dependency on oil imports will continue to put pressure on the trade deficit. While Solomon Islands has the potential to develop other sources of energy such as biofuel, solar and hydro to reduce import dependency, no strategy has been developed.

The increase in the global price of other commodities has also helped widen the trade deficit. In an attempt to curtail the increase in the price of rice, the

Government in 2008 removed a goods tax and 5% import duty. However this small tax reduction had no effect on domestic prices as it was vastly outweighed by the international price increases.

1.6.3 Services trade

Services accounted for a third of total trade in 2007. The data on services exports is too aggregated to allow for detailed analysis, although it can be seen that transportation and travel accounted for nearly half of total services imports, a reflection of the country's geographical isolation and dispersion.

TABLE 1.8 **Trade in services 2001–2007 (in USDM)**

Source: CBSI

	2001	2002	2003	2004	2005	2006	2007
Services and income	−6.26	−6.35	0.52	9.06	7.00	25.42	16.19
Nonfactor services (net)	−6.38	−0.44	5.98	7.68	6.85	22.96	20.54
Exports	24.70	16.71	21.23	30.39	36.27	53.15	73.27
Transportation	1.16	1.04	0.99	0.40	1.16	1.44	2.04
Travel	2.19	1.47	2.27	4.45	3.29	4.12	3.51
Communications	0.02	2.75	0.05	0.15	1.43	1.28	1.74
Financial services	7.88	0.08	0.91	1.21	0.61	4.06	4.74
Other	13.44	11.33	17.01	24.18	29.79	42.25	61.26
Imports	31.08	17.15	15.26	22.71	29.42	30.19	52.73
Transportation	3.27	3.82	3.15	6.02	8.73	9.86	17.27
Travel	6.50	4.36	4.45	4.44	4.73	4.12	7.68
Communications	1.62	1.79	2.23	1.55	1.90	1.68	2.01
Financial services	6.23	1.68	0.82	1.57	1.89	2.87	5.28
Other	13.47	5.54	4.62	9.12	12.17	11.65	20.50

Unlike other countries in the region, the tourism sector has yet to develop despite abundant natural attractions and the country's proximity to Australia. In 2007 the number of international visitors (including business visitors) in Solomon Islands was only around 15% of tourist arrivals to Vanuatu, excluding day cruise ship visitors to Vanuatu. The recent introduction of additional Brisbane Honiara flight services by Sky Airworld, and new investment in the hotel sector have the potential to increase tourism arrivals. The tourism chapter discusses these developments further.

Solomon Islands has now been formally included in the New Zealand Regional Seasonal Employment (RSE) scheme. This and initiatives such as Australia's pilot program for seasonal workers from the Pacific have the potential to become an important form of services exports from Solomon Islands, especially given the high numbers of people of productive age operating outside the formal sector. It is also worth noting that Taiwan has agreed in principle to accept several hundred workers each year, potentially adding to remittance incomes. The chapter on trade and human development looks at labour mobility in more detail.

1.7 MACROECONOMIC POLICY

1.7.1 The Medium-Term Development Strategy (MTDS) 2008–2010

The MTDS contains detailed programs to be implemented over the next three years. A total of SBD1.395M will be disbursed in six priority areas, the largest of which is the economic and productive sector, receiving half of total funds. The programs are comprehensive and affect all the Government's main Ministries. The priority areas are:

1. Reconciliation and Rehabilitation (SBD39M);
2. National Security and Foreign Relations; (SBD15M);
3. Infrastructure Development (SBD479M);
4. Social Services Sector (SBD130M);
5. Economic/Productive Sector; (SBD721M);
6. Civic Affairs (SBD12M).

Macroeconomic performance targets are as follows:
- GDP growth rates of 6% or more annually;
- Non-logging sectors to contribute at least 5% (up from 3.5%) to overall GDP growth;
- Foreign reserve levels to exceed three months of import cover annually;
- Inflation not to exceed 10% for more than three consecutive months;
- Government debt to be reduced to less than 30% of GDP in 2011;
- No new borrowing or guarantees issued in the MTDS period.

The MTDS attempts to address three of the main macroeconomic challenges facing the country: first, the need to reduce reliance on logging; second, the need to diversify the export base; third, the need to better engage the rural economy. Funds allocated to the economic or productive sector include supporting existing industries such as copra, palm oil, cocoa as well as reviving industries such as rice, cattle and other livestock. There are also plans to support the country's large fisheries resources, with plans for two additional tuna loin factories, boat projects, strengthening of relevant legislation and a review of the country's largest fish processing company, Soltai Ltd..

The funds allocated to infrastructure development will be invested in activities including building new roads and shipping wharves around the country as well as taking action to ensure that shipping services reach the outer islands. At least six additional airfields are planned, including an international airport for Western province. Moreover, there are plans to liberalise the telecommunications industry along a similar path to Vanuatu, PNG and Samoa, where new mobile carriers have been introduced. Better telephone and email services are planned for various provincial substations. Political will and Government stability will be vital in ensuring that such ambitious plans proceed according to schedule.

The development of the MTDS is a welcome step. Nevertheless its launch before a long-term National Development Plan is perhaps counter-intuitive.[14] Despite clear policy commitments on productive sector development, the section on trade and commerce is limited. The explanations given for this included the lack of feedback received by the MDPAC from the MCILI and the MFAET.[15] However some Heads of Division at the MCILI and the Director of External Trade have said that they were not sufficiently consulted, if at all. Given its key role in economic policy the Ministry of Finance and Treasury should also be a key partner in the development of the MTDS.

Evidence suggests that the MTDS was treated as a project involving a short-term external TA based at the MDPAC, who was tasked with developing a document within a limited timeframe.[16] As a result, the development of the initial draft was based heavily on existing documentation such as policy statements and work plans. However the process of developing a national plan is not only technical; by its very nature the construction of a development strategy should be consultative. Without widespread Government ownership, the strategy is likely to fall short of

[14] A senior Government official said: "we are actually putting the carriage before the horse by developing a 3-year MTDS before having a national development plan in place. How could we have a strategy without having a plan in place?"

[15] Telephone interview with the TA for the 2008-2010 MTDS, and face to face interview with the Director of the productive sector at the MDPAC.

[16] According to the officer in charge of MTDS at the MDPAC, the draft was written with limited time and inputs from other ministries and limited provincial outreach.

its objectives because Government officials will not necessarily give it their total commitment.

Once the first draft was completed, other ministries were consulted within a very limited timeframe. The lack of involvement of other ministries during the initial stages of drafting resulted in a weak sense of ownership and poor feedback during the consultation period. Moreover, consultation was conducted at the Permanent Secretary level. While Permanent Secretaries are in charge of supervising the day-to-day work of the ministries, they do not deal with a technical portfolio.[17] As a result of the Permanent Secretaries' demanding schedule, request for feedback on the draft MTDS was not always passed to Heads of Division. This often resulted in communication breakdown and incomplete feedback.[18]

The development of the MTDS, future formulation of a National Development Plan and any similar document should be treated as an ongoing process rather than an isolated project.[19] Technical inputs at Head of Division level should be solicited from all relevant ministries during, not after, the drafting of the plan, to foster a sense of ownership. It is thus recommended that for the IF to be successful, implementation of recommendations requires continuous collaboration among the IF-NIU, IF-NSC and the MDPAC. In addition, while the current MTDS has already been finalised, given a move to a more continuous planning process the following issues may worth be worth addressing:

- Overall there is scope for a much more active approach to stimulating growth by the non-agricultural sectors. Services such as tourism and remittances from labour mobility present valuable potential sources of foreign exchange. There is also scope to expand the country's small industrial sector, including value-adding, and ensuring there are incentives for infant industries and provincial-based industries.
- The demise of the timber industry will mean the loss of some 5,000 jobs, while perhaps another 10,000 people depend on income from logging. Planning for the social impact will prove vital.
- The disparity in urban and rural household incomes remains wide. Much of the post-Tension economic improvements are confined to Honiara, further widening urban-rural income disparities. Despite the overwhelmingly large size of the rural economy, infrastructure and capital expenditure in those areas has been disproportionately small. Macroeconomic policy measures will needed to deal with inequality and the urban/rural divide. It is crucial that the Government commits to increased spending initiatives for areas outside the capital. Donors may also wish to consider the prioritisation of labour-intensive activities in the rural areas above capital-intensive projects.

1.7.2 Fiscal and monetary policy

One of the key challenges for fiscal policy, as stated earlier, is to compensate for the loss of export revenues from logging. Strategies for achieving this must include developing new areas of economic activity, particularly in fishing, sustainable logging, and agriculture. Taxing existing industries at a higher rate, or simply widening the tax base, are unlikely to achieve the required expansion and may be contractionary.

Inflation has also become a prominent fiscal and monetary policy issue in recent months. Consumer price inflation rose to over 20% in 2008, and the three-month moving average for the consumer price index (CPI) was 16.1% in

[17] At the MCILI, the Permanent Secretary heads seven technical divisions, with seven heads of department, with an inter-related but different divisional portfolio.

[18] A telephone interview with the TA confirmed that the inputs received from MFAET were limited to foreign affairs; international trade issues were marginalised.

[19] e.g. Thailand has a dedicated National Economic and Social Development Board consisting of core economic ministries in charge of developing the country's 5-year plans. Having technical ministries in charge of the development plan provides a more robust and sustainable consultation mechanism over the long-term than a project-based approach.

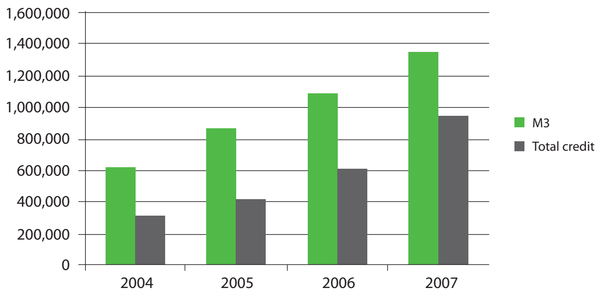
April 2009. The annual rate of increase in the CPI was 10% at the end of 2007[22]. A large part of the explanation for the upturn in inflation was external, the result of rising international food and commodity prices. Domestic pressures also contributed, with Government expenditure and private sector credit rising rapidly in 2007 and 2008. The following graph shows that the M3 measure of the money supply more than doubled between 2004 and 2007, while total credit also grew quickly. The CBSI has proactively enacted a number of strategies. To reduce excess liquidity it has allowed the National Provident Fund to invest offshore. It has also entered the deposit market directly by issuing term deposits with a view to increasing savings rates.

Concerns over the 2007 fiscal situation and growth in credit were exacerbated by the submission of a supplementary budget in 2008 worth an estimated 3% of GDP. As can be seen from the graph below, one of the achievements of the Government since the RAMSI intervention was to turn a significant recurrent budget deficit into a surplus. This required a considerable effort in maintaining expenditure controls and reducing debt. Yet the budget went into deficit again in 2007 and the deficit was forecast to increase in 2008.

[22] Source: IMF/ CBSI

FIGURE 1.12 **Money supply and total credit, 2004–2007**

Source CBSI (2007)

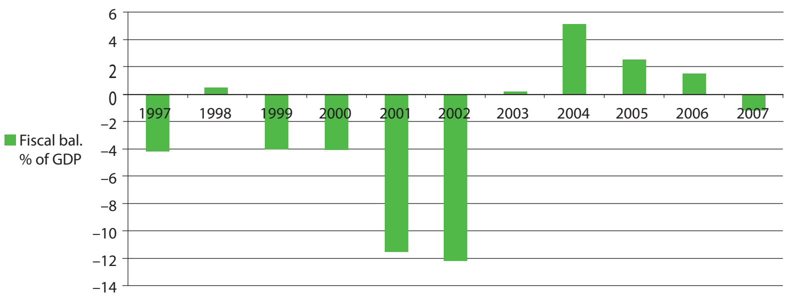


Preliminary IMF recommendations for achieving price stability include tighter monetary policy; improvements to revenue collection including better monitoring of logging revenues and reform of state-owned enterprises; export diversification in order to enhance revenue collection; limitations on Government spending including reducing the civil service wages bill.

The wages bill, at around a third of total expenditure, is of a similar proportion to that of other Pacific countries. However, as shown in Figure 1.14 below, total

FIGURE 1.13 **Fiscal balances (recurrent only) 1997–2007**

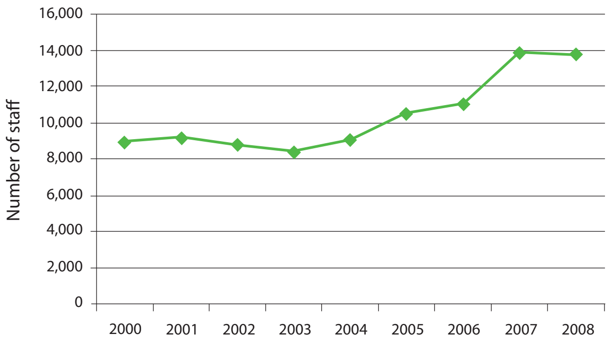
Source: ADB (2003, 2008)



staff numbers have grown steadily since the crisis. The Public Service Commission (PSC) reported that the civil service workforce numbered over 13,000 in 2008, a 50% increase over eight years. A World Bank (2006) survey observed that there are many long standing vacancies in critical areas such as teachers, police, prison officers and qualified Government administrators. Many of the employees in these positions were retrenched during the crisis.

FIGURE 1.14 **Number of civil service staff 2000-2008**

Source: ADB (2003, 2008)



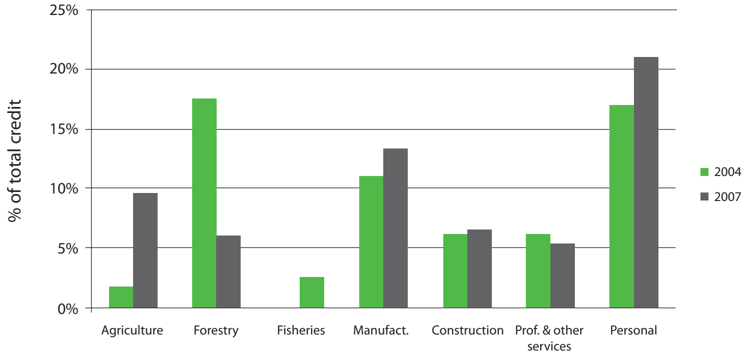
The PSC indicates that around 500 positions remained vacant in 2008, which would bring the total civil service workforce to nearly 14,000. Filling these positions would result in expenditure that is difficult to reverse and which would add to recurrent Government spending at a time when revenues are already precarious and spending stretched. At a time of significant international price pressures, and without accompanying efficiency savings, it will remain prudent for Government to monitor labour costs closely.

The IMF prescriptions of fiscal austerity and tight monetary policy rely on seeing the economy in aggregate. Looking at the data, and from a financial programming perspective, it does indeed appear that expenditure is rising unsustainably and that monetary conditions have recently been lax, with credit creation rising quickly. Yet the data come mainly from the cash economy centred in Honiara and Guadalcanal. The CPI basket, for instance, mostly reflects prices in the capital city. Data from the rural areas and provincial capitals is limited, but anecdotal evidence suggests that the rural economy is far from overheating. Further, amid a likely environment of slowing global growth, international price pressures may continue to moderate in the short to medium term. The achievement of aggregate price stability level must not, therefore, come at the expense of economic growth and diversification outside the capital.

While credit is expanding rapidly in urban areas, contributing to inflationary pressures, lending is very limited in the rural economy. Anecdotal evidence suggests that smaller, newer businesses, particularly in agriculture-related areas, find it difficult to obtain finance. High interest rates, a lack of collateral, onerous lending requirements and the lack of accessibility to banking services remain common challenges. In 2007, personal loans, such as mortgages, accounted for more than twice as much as lending to agriculture, fisheries and tourism combined. Agriculture received only 1.2% of total private sector credit, suggesting that the rural areas are starved of loans. The graph below shows bank credit to key sectors between 2004 and 2007.

FIGURE 1.15 **Bank credit by sector 2004 and 2007**

Source: CBSI (2007)



A consistent complaint from businesses and potential borrowers is that interest rates are too high. Solomon Islands experiences one of the highest interest rate spreads in the region, partly a reflection of sovereign risk. High levels of liquidity and inflation have kept lending rates consistently over 12% for the past decade. While deposit rates were relatively high (over 6%) prior to the crisis, they dropped sharply as the crisis unfolded and have since remained around the 2–3% mark. It should be noted that real interest rates are negative owing to continuing high rates of inflation.

FIGURE 1.16 **Interest rate spreads in selected Pacific countries in 2005**

Source: World Bank (2005)

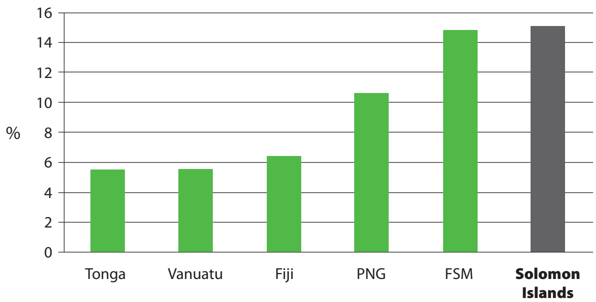
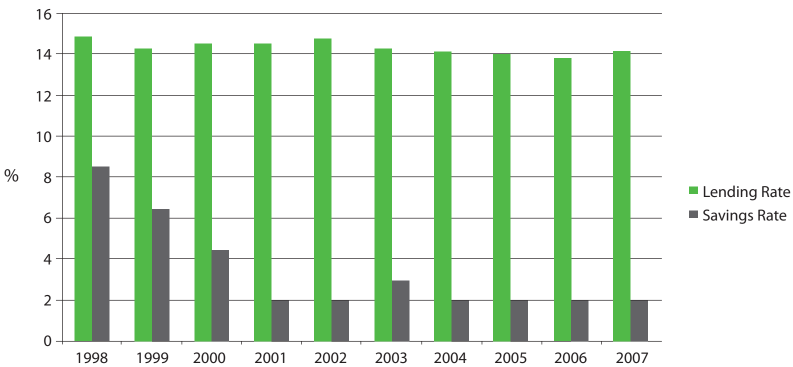


FIGURE 1.17 **Interest rate spreads in the Solomon Islands, 1998–2007**

Source: CBSI (2007)



The high spreads are also partly a product of a lack of competition in the banking sector, which consists of only three commercial institutions: ANZ, Westpac and Bank South Pacific (BSP). The majority of saving and lending is confined to these banks. Apart from Credit Corporation, which lends to small businesses, the financial intermediary market beyond these banks is limited. The excess supply of funds lessens the need for banks to compete on interest rates for depositors.

In addition to the unequal distribution of credit between the urban and rural areas, the centralisation of Government and donor expenditure in Honiara and Guadalcanal means that the effects of any fiscal expansion is likely to be experienced in these locations first. Any recommendations on budgetary tightening, therefore, must take into account the geographical distribution of Government spending. Redistributing spending originally destined for Honiara to the rural areas and to provincial hubs may simultaneously help support rural economic growth and limit Government spending-driven inflationary pressures in the capital.

The overall conclusion is not that monetary and fiscal policy should be relaxed, but that attention should be paid to redistributing Government and donor expenditure in order to reduce the urban/rural divide, and to increase the provision of credit to priority areas of the private sector. Looking at the headline figures for money supply growth, credit should in theory be widely available, and the moves of the Central Bank to reduce liquidity are necessary as a result of recent inflows of foreign exchange; yet financial intermediation is weak. The undeveloped nature of the banking and financial sector mean that credit is not reaching the desired areas of the productive sectors. Widening access to financial services is therefore imperative. This subject is discussed in detail in the chapter on cross-cutting issues. Unless financial services become more widely available, improvements to productive capacity, sustainable growth in business activity and export diversification will remain difficult.

1.7.3 Debt policy

The Government's debt policy is currently aimed at regularizing its debt status. Prior to the Tensions, Government debt was already high, compounding the financial crisis. External debt in 1999 exceeded 50% of GDP and while much of this was on concessionary terms, currency devaluation helped lead to a series of defaults to both domestic and external creditors.

Addressing the country's debt difficulties has been a focal point for RAMSI. A cornerstone of this effort has been the negotiation of a debt service agreement with the Solomon Islands Government in 2005. The Honiara Club agreement provides for the following actions:

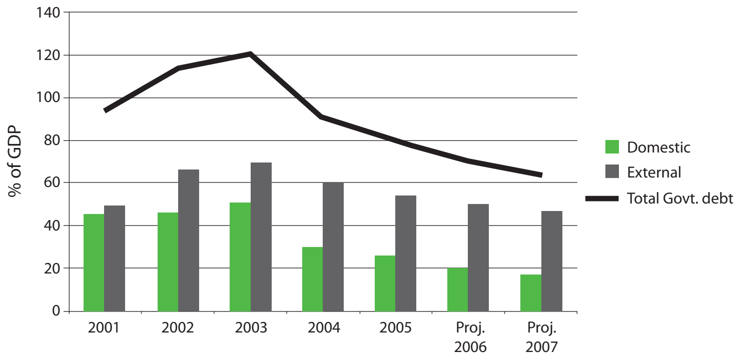
a No new borrowing or Government guarantees;
b Surplus recurrent budgets;
c 15% of revenue to be set aside for debt servicing.

Figure 1.18 shows the structure of Government debt from 2001 to 2007. The total Government debt position in 2007 has reduced dramatically—by nearly 50% since the highs of 2003. No Government bonds have been issued since the crisis.

The graph also shows that external debt forms the larger component of the total debt after 2004. Like most Pacific island countries, the small base of domestic savings mean the debt is mainly sourced externally—usually from the multilateral banks such as the ADB and the World Bank. These external loans are usually on concessional terms; a fairly long repayment period of up to 40 years at a service charge as low as 1% with a grace period generally correlated with the project completion period.

FIGURE 1.18 **Total Government debt, 2001–2007**

Source: MoF (2007)



1.8 CONCLUSIONS

The current upturn in economic growth is fragile. Based largely on the 'base effect' after the crisis, donor inflows, and unusually high logging exports, identifying alternative sources of growth will be imperative. The predicted downturn in the logging industry toward 2014 makes diversification doubly urgent. Donor funding may not remain at current high levels over the long term, and any decline will have a macroeconomic impact. Given that there is a risk that economic growth will decline, particularly in the rural areas, attention should be paid to improving rural and provincial access to financial services and to distributing more aid and development expenditure to those areas.

Active policies will be necessary in order to promote new sources of growth—and these policies should extend beyond existing efforts to liberalise the macroeconomy and business environment. Subsequent chapters of the DTIS discuss suggestions for developing tourism, remittances, fisheries, palm oil, cocoa and other non-timber products. Given that most people live in the provinces, there is also a vital need to link the informal and the formal sectors to increase the engagement of the rural economy in the development process, a need which is acknowledged in the MTDS.

While most imports come from Australia and New Zealand, the biggest single proportion of exports currently goes to China, in the form of logs, with Korea a distant second. China is likely to become less important as an export destination as logging declines. Solomon Islands is unlikely to reduce its trade deficit with Australia and New Zealand in the near term. Market access under the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) remains largely unfulfilled, partly because of a lack of productive capacity and non-tariff barriers. Similarly the only major export to the European Union is of fish products, and these have declined in recent years. Some increased regional demand for Solomon Islands exports is likely as the Pacific Islands Countries Trade Agreement (PICTA) comes into effect, but the small size of Pacific island economies means that they will never become major sources of demand. The difficulty in fulfilling available market access reaffirms the need for active policies to diversify production and exports, and to address trade facilitation. In future, mining presents the single biggest source of foreign exchange earnings, although a number of uncertainties exist, including the timing and scale of operations. In order to avoid similar past problems associated with the presence of a 'resource burden' Government will need to set up an appropriate regime to monitor, control and tax the industry.

The next chapter identifies some of the main challenges to achieving self-sustaining growth, including some ideas for expanding productive capacity, particularly the need to improve access to land and financial services.

CHAPTER TWO

Cross-cutting issues

2.1 INTRODUCTION

This chapter builds on the discussion of the macroeconomic environment by addressing two inter-related priority areas: financial services and land. These are among the most pressing issues facing the business environment and efforts to develop productive capacity. Improvements in these two areas have the potential to achieve significant knock-on benefits for a variety of stakeholders and businesses. The chapter also includes shorter sections on transport and infrastructure; utilities and energy; information communications technology.

2.2 LAND

Land in Solomon Islands is of central importance to people's way of life. Indigenous people refer to 'our land', rather than 'my land.' Land is owned tribally and socially rather than individually and privately. It is the most valuable heritage of the community, with ownership based on the belief that ancestors protect people from disasters and ensure their welfare in return for the care of the land in the customary way. The right to use land comes from membership of a line, tribe or clan descended from the first people to settle the land. Land is referred to as a birth right and constitutes the tribe's (clan's)[1] means of sustaining life. Gegeo (1991) described land as the hermaphroditic 'great mother'—from whose womb we emerged at birth and into whose hands we return in death (Gegeo 1991: 1). Land constitutes status and prestige and plays a complex and integral role involving concepts of kinship, family system, beliefs in spiritual power of the soil and a whole range of social relationships. With these values, customary land is traditionally not a marketable commodity. Land and reefs belong to clans or lines, while chiefs and elders ensure that they are used fairly, according to various customary practices. For Solomon Islanders, "land represents their whole natural resource base, the foundation of their material and cultural existence" (Burt 1994).

[1] 'Tribe' and 'clan' are used interchangeably.

The majority of land remains under customary ownership and it has historically provided an economic and social safety net. In the past it would have been inappropriate to discuss land in terms of the 'business environment'—since land was not marketable. But without reform the current system appears ill-suited to modern demographics and economic realities. Reasons for the need for reform include rapid population growth, increased migration between islands, increased economic aspirations and technological change. The absence of land reform has in some cases undermined customs or traditions, as loggers have been able to enter neighbourhoods or regions unhindered and exploit both people and the natural environment. Recognising the need for reform does not mean that all land should be alienated, or that traditional ways of life need to change radically, but that areas of land should be set aside for modern economic development according to an appropriate, nationally-owned plan and process.

Land reform has long been a difficult issue throughout Melanesia, and has undoubtedly held back development. Yet lessons from other countries, particularly Vanuatu, show that the problems are not insurmountable, and that the sooner that Government, donors and members of civil society can put in place a long-term process of reform, the sooner satisfactory solutions will be reached. Crucial issues include how to ensure that land is put to productive use; how to ensure security of tenure; how to ensure that the benefits of wealth are distributed fairly to the customary landowners; how to effectively manage land disputes.

2.2.1 Background

Around 87% of all land is customarily owned, while of the remaining registered land, around 9% is owned by the Government, 2% belongs to individual Solomon Islanders and 2% is leased to foreigners.

The majority of the registered land was used to develop plantations during the colonial period by predominantly British companies. A notable example is the Lever Brothers company (later Unilever) which developed coconut and oil palm plantations on Guadalcanal (Lungga, Tetere, west Guadalcanal), the Russell Islands and Western Province. Typically the British colonial administration, together with traders, would sign a treaty for the purchase of the land from the customary owners. The British traders would then purchase a 75 or 99 year lease of the land from the administration. Large tracts were purchased from customary owners in exchange for material goods such as axes and knifes. In later years, when the plantations became less profitable due to declining yields, British companies vacated these areas.

Unfortunately some of these areas have become the focus of land disputes that have stretched into the 21st century. Upon independence in 1978, all land holdings held by foreigners were converted into 75-year fixed term leases. After the vacation of registered land by British plantation owners, there was an assumption of behalf of some that this land would be returned to the customary landowners by the Government. In the main, this has failed to happen.

An example of a conflict between Solomon Islands Government and customary landowners over land purchased in the colonial period is the case of Pavuvu Island in the Central Province. In 1905, the British colonial administration leased the island to Levers Pacific Plantations. The original landowners, the Lakukal people of the Russell Islands, over the years expressed their demands for the island to be returned to them. Their demands were however persistently ignored by Solomon Islands Government. A Malaysian logging company, Marving Brothers, was given logging rights over the island in March 1995 by the Central Province executive. This led to protests and vandalism of the logging company's equipment by the Lakukal people (Kabutaulaka 1997).

The majority of land disputes have focused upon the areas of customary land which foreigners or Solomon Islanders have tried to develop since independence. Typically efforts are made by investors to lease land on a fixed term basis (such as a 75 year lease) from the customary landowners (who hold the perpetual title), either directly or through the Commissioner of Lands. Disputes arise because of claims and counterclaims between the customary landowners who belong to different tribes or different clans with the same tribe. Intra-tribal disputes can occur because of the practice of allowing fugitives to settle on land belonging to a different tribe, but not being given land rights. Typically they would stay with friends and after a few generations would claim land rights. These disputes frequently occur when investors attempt to secure the consent of customary landowners to lease their land by way of signing lease agreements. There is provision in the legal framework for these land disputes to be taken to customary land courts, which are compromised of committees of chiefs. However these customary land courts often do not manage to resolve these disputes, perhaps due to the consensual nature of decision-making found in customary negotiations. This leads to a large number of civil actions being taken in the court system (High Court) relating to disputes over the identity of the true customary landowners. Unfortunately the adversarial nature of the court system can lead to the prolongation of land disputes, with some parties refusing to accept the outcome of court rulings.

Part of the current problem with land tenure can be traced to the colonial administration, which assumed that enabling land in Solomon Islands to be put to productive use merely required the converting of communal into individual land holdings. The administration assumed that the land tenure in Solomon Islands was like that found in European countries prior to land reform such as 'enclosure' in England, in that it was communally owned with each resource user (such people within one tribe) having equal rights to the land use such as grazing rights. The solution offered was to register this land to tribal leaders, including chiefs. Difficulties arose when later it was realized that historically a number of tribes, or indeed people within the same tribe, had valid claims over a particular piece of land, but these claims were of different nature—i.e. one group had claims over grazing rights, one had claims over the water use, etc. Projects to extract natural resources will potentially encounter such problems related to identifying the appropriate owners of resource rights.

The land tenure situation has a serious impact on the business environment. Insecurity of tenure is a major obstacle to foreign investment. The impasse created by long lasting land disputes has had the predictable impact of preventing a large number of investments (particularly those relating to natural resources) occurring in the provinces. Since independence very few major employment-generating investments have occurred in the provinces. While this is clearly regrettable, these land disputes have to some extent prevented unsustainable and damaging investments—but only because they have prevented *all* investments. Malaita Province has suffered a particular lack of economic development due to the prevalence of land disputes. Being the most populous province, it has the largest labour force, but significant migration has occurred to Honiara and Guadalcanal.

Land disputes have also seriously impeded the development of infrastructure such as roads, bridges and wharves because Government has found it difficult to purchase suitable land. Another consequence of the insecurity of land tenure has been the retardation of the development of indigenous businesses. Banks and other financial institutions are unwilling to lend money to Solomon Islanders who lack a suitable form of collateral upon which to secure any loans. Land is typically the most valuable asset (and the only potential candidate for loan collateral) which Solomon Islanders own, however it is difficult to realize the economic value of it when there is no written record of its tenure. Hence the number of indigenous businesses starting up is small relative to the potential which exists.

2.2.2 Proposals for land reform

A Bill that will facilitate registration of customary land was expected to be brought to parliament in 2009. The Bill will adopt aspects of traditional knowledge and systems into the determination of customary ownership. A customary land reform unit has been established within the Department of Lands with offices established in the provinces. The focus of the unit is to raise awareness in communities of the intentions of the potential usefulness of registering customary land.

The Government has proposed developing an ownership 'vehicle' based on a corporate structure. An organisation would be created which would be akin to a corporation, and each family or group owner over a certain piece of land would be given a defined share according to their genealogical rights. This would be governed by an agreement which would specify how large a share any individual or family owned and also the rules of succession. The management of this 'corporation' would be entrusted to a group of hereditary chiefs and also elected landowners' representatives.

The AusAID Pacific 2020 report lists four priority areas for land reform:

Recording land rights

Typically customary land tenure does not normally have written records. The AusAID report argues that the task of recording all the existing customary (land) rights is too ambitious and a more realistic approach would be to just record modifications to customary rights. The main details to be recorded are:

- The rights of the person/organisation who will be developing the land;
- How the benefits will be distributed;
- What controls will apply to the development;
- What residual rights to use the land the customary owner will continue to enjoy.

These details could be recorded as part of a written agreement between parties over the use of land. These written agreements would not constitute a legal guarantee, but they have been used in the past to raise loans for development. For example since the 1960s, 'Clan Land Usage agreements' have been used in Papua New Guinea to provide security for loans for individuals wanting to develop areas of their customary land.

Facilitating land dealings

An administrative and legal environment conducive to land transactions proceeding efficiently and at low cost is required for land reform to be a success. A variety of systems exist in the Pacific, notable examples being:

- The Native Land Trust Board in Fiji—this board has enabled most of the available customary land in Fiji to be developed.
- Aboriginal land councils of the Northern Territory of Australia.

Commonly in the Pacific, governments have acted as intermediaries between the customary land owners and the investors in order to facilitate the acquiring of land titles for development. The use of this approach, however, is questionable when the machinery of government is weak and/or inefficient. Long delays in acquiring titles can deter prospective investors. An alternative would be to allow direct dealings between investors and landowners; however measures need to be put in place to avoid exploitation. Governments may be able to concentrate on facilitating and safeguarding the framework in which land transactions can be allowed to take place. Clearly there is a need to balance the desire to facilitate land dealings in an efficient manner with the need to protect both parties from exploitation.

Establishing dispute resolution machinery

It has been suggested that the establishment of special courts to deal with land disputes is the most effective way of resolving land disputes, because they have greater flexibility than the normal courts. Providing for mediation and arbitration of land disputes is considered to be important in ensuring an efficient outcome and to minimize cost of the proceedings.

Improving land administration services

The efficiency of land administration in Pacific island states is generally lacking. The majority of land administration in the Pacific relates to the administration of leases over state-owned land. Long delays in processing simple dealings and granting leases leads to frustration on the part of investors and landowners which often results in them using bribery or personal influence in order to get their matter attended to more quickly. This environment is very prone to corruption with often a high degree of political influence brought to bear upon land dealings. An example is the perceived politicisation around the appointment of the Commissioner of Lands, a senior civil servant who has a very important role to play in the administration of land. Typically the Commissioner of Lands acts as the intermediary between the investor and the customary landowner when land leases are negotiated. This approach has the advantage of affording some degree of legal protection to the customary landowners. Improvements to the efficiency of land administration are crucial in order to allow for successful land reform.

2.2.3 The Family Tree approach

Tribal land disputes are often based on incomplete or disputable knowledge of traditional custom, due to the oral transmission of knowledge. Disputes can often be reduced by the clarification and recording of indigenous knowledge. The current Customary Land Records Act has helped to ascertain genealogies and land boundaries. This Act, however, has a number of shortcomings, leading to the creation of a new Act, the Tribes and Customary Land Titles Act. The Family Tree approach has the potential to complement the new Act, helping to build and record indigenous knowledge through traditional practices.

The following discussion is the result of original research using participatory methods for the DTIS and interviews in the To'abaita region of North Malaita, where the approach has already resulted in a clarification of land titles. The Approach is a blend of indigenous epistemology, modern practices and Christian principles. Tribal members connected by blood (from male or the female lines believing to have come from the same ancestor) work through their genealogies, their pagan priesthood histories, their historical profiles/tales/narrations, tribal epics and tribal chants, shrines/sacred sites and land boundaries. These include such issues as gifts their ancestors had given out or received as token of appreciation or as means of compensation, properties in the land and other small things that are worth naming. This indigenous knowledge is blended with Western recording practices (documentation) to be congruent with national laws. The outcome is signed ceremonially by chiefs. This kind of indigenous process strengthens tribal land ownership and reduces the likelihood of future complaints about ownership.

Maelia'u (1994: 86), the initiator of the Family Tree approach, stated that:

> The first problem to overcome to reduce land problems at least in Melanesia, is the recognition of the traditional groupings, followed by identification of the groups, and their members and customary boundaries or any land rights must not involve outside arbitrations.

Once all Family Trees are set, there will be no room for false claimants of land and registration can be easier, enabling commercial developments. Maelia'u[2] states:

> To my amusement I discovered that the Family Tree system was not only an effective instrument of achieving a social community cohesion and many other benefits but also a very powerful tool in resolving the land dispute problem if it is applied carefully with tact. I am convinced that herein lays the seed of something that will go a long way towards resolving the land tenure issue. So it is not a land reform that is required but rather a social reform. In a society that highly values communal co-existence the system works wonders. (Maelia'u 2003: 56)

[2] A church minister and a former Parliamentarian who is the developer and advocate of the Family Tree approach in To'abaita.

The Approach has four equally important pillars for restoration and development: recognition, reconciliation, recording and registration (see Figure 2.1). Each of these pillars represents an indigenous quality. If the approach is to be successful, the four pillars must be used simultaneously.

Recognition

Verbal discussions with paramount chiefs and tribal chiefs reveal that according to indigenous knowledge of genealogies and prayers, tribal epics and historical narrations, the many tribes of To'abaita are believed to have emerged from one ancestor. However, the same epic chants and historical narrations proved that there were, in the past, enormous divisions within tribes through marriage as well as for reasons such as adultery, sorcery, murder, betrayal and religion. The scattering of people (who were once members of a single tribe) have, over the years, become new tribes. These new tribes became competent and resistant to other tribes; until today's generation when people consider each other as members of totally different tribes with different histories and genealogies.

Reconciliation

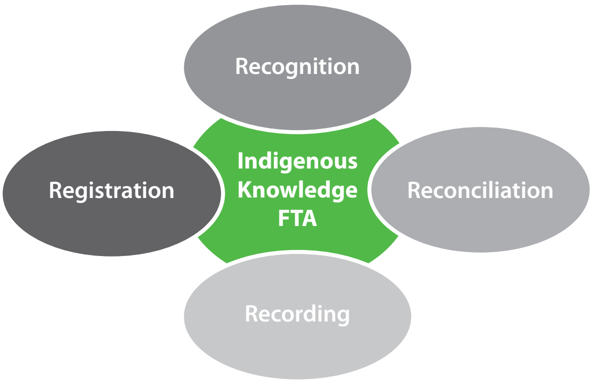
Reconciliation in tradition is the 'event of apologising to, forgiving and accepting one another.' The reconciliation approach conducted by the research participants of To'abaita included compensation, exchange of valuables, prayer and apology. Tribal disintegrations and enmities were in some circumstances, severe, and people took those seriously as they were remembered for a long time. One tribal member indicated:

> Those who have such barriers never dare to look into their brother's eyes. They even did not want to mention their names when they speak. The enmity between them existed even for 15 generations or more.

Recording

Recording is not part of the To'abaita tradition, however it is necessary owing to legal requirements. The reasons for recording include *(1)* as reference for current

FIGURE 2.1 **The four pillars of the Family Tree approach**



and future generations, *(2)* to maintain the accuracy of genealogies and historical narrations, and *(3)* to be congruent with current laws. Knowledge and stories change with time and with the problems encountered. The Family Tree approach provides a chance for all the oral stories, genealogies, gifts and other physical evidences of land ownership to be recorded. Those documents will be used as a tribal charter to eliminate the problems of falsifying oral genealogies and narrations.

Registration

Customary land registration is the legal way of clarifying land ownership. However, in To'abaita, the upheavals in the attempts to register customary land were overwhelming. Many of the land disputes experienced on customary land were struggles for ownership rights and titles, and yet customary land cannot be registered unless there are no disputes over it. In this situation land dispute is inevitable as land issues are vulnerable to manipulation under the legal court system, especially when people have only oral histories.

Phasing in the Family Tree approach

Four main phases are suggested before land registration:

Phase 1: Introduction—this phase involve meeting members of the tribe, reconciliation, and a first reading of genealogies followed by initial signing of documents (this signing indicates that the family tree has gone through phase one).

Phase 2: Land survey and second reading of genealogies—land survey and second reading of genealogies should be held soon after phase 1 (two to four months). It should involve tribal survey of land (including boundaries, shrines and other indicators of land ownership). The second reading of genealogies will be conducted after possible alterations from the first reading in phase 1. Signing of documents should also follow. This signing will indicate that a tribe has gone through the second phase.

Phase 3: Third reading, signing and sealing of documents—this phase should involve third reading of genealogies, signing of documents by the paramount chiefs and then importantly, chiefs and Government officials who are present plus any lawyers that may be invited during this phase to seal that those genealogies are accurate and complete.

Phase 4: Notice of land registration—phase 4 is not ceremonial but a three-month notice period should be allowed for any possible land disputes. If there are no further disputes then tribal land owners will pursue land registration in phase 5. Any disputes will be taken to the Magistrate Court.

Phase 5: Possible assignment of land title (registration) by the Government— the last stage, under which clarification of land ownership will be achieved, paving the way for commercial and rural developments.

Known achievements

Not only is the approach culturally acceptable, but it confers a positive benefit: the determination of identity and background. It can therefore be seen not just as a 'cost', driven under an externally-imposed process, but a mechanism under which tribes can define their own history and milieu. The approach enables the disintegrated tribes to recognize or identify with one another. Recognition of relatives clarifies priesthood rights (leadership rights) and ownership rights (land, genealogy and other properties). The use of indigenous knowledge lends legitimacy to those accorded leadership rights.

The Family Tree approach enables public recognition of existing tribes, tribal genealogies (tribal prayer), tribal tales, tribal epics (*'ainimae*), the tribal shrines, and the tribal land. The secrecy of these phenomena in the past contributed to many of the current difficulties. One person interviewed for the DTIS indicated: "The day of Family Tree approach; nothing is hidden and every ear has heard the stories and eyes see those involved and clarification of ownership is made with satisfaction."

The approach has distinct gender-related advantages. The patrilineal principles of inheritance in To'abaita and many other Solomon Islands communities are partly responsible for non-recognition of relatives, as genealogies were traced only through males. The Family Tree approach makes female genealogical lines equally important as male ones. One interviewee stated: "Today (unlike in the past), female generations are clearly indicated, accepted and are given the same recognition as members of the male generations."

As the approach proceeds, a fuller picture of Solomon Islands' genealogies will be built up, and the inter-relationships between tribes will develop. This should lead to common cultural property and a greater sense of regional or national identity. Many people of To'abaita base their support for the Family Tree approach on the understanding that future economic developments will improve their wellbeing. One participant said that: "People have been so willing and seen with passion to clarify themselves with the tribes they belong with the hope that when development comes into play, they would be entitled to their share."

Limitations and potential pitfalls

Some To'abaitans have disputed the effectiveness of the approach. However such cases are more likely to be a result of a loss of interest because the approach was not properly planned, designed and objectives not explained. A lack of knowledge may also have been a contributory factor. The new Act, accommodating the Family Tree approach, has been passed in Parliament but has not been enacted. Many To'abaitans did not know it existed. One interviewee commented that:

> [R]ight now the law or the Government has not recognized the Family Tree approach. It is just another voluntary activity of the chiefs and tribal leaders and members who are desperate to having their land sorted out and develop to improve their well-being.

A further obstacle is the possibility that the approach will not work in other regions. While tribal practices throughout Solomon Islands are diverse, and problems related to land are various, the approach is designed in such a way as to accommodate a wide variety of ownership patterns and traditions. It is a framework which relies on adaptation and specification to meet the demands of the particular tribe. Even if the approach does not work everywhere, To'abaita is a somewhat representative region, and the example may be replicable in a number of other similar areas.

Despite the emphasis on documentation of oral histories, formal records were sometimes not kept. Illiteracy and a lack of familiarity with modern practices can be blamed for this failure. One other participant indicated:

> If we neglect recording, the Family Tree Approach has no meaning and it cannot achieve anything. We cannot convince the Government, the legislature or the associates because we do not have the documents. The Family Tree Approach is a waste of time if no documentation is involved.

A solution to this problem is to place heavy early emphasis on education and the teaching of appropriate skills.

Finally, male members of some tribes held back from participating. On such occasions women who were well-versed with their connections began to dominate the definition of genealogies—a task culturally confined to men. While this should also create incentives for men to take part, intra-tribal arguments often broke out and were resolved only through compensation. Women need to be empowered to freely participate in the Family Tree approach and must be part of the decision-making process.

Ensuring that the Family Tree approach works

- Chiefs must be organized and a management committee must be set up to frame and strategise a logical approach. A well-framed strategy with clear aims and objectives need to be in place. In order to assist illiterate chiefs, educated male and female members of the community must be recruited into the family tree committee. Management needs to conduct regular awareness sessions with Government.
- Community members need to be aware of the objectives of the approach. In a society of high illiteracy, full transparency is important in order to avoid confusion arising out of hearsay and rumour.
- Chiefs need a set of guidelines or policies to assist them in performing their task honestly and to ensure that objectives are achieved. A participant stated that: "all chiefs (paramount chiefs including tribal chiefs) carrying out the Family Tree approach need policy guides that set standard to be met so that it is fair and the documents honoured."
- Ideally, a constitution for the Family Tree approach may be drafted by the Council of Chiefs Management Committee, in consultation with the tribal leaders and legal practitioners. Chiefs must work within the boundaries set out in the constitution.

- Chiefly empowerment is equally important for the success of the approach. One participant stated: "the Government needs to recognize the chiefs and the Family Tree approach in the same way it does to the legal court systems." The Government must help facilitate the work of the chiefs so that they both work effectively and honestly. Chiefs may need incentives in the form of wages or sitting allowances.
- Genealogies need to be examined closely and carefully, including how many different people are using the same names and why, differences in spellings and inter-relationships with the families of spouses and children.
- Recording requires adequate IT facilities. In addition, because IT access remains poor, a signed Family Tree approach documents (for every phase) should be filed with the Council of Chiefs, and copies kept with the tribal chiefs, churches, school libraries, public libraries, provincial government head office, the Ministry of Lands, national museum and the national archive. Proper filing discourages false claims and back-ups reduce the risks associated with copies being destroyed.

Managing the Family Tree approach successfully is a difficult task. It needs to be supported by community members and facilitated by the Government, NGOs and other institutions. What is also clear is that the approach takes time and is financially demanding. Without committing appropriate resources, it is likely to fall short of its objectives.

2.3 CREDIT AND FINANCIAL SERVICES

2.3.1 Relevance of financial intermediation to productive capacity

Financial services are demanded for various reasons. In order to analyse the scope for improving access to financial services as a means to increasing productive capacity and trade, it is necessary to carefully distinguish those situations in which financial intermediation directly contributes to these goals from other situations in which financial services are demanded merely because they improve welfare.

This is particularly important in the context of Solomon Islands, because of the prevalence of informal financial intermediation. Informal intermediation is one component of a comprehensive social safety net which is one of Solomon Islands' economy and society's greatest strengths and an important reason that social welfare is higher in Solomon Islands than in many societies with similar levels of per capita GDP.

One purpose of saving, for instance, is as a precautionary measure for those with limited access to credit. Individuals save knowing that having savings on hand will improve their welfare if something unexpected happens for which they need money, such as a child becoming sick. But in Solomon Islands there are strong informal networks which make money available to individuals in the face of unexpected shocks. When something goes wrong, Solomon Islanders are able to seek comprehensive help from relatives. This means that the precautionary motive for saving is much weaker in Solomon Islands than in comparator countries. It also raises serious doubts about the desirability of promoting savings as a precautionary measure, since such activity risks undermining existing social structures that already provide highly effective means of social support—certainly much more effective than could be provided through a formal social security system given the capacity and resources of Government.

In light of these circumstances, it is vital that any intervention of the state or donors must consider the impact on existing informal intermediation, and take measures not to undermine functioning systems. It also means that, if the goal is to promote trade and private sector capacity, interventions should specifically target those financial services which promote productive activity *and* are poorly provided by traditional social systems. The different forms of financial services will now be detailed in light of these criteria.

2.3.2 Cash

Cash plays a particular role in Solomon Islands because barter still exists on many islands, particularly between coastal fishing communities and inland agricultural communities, who trade fish in exchange for root crops and other vegetables. This illustrates the chronic lack of access to even the most basic forms of financial intermediation in remote areas of the country. Secondly, despite the current excess liquidity, little cash circulates in rural areas. When individuals save by hiding money in the ground or in their houses, they are withdrawing cash from circulation. Unless savings are lent out, they perform no active economic function. In other words, the normal financial cycle—income → savings → investment—is evidently lacking in rural areas. When an economy has a large amount of savings 'dormant' in this way, it makes the task of managing the money supply more difficult, since the amount of money in circulation can expand and contract arbitrarily according to individuals' decisions. For instance, in response to a rise in prices (inflation), many individuals may choose to spend part of their savings in order to maintain their consumption. This activation of dormant cash reserves increases the money supply, which in itself creates further inflationary pressure. This problem does not exist where savings are lent out: if individuals choose to spend some of their savings then loans must be called in which restrains the spending of other individuals and businesses.

2.3.3 Remittances[3]

Given strong social networks and family systems in Solomon Islands, the remittance of money from a salaried employee either in an urban area or abroad to family members in rural areas is a crucial financial service. The average wage employee in Honiara may support up to 20 people in his or her home village, a ratio that is likely to be even higher in the case of guest workers employed abroad.

At present it is not uncommon for remittances to be carried physically from Honiara to rural areas in the form of cash. The cost, slowness and lack of security of this remittance mechanism illustrates the large gains from a formal alternative, and the likely willingness of consumers to pay for such a service. Transfer services from one bank account to another have clearly long been provided by all commercial banks. The impediment to these being used to remit money to rural areas is the lack of banking infrastructure beyond the main urban centres making it impossible to withdraw money in villages using formal commercial banking services.

Secure, low-cost, convenient remittance services provide increased incentives to participate in labour mobility schemes such as the Recognised Seasonal Employment (RSE) arrangement with New Zealand, but have an ambiguous effect on rural-urban migration. Improved remittance mechanisms increase the motivation to move to urban centres to remit money, but also make it easier to remain in rural areas partially supported by others' remittances.

Informal remittances, covered below, are much cheaper than travelling to

[3] A sum of money sent in payment for goods or services or as a gift, in this context usually from someone working in a metropolitan country to family members back home.

the nearest banking facility and may be more secure than relying on somebody else to withdraw the money and carry it back to the village. However, so long as the arrangement is informal it is difficult to legally enforce the retailer's promise to pay. While this deficiency may not be important in a small village environment where sufficient social pressure exists to enforce such informal contracts, it is sufficient to prevent commercial banks from officially endorsing or supporting the mechanism.

Given the high costs of foreign exchange transactions in Solomon Islands (and abroad in transactions involving the Solomon Islands dollar), international transfers of funds provide significant cost savings relative to transporting cash internationally.

The quality of remittance services has relatively little direct effect in enabling expansions in productive capacity.

2.3.4 Borrowing

There are approximately fifteen times more savings accounts than loan accounts in Solomon Islands (Flaming 2005: 8). Although private sector credit has expanded rapidly in the last five years, lending for productive activity—particularly to those sectors identified as the most promising in terms of raising the standard of living of a large section of the population—represents only a small fraction of the total. For instance, in 2007 personal loans (such as mortgages) accounted for more than twice as much as lending to agriculture, fisheries and tourism combined (CBSI 2007).

Successful start-up enterprise in Solomon Islands creates positive externalities, as it creates broader benefits to society that cannot be captured by the entrepreneur. One of the most important of these can be called the demonstration effect (described as a 'leakage' by Easterly 2001). Market information is scarce in Solomon Islands and expensive to obtain. Further, there is an absence of financial institutions prepared to provide the high-risk (and high-return) loans necessary for entrepreneurial experimentation. In a developed economy, venture capitalists accept high risk levels in exchange for high effective interest rates in order to invest in the formation of new businesses. Alongside that, large corporations conduct systematic market research and use accumulated earnings to fund the experimental, high-risk launch of new products.

The lack of these actors in an environment like Solomon Islands—and the consequential lack of knowledge and learning as to what products and business models are viable—tends to reduce the range of activities attempted by new entrants to a limited array of familiar businesses. Thus, when a new business succeeds through experimentation in a previously untapped market, there is a consequential copying effect, where follower firms exploit the fact that another business has demonstrated the viability of a certain product or service. The result is that the follower firms capture a part—and possibly the majority—of the total social gains from the risk taken by the first-mover firm. The incentive to experiment is therefore not as strong as would be optimal.

One means of addressing this incentive deficit that is common in other open developing countries is to use a moderate import duty to increase the abnormal profits that the first-mover firm can earn in the short run. One of the consequences of a highly liberal tariff policy, such as that adopted by Solomon Islands, is that it makes it even more important that the other forms of support needed by the domestic private sector are in place—such as ready access to cheap credit—to ensure that socially beneficial market experimentation is not entirely driven out.

Types of borrowing

Money can be borrowed by individuals either to pay for consumption or investment. A consumption loan might be spent on items such as food, clothing, consumer goods, or a vehicle for personal use. An investment loan, in contrast, is spent on capital items that expand or maintain the capacity to produce goods and services.

It is important to recognise that if the goal is to increase productive capacity (rather than merely to improve welfare), it is important to target the promotion of investment lending rather than promoting lending indiscriminately. Increased investment lending directly increases productive capacity. Consumption lending may have indirect effects to increase productive capacity, but often consumption loans are spent on imported goods such as vehicles, having little or no impact on domestic production.

The ability of individuals and businesses to borrow in order to finance investment is fundamental to the process of establishment and growth of firms in market economies. A lack of access to cheap credit can easily be a sufficient barrier to the creation or expansion of a profitable business. Even in developed countries, new businesses more commonly fail because of a lack of liquidity than a lack of profitability—in other words, in all economies profitable firms fail because of a lack of access to sufficient cheap credit.

Barriers to borrowing

As well as problems of geographic isolation and lack of access to commercial banks, developing countries such as Solomon Islands face additional inhibitions on borrowing compared to developed economies. In order to protect herself from the risk that a borrower will not repay, a lender requires two basic things. The first is information about the borrower: information which will allow her to assess whether or not the borrower has the ability and intention to repay the loan. In the business context, information such as her banking history and her ability and motivation to set up or expand her business are particularly important. The second requirement is that the borrower has collateral which the lender can cheaply recover and sell should the borrower fail to repay the loan. In most developing countries information is scant and expensive to obtain and collateral is very scarce. Solomon Islanders lack capital not only because of their poverty but because their single most valuable asset—land—cannot be used as collateral in the same way that it is in most economies because of the system of land ownership and associated cultural values, which make the repossession of land in the case of default socially unthinkable.

To some extent there is a trade-off between these two requirements: if a loan is backed 100% by collateral that costs nothing to repossess and sell, then it may not be important to the lender to know whether the borrower can repay; similarly, lenders may be willing to extend unsecured loans to individuals that they know well and expect to be able and willing to repay.

Lending to a first-time start-up

In Solomon Islands, by far the most problematic situation is an individual who wishes to start a new business in a rural area. Such individuals generally have no useful collateral, and collateral they may have is difficult, slow, risky and costly for banks to recover and resell. If the individual has no experience in business and no previous dealings with financial institutions then a potential lender has no information on which to base an assessment of whether repayment is likely. Most lending institutions use a site visit as a means of gathering information about a borrower; this is cheap and straightforward around Honiara and a few other urban centres but prohibitively costly in remote areas.

Several strategies are used in Solomon Islands to overcome this barrier. Urban credit unions of salaried employees (civil servants, teachers, police etc) use future earnings as a form of collateral, but salaried employees can be expected to be more likely to use loans for consumption rather than investment purposes. ANZ's rural banking initiative includes a 'micro-loan' scheme, under which individuals can demonstrate their discipline and ability to repay by depositing a fixed amount of money into a savings account each month for six months. This is a positive step, although the size of the deposit determines the size of the loan, so that the bank is unable to take into account any increase in the individual's income as a result of the investment (which ought to be significant if the investment is worthwhile).

Lending to an established business

Lending to an established business for the purposes of expansion should in theory be simpler, since operating businesses typically have some level of assets that can be used as collateral (such as a building and vehicle) and a banking history and accounts that can be used to assess the likelihood that further borrowing can be repaid.

However, as in many developing countries, most very small businesses but particularly those in rural areas operate on a cash basis without generating written information that can be useful to banks. As already mentioned, collateral in rural areas is unattractive to banks because of the vastly greater cost and risk in attempting to recover it. The Secured Transactions Law passed in 2008 may make some aspects of collateral recovery slightly less costly, but established lenders feel that it is the inherent nature of mobile assets that make them unattractive as collateral rather than the way in which they are treated legally and institutionally. The law can do no harm and some lenders may find innovative ways to make use of it, but its short-to-medium-term impact on the use of movable assets as collateral will be slight given the present structure of financial institutions.

One potentially innovative use for the Secured Transactions framework would be to devise a means to collateralise logging access fees. The process might involve the development of a new legal instrument, such as a transferable certificate granting the bearer the right to cut and sell logs from a given area of land. The creation of this instrument may require a complex process of sign-off from a group of landowners, which could be based on the current legal process that leads to the selling of access fees to a logging firm. However, once the instrument had been created, it could then be deposited with a commercial bank, to be used as the collateral on a loan which in turn could be used by the community of landowners to invest in commercial activity. In the event of default, the commercial bank could then auction the access certificate to logging companies. Provided that an appropriate dispute-settlement mechanism could be used in the creation of the access certificate (rather than at the point at which a logging firm tried to exercise the rights granted by the certificate), such a process could provide banks with an uniquely liquid form of collateral based on rural assets.

The most striking benefit of such a scheme would be the opportunity to unlock the cash value of a community's logs without the need to fell any trees. This would provide clear environmental benefits as well as reduce the familiar risk that foreign logging companies fail to deliver the benefits which communities expect and are promised. Instead of relying on an outside firm, communities would gain the capital to invest in whatever form of enterprise they felt was most appropriate for their own development. Given Solomon Islands' dwindling reserves of high-value logs, the window of opportunity for the useful creation of such a system will be narrow.

Two broad strategies can be employed to improve businesses' access to credit. The first addresses firms' lack of collateral. The main program that Government uses in this area is a partial credit guarantee scheme administered by the Central Bank. This reduces banks' exposure to risk when lending to firms that are able to offer less than 100% collateral. However, by covering a maximum of only 80% of the unsecured portion of the loan, it still leaves a minority of the risk with the partner commercial banks. This is necessary to ensure that banks are still properly motivated to vet applications properly. While an 80% guarantee is rather high, the limited experience of the scheme (which has been running for less than a year) suggests that it has not led to unduly risky behaviour on the part of the banks, and only one out of thirty ANZ borrowers under the scheme is currently in arrears. The main problems with the scheme are firstly that the minimum loan size is SBD50,000, which excludes very small enterprises, and secondly that so far loans have tended to target non-production sectors (the largest borrowers being transport, construction and retail). Thirdly, since site visits are used to assess loan applications, it is unlikely that many loans will be extended to businesses in rural areas far from bank branches. Since loan assessment is a one-off cost, borne by the bank, which discriminates against rural areas, there is an argument that a small subsidy provided to banks, intended to cover the additional travel costs involved in assessing a rural loan, be offered to banks to increase geographical coverage. Banks' detailed written records of such activity ought to provide the basis for an effective monitoring mechanism. In all other respects, the CBSI guarantee scheme is a useful initiative.

The second strategy is to improve businesses' ability to generate written documents (such as accounts, business plans, loan applications) which can be used by the banks to assess firms' ability to repay commercial loans. SMEC currently provides assistance in the preparation of loan applications through a private accountant to its members. Despite this professional help, the success rate of loan applications that have received such help remains only around 20%. It is reported that a lack of collateral is the main reason for the high level of rejection, underlining the conservatism of the banks' lending approach even when most of their loans are guaranteed by a trustworthy third party.

Informal lending

'Informal lending' refers to a loan or a financial arrangement designed to perform the same basic function which is conducted between a lender and borrower who have a personal connection (such as friendship or family) and is informal in the sense that it is not based on a written contractual arrangement.

Informal lending offers advantages over formal lending in the Solomon Islands context. A personal connection between lender and borrower can eliminate important lending problems such as informational asymmetries and moral hazard which prevail in formal situations. Further, 'social capital' can be used in place of tangible collateral, where the borrower has no collateral that would be accepted by the formal financial system. Another benefit for the economy is that informal lending is unlikely to carry such a severe bias towards non-production sectors as is commercial lending—under the CBSI credit guarantee scheme, for instance, the three largest sectoral borrowers were transport, construction and retail (CBSI 2008). Set against this, informal lending is constrained by the 'coincidence of wants' problem, in which an individual with excess capital to invest must, by coincidence, have a friend or family member with a viable use for the same amount of investment capital. Formal financial intermediation overcomes this requirement by temporarily transferring capital from a saver to a borrower who need not have any personal connection to one another. In fact, the depersonalisation of financial exchange is one of the key defining characteristics of a modern capitalistic economy.

Little usable information is available on the extent or significance of informal lending in Solomon Islands. However, anecdotal evidence suggests it may be a significant, perhaps even dominant, form of financial arrangement in the market for unbacked small-scale lending to entrepreneurs, which is too high-risk and carries transaction costs that are too high to be attractive to banks or lending institutions such as Credit Corporation.

Such lending could use the lender's accumulated savings as a principal, or else the lender may use his superior access to credit in order to borrow money which is then re-lent to a family member who is less creditworthy. A final possible structure is for the borrower to deal directly with a financial institution, merely using the family member as a guarantor.

One significant benefit of informal lending is the elimination of the need for businesses to incur the costs of formal accounting processes required by banks. Clearly, while the maintenance of high-quality accounts represents a business 'best practice', nevertheless there is clearly an acute shortage of the skills necessary to adequately perform this function, and may therefore represent a disproportionate share of the business costs of a small firm. Bookkeeping is not an end in itself, and it is perfectly rational for businesses to seek means of lending which do not require them to incur this cost.

Finally, it is worth noting that the presence of informal lending casts doubt as to the benefit of promoting formal saving (as will be discussed in greater depth in Section 2.3.5). In a banking system with excess liquidity such as in Solomon Islands, there is unlikely to be any marginal impact of saving on lending, since lending is constrained by the confidence of commercial banks in their borrowers. Instead, saving within the formal system may compete directly with the informal extension of loans to relatives or friends. If this interaction is important, then any drive to promote formal savings could potentially serve to crowd out the most economically beneficial lending mechanism in the economy.

The most obvious policy implications of this analysis are problematic. Other than the lack of hard information, there are twin assumptions that access to risky credit for small enterprise is one of the leading inhibitions to pro-poor economic growth, particularly targeting rural areas, and that informal lending is the most credible current mechanism for providing this credit. This leads to various unpalatable policy options. The idea of supporting such informal processes with tax incentives or matching grants suggests a program of action that would be very difficult to implement and—due to the lack of documentation which is one of the mechanism's greatest strengths—hard to monitor and easy to abuse. Perhaps the most positive step that Government can take is to recognise this potential danger in promoting formal saving schemes too ardently.

However, this discussion must be grounded in the acceptance that at present, almost nothing is known of the scale and economic usefulness of informal lending processes in Solomon Islands. Without hard information of this type, it would be imprudent to make any policy prescription. One potential means of addressing the lack of understanding of this process would be a quantitative research program, perhaps based on a household survey in Honiara, seeking to determine to what extent support by salaried employees of relatives in rural areas supports investment in productive activity. Such a study may be able to offer more optimistic policy recommendations suggesting how such lending could be supported, if the data were to indicate that it was having a significantly positive impact.

The Department of External Trade (DET) is currently developing a program of support for participants in the RSE scheme in New Zealand. Such a program should incorporate significant attempts to gain feedback from participants, not merely concerning their experiences in New Zealand, but also on the use to which they intend to put their accumulated earnings. As the scheme progresses, analysis of this data by DET and others ought to offer some insight into the contribution of this type of remittance or accumulated earnings to investment in productive capacity, which ought to have similarities with employees remitting earnings from Honiara to rural areas.

Poverty alleviation and targeted borrowing

There is an unfortunate but inherent contradiction in the concept of targeting investment lending to the very poorest members of society. For investment lending to be effective, it is vital that it is lent to individuals with the ability and motivation to make sound investments in productive capacity, and ultimately to repay the loan. Indiscriminate lending, or lending targeted at those who are unable to repay is not only expensive but undermines the general expectation of repayment, making investment lending more costly, less attractive and therefore less successful more broadly.

While there are notable exceptions, it is nevertheless broadly true that the poorest members of a community will tend to make poor candidates for investment lending. The poorest members of a community have the least ability to repay, the highest motivation to default, and can be expected to be the most risk-averse. They will rarely be the most educated or financially aware. The idea that lending should only be extended on a strictly commercial basis should be resisted, and yet basic commercial criteria must be adopted in assessing candidates for business loans. Indeed, this is one of the greatest weaknesses of the concept of a credit union within the Solomon Islands context: a strong sense of fairness makes it difficult for decision-makers to select a small number of individuals to receive substantial loans based on commercial criteria—instead, there is a tendency towards giving everybody an equal opportunity to borrow what must then necessarily be a small principal.

There is a need to reconcile the desirable with the possible. It is obviously desirable to target the poorest members of society, but in the case of investment lending, it must be accepted that this translates into targeting the poorest and most remote communities, where access to credit facilities, along with so many other prerequisites for the successful establishment and growth of small business, is most lacking. However, within those communities, as far as investment lending is concerned there should be no attempt to target the poorest individuals, or to aim for universal coverage. Programs should adopt geographical coverage as a measure of success, but not their ability to reach all rural inhabitants or the poorest inhabitants within each village. Such targets will, in reality, lead programs away from a sound process for selecting borrowers.

The experience of many microfinance institutions across the world has been that women are at least as successful borrowers as men, and frequently exhibit higher repayment rates. Thus, there may be scope for conscious and successful targeting of women through credit extension initiatives and financial literacy programs.

2.3.5 Saving

As already noted, saving has several different functions and within the context of Solomon Islands it is important to distinguish between them in order to understand the interaction of the formal sector with traditional social practices, and to target appropriate interventions that promote productive activity without undermining existing social safety nets.

Consumption smoothing and precautionary saving

The classical economic explanation of saving is as a means of smoothing consumption over time. Economists suppose that people prefer a stable consumption pattern to one that fluctuates. Therefore, it is rational to save money during periods of higher-than-average income to supplement low income in later periods.

A linked explanation of saving focuses on individuals who are credit-constrained (in other words, individuals who are unable to borrow as much as they might like, perhaps because they have no collateral or access to banks). Such individuals may need to hold a higher level of savings on hand in order to meet unexpected expenses, where an individual with access to credit would be able to borrow instead.

While consumption smoothing is clearly an important motivation in many industrialised societies, and precautionary saving is important in many developing countries, it is questionable to what extent these explanations hold in Solomon Islands. During periods of high income, it is normal for an individual to use his excess income to supplement the income of family members who are experiencing periods of low income, with the expectation that in future periods of low income or in the face of unexpected expenses he can expect to receive reciprocal support from his family. Solomon Islanders therefore tend to successfully smooth their consumption and protect themselves from unexpected expenses or loss of income without the need to save.

Great care should be taken in designing any program that attempts to replace this traditional safety net with a 'modern', individualistic alternative. There is no *a priori* reason to believe that an individualistic approach based on personal savings should be more efficient or result in higher welfare. This has important implications for any program which promotes private savings, such as the credit union movement or the current ANZ-UNDP travelling banking program to promote savings in rural areas, both of which will be discussed later.

Accumulating start-up capital

A quite distinct motivation for saving is to accumulate sufficient capital to start a business for an individual with no access to credit. In this case there is a stronger argument for supporting individuals who choose to work outside traditional social ties. An attempt to save by hoarding cash reserves may be hampered by social expectations that an individual will use surplus income to support relatives. In order to promote entrepreneurship amongst individuals without enough collateral or experience in business to be able to secure a loan, it is important that the financial system provide a means of saving that is convenient, cheap, while also offering a degree of protection from relatives' demands. A savings account that does not charge a monthly fee and incorporates a significant barrier to accessing funds ought to provide this. Such a barrier could be the requirement that a withdrawal be notified to the bank 30 or 60 days in advance or, as ANZ uses, a relatively high charge on withdrawals. Charging for withdrawal permits some sort of cost-recovery on an otherwise unprofitable account, but may prove less effective than a notification requirement as a means of protecting personal savings from the family or community. A further possibility is to build on the familiar concept of a 'savings clubs', which are groups of savers who share the cost of bank fees and transporting money to and from banks by opening a bank account in common and keeping track of which members its contents belong to. It may be possible to promote group entrepreneurship by creating a group savings account which several people could pay money into individually but which required the agreement of all to authorise a withdrawal. Such a structure may be able to exploit the effects of mutual support and pressure in order to discipline saving for a common purpose.

ANZ's current scheme to offer loans purely on the basis of proven ability to save steadily and reliably is an excellent innovation in reducing the burden of saving that is required to generate start-up capital, while also serving as a useful test of an individual's ability to meet a rigid repayment schedule before an irreversible investment takes place. The experience of ANZ that few potential borrowers are capable of meeting such a schedule emphasises that meeting a regular repayment program cannot be taken for granted as a commitment that Solomon Islanders with a low level of financial literacy will be able to fulfil.

Providing banks with liquidity

In many countries, saving is seen as an important means of providing banks with sufficient money to lend to business for investment. Saving is therefore encouraged as a means to relax a binding liquidity constraint on banks. This is not the case in Solomon Islands. Banks have excess liquidity. The impediment to their lending more is a lack of opportunities to lend with confidence. There is therefore no rationale for encouraging individuals to place their money into saving accounts with banks for the sake of the banking system, as there might be in other situations, because in practice extra saving of this type has no marginal effect on banks' lending decisions.

As discussed above, it is consequently more economically beneficial for an individual with excess capital to invest it directly in a business (assuming the investment is sound) than to deposit the money with a bank.

Types of Service Provider

Branch-based Banking

Branch-based banking services have proven successful and sustainable in Honiara, and to a lesser extent in provincial urban centres. However they may be an unsuitable form of service delivery in rural areas. Even the smallest branch carries significant fixed costs which require a certain volume and value of transactions in order to be profitable. Within Honiara, the volume of transactions is high enough for the provision of financial services through branches to be profitable; in a few other urban centres volume is high enough for branches to cover their costs; beyond, branches could not be maintained without substantial subsidies or cross-subsidisation. The second is that they require customers to physically travel to a branch. The cost of such travel limits the geographical area which one bank can service cost-effectively.

Where a viable volume of transactions exists, banks are an effective means of providing remittance, savings, and to an extent lending services. They are relatively efficient, secure, free from political interference and able to make lending decisions on a purely commercial basis. Their main weakness is the conservative bias in their lending decisions. Lending companies such as Credit Corporation illustrate that there is a high volume of opportunities for profitable, low-risk lending which commercial banks are unwilling to supply. Reasonably successful microfinance initiatives in similar Pacific countries such as VANWODS in Vanuatu and South Pacific Business Development (SPBD) in Samoa indicate that there also exists a latent demand for higher risk, higher interest rate lending (SPBD charges around 60% per annum). It is easy to forget that the task of establishing a new enterprise, particularly in a sector where nothing yet exists, is inherently a high-risk activity with high potential returns and any attempt to eliminate risk from lending will necessarily overlook profitable opportunities. In all economies, a large proportion of new enterprises fail. The value of this entrepreneurial experimentation and learning is difficult to gauge and yet frequently underestimated or even ignored. But it requires some agent, whether a lending institution or an entrepreneur with accumulated savings, to be willing to take a significant financial risk. Commercial banks, particularly in developing countries and particularly in Solomon Islands, are generally less willing than other lending institutions and individuals to accept this risk.

It is important to recognise which parts of the process of financial service delivery banks do well, and which they do poorly. In the past, alternative lending institutions have sought to provide a complete and integrated alternative to commercial banks, essentially replicating their entire organisational structure. Yet banks are capable of efficient and secure provision of financial services. Equally importantly, they already conduct a sufficient volume of transactions to be able to cover the fixed costs of these activities. Their shortfalls are merely in remote service delivery and their willingness to absorb risk. Controlling the cost of providing additional financial services through non-bank financial institutions will depend crucially on the extent to which such institutions can use existing commercial banks to provide back-office services, so that other institutions can generate core competences in service delivery and risk management while minimising their fixed costs.

2.3.6 Credit unions

The credit union movement began in Solomon Islands in 1981, becoming more formalised with the passage of the Credit Union Act in 1986, which established the Solomon Islands Credit Union League (SICUL) as an apex body. During the 1990s the movement flourished under International Fund for Agricultural Development (IFAD) funding. By 1996, SICUL employed eighteen full-time staff, including six permanently based in the provinces; five urban credit unions themselves employed a further twenty-three (McGuire 1996).

While many credit unions were financially self-sufficient, they relied heavily on SICUL for implicit subsidy through the provision of training and support services. SICUL itself failed to recoup a high proportion of its costs from its members and remained highly reliant on donor funding until IFAD withdrew in 1999. SICUL was unable to maintain support for the credit union network, which declined steadily over the following decade. By 2007, only ten active credit unions remained (CBSI 2007).

The Credit Union Act capped interest rates charged by registered credit unions at 1% per month (just under 12.7% per annum). To place that figure in context it can be compared with other institutions in the region offering microfinance: SPBD in Samoa charges an average rate of around 60% per annum, and VANWODS in Vanuatu charges almost 90% (Flaming 2005). These high rates of interest reflect firstly the very high administrative costs involved in providing small-scale lending, and, to some extent, a risk premium which enables a microfinance initiative to engage in riskier lending than banks—a crucial function in supporting the inherently risky formation of new enterprise. It is important to be aware that even at these high rates of interest, there is still strong demand for this credit and recovery rates are adequate. This illustrates the great need for access to finance and the detrimental effect of limiting its provision by capping interest rates below market levels. As a result of the cap in Solomon Islands, credit unions have been unable to raise sufficient funds from their members to sustain their activity, and have been prevented from engaging in anything but the lowest-risk lending. However, CBSI began drafting changes to the Credit Union Act in 2007, with plans to continue national consultations in 2008 (CBSI 2007). These changes include the removal of this limit, potentially enabling credit unions to start to play a valuable role in supporting the formation of small enterprise.

Despite this important improvement, credit unions remain poorly placed to play the role of a high-risk lender to small enterprise. The currently active credit unions are typically based in Honiara with a membership of waged employees. It is difficult to reconcile the need for prudential oversight of what are often volunteer-run organisations lending assets belonging to poor people with high-risk lending based on soft information. Further changes to the Credit Union Act under consideration include stricter accountability and transparency requirements, likely to make risky investment lending more difficult. Such changes are a positive step; they merely illustrate that a properly-run credit union is not suited to providing the type of lending most urgently required by rural entrepreneurs.

2.3.7 Microfinance organisations

Microfinance programs are well placed in the short term to transform rural household financial behaviour. Rather than lecturing households on 'how' and 'where' to spend and earn, micro finance schemes must raise awareness on modern techniques of household financial management and provide options for accessing them.

A small number of NGOs are involved in microfinance initiatives at present, but the total provision of credit is small. Different Governmental agencies have attempted schemes in the past. The Ministry of Commerce Industry and Employment ran a microfinance scheme until 2006, and the Ministry of Agriculture administers a scheme providing grants to farmers and traders of agricultural produce. Although monitoring is generally nonexistent, indications suggest that these schemes offer little value for money. They are administered by agencies whose core competence is not the provision of financial services or assessment of commercial potential. They are not subject to commercial incentives and the distribution of opportunities is subject to substantial political interference.

An active and efficiently administered microfinance scheme, which was entirely independent of Government, could yield real benefits in Solomon Islands. Any scheme involving significant Government funding is likely to be undermined by the strong incentive for political interference which it would create. Further, it is important to realise how much effort and resources such a scheme would have to expend in raising financial literacy. ANZ's experience of using a record of regular savings as a prerequisite for small-scale lending illustrates the lack of familiarity that the population has with the basic requirements of interaction with lending institutions, particularly the discipline of regular repayment. There may be more efficient means of investing in financial literacy than through on-the-ground rural lending institutions, who would require overwhelming resources to provide training on financial management throughout the country. An approach using existing channels of information distribution such as SIBC is likely to have greater reach for a tiny fraction of the cost, and could be undertaken by a partnership of existing institutions such as the Central Bank, commercial banks and donors without the need to establish a new organisational infrastructure.

In short, while microfinance initiatives could bring significant benefits to Solomon Islands, to achieve significant coverage an enormous investment would be required to establish a new and large organisational structure. It is likely that similar benefits can be achieved through existing institutions at far lower cost, although it is important for Government to be ready to offer its support to any NGOs who find success in this area.

2.3.8 Development banks

A development bank is distinct from a commercial bank and most microfinance initiatives in that it is controlled by the public sector, i.e. its lending policies and often decisions are subject to political guidance. It is not a generic term for development-focused financial institutions.[4] The Development Bank of Solomon Islands has been under Court Administration since 2004, and currently has a negative net worth of SBD14.1M. Solomon Islands' experience has been typical of various development banks in the Pacific and elsewhere in the developing world. The development bank in Vanuatu failed in the 1990s and in Tuvalu the development bank has lost money consistently since 1993, continuously relying on outside funding for its survival. There is little or no evidence that any of these banks significantly improved access to financial services to those without alternative means of access. There is no easy way to design a development bank that would escape the perverse incentives so common in Government-funded credit providers. It would be unwise to consider pursuing this option in the current Solomon Islands context.

[4] A development bank is defined as a "non-monetary financial intermediary controlled by the public sector. It primarily engages in making long-term loans that are beyond the capacity or willingness of other financial institutions" (IMF 2003).

2.3.9 Mobile (travelling) banks

Although typically referred to as 'mobile banks' in Solomon Islands, the term 'travelling banks' is used here to avoid confusion with banking based on mobile (cellular) phone technology.

ANZ currently has four travelling banks, based on motor vehicles, three of which were only introduced in 2007. They provide a specifically designed range of savings products to rural villages in northern Guadalcanal and Malaita, including two types of savings accounts with no monthly fee. The provision of these services is supported by SIG, and would not otherwise break even. The UNDP runs a financial awareness program, designed to cover the same area as the first travelling bank, with plans to expand to catch up with ANZ's expansion of services. A bank visits each village once a week at a regular time, offering deposit and withdrawal services. It is notable that both the financial services offered and the accompanying financial education focus on household finance, viewing saving and borrowing decisions primarily through the lens of consumption smoothing and precautionary saving. Once more, this focus is quite distinct from that of enabling an increase in productive activity through improvements in financial services. For reasons already outlined (see Section 2.3.5), an increase in formal-sector savings has an ambiguous impact on productive investment in an excess-liquidity environment like Solomon Islands. It is similarly questionable whether increased consumption borrowing by individuals with low levels of financial literacy is likely to increase productive capacity—or even welfare.

Early indications suggest that the ANZ program has seen some success in extending financial services to those previously without access. However, on its present scale the scheme has more or less reached the useful limits of the Solomon Islands road network. To expand the concept further, the costs and benefits of creating boat-based branches would have to be assessed. This would greatly expand the proportion of the population such services could reach. The costs of service provision would, of course, be much higher. However, these transport costs also reflect the significantly greater costs of travelling from communities with no road link to an urban centre. In other words, while the provision of boat-based travelling banking would be higher, they would save clients the correspondingly higher cost of visiting a branch. As such, the service may still be valuable to clients, compared to its limited and costly alternatives, even if each village was visited less frequently or a greater degree of cost-recovery was attempted.

It must also be emphasised that travelling banking services may prove, in time, to be a second-best alternative that will only prove viable while national telecommunications coverage remains so woefully inadequate. As such, a large investment in the expansion of travelling banking to more expensive modes of service delivery may not be desirable unless it proves impossible to achieve a timely liberalisation of the market for mobile telephony.

2.3.10 Formal agencies

Bank South Pacific has a network of eight private agents throughout the country, in areas beyond the reach of their branch network. Each private agent is an established business or church, capable of providing basic financial services such as deposits and withdrawals on behalf of BSP. Agents have no delegated authority to process credit applications but pass them on to the nearest branch. Agents are typically beyond the phone network but communicate with branches using two-way radio. ANZ has a more limited arrangement, using the Post Office and Solomon Telekom offices as agents. Westpac has discontinued its network of agencies in recent years.

The fixed costs of operating agencies is far smaller than those of branches, enabling the provision of financial services in areas which could not otherwise access the banking network. Nevertheless, agency fees and the low volume of transactions they process still make them a costly option, and BSP considers that their network of formal agencies could not be significantly expanded without considerable cross-subsidisation. Banks must also place considerable trust in formal agents, who handle cash belonging to the bank and verify official documents on the bank's behalf. This in itself creates a limit on the number of third parties which the bank is willing to consider endorsing as agents, in order to minimise the risk of fraud or theft.

In essence, the approach of having agents intermediating between clients and banks is sound and has greater potential than has yet been exploited. In small, isolated markets such as rural Solomon Islands, markets are not large enough to support the fixed costs associated with specialised institutions. Enterprises therefore need a high degree of diversification to survive. The retailer must also trade in copra and cocoa, and must constantly be on the look-out for new opportunities to diversify its operations in order to cover its fixed costs, particularly the cost of maintaining a boat or truck, and of regularly (if perhaps infrequently) travelling to and from the nearest trading hub.

Clearly, a market the size of a village or village cluster does not provide even a fraction of the volume and value of transactions required to support a bank branch. At current levels of economic activity, it cannot even provide sufficient value to the bank to meet the administrative and financial costs of maintaining a formal relationship with an agent. Nevertheless, small businesses operating in rural areas are the 'natural' choice for the intermediation of simple financial services between commercial banks and the rural population. They transport goods to and from the nearest trading hub with a frequency determined by commercial need, which provides them with a low-cost means of transporting cash into and out of rural communities as necessary. They typically have the ability to co-ordinate their interaction with organisations and businesses remotely using two-way radio. They typically have an intimate knowledge of their local market; they are accustomed to a diversified approach to business.

2.3.11 Informal agents ('third party agents')

Anecdotal evidence suggests that such informal intermediation already exists. Where salaried employees such as teachers are based in rural areas and cannot economically visit a bank, they sometimes arrange for their salary to be paid into a local retailer's account, who then passes the money on after the deduction of a fee. 'Savings clubs' offer a more decentralised solution, in which a small group of savers who trust one another cooperate to hold a bank account in common, sharing the cost of bank fees and travel to and from banks.

At present, the usefulness of informal agents is limited by their trustworthiness. It would be costly and insecure for banks to have relationships of trust with an extensive network of micro-scale agents. However, communication technologies have the scope to create a more direct link between banks, clients and informal agents, such that no relationship of trust is required between the bank and agent.

In the simplest terms, the client and agent both hold deposit accounts with the same bank, and a mobile telephone-based system (owned by the agent and powered by a low-cost solar charger where no generator exists) with a menu-driven interface is used to instruct the bank to transfer funds from client to agent or vice versa. The reverse transaction can then be made in cash or kind between the agent and client. For example, in order to deposit SBD50 in a savings account, the agent instructs the bank (using the telephone-based system) to transfer SBD50 from his own to the client's account in the presence of the client, and the client reimburses the agent with SBD50 in cash, plus a transaction fee covering the cost of communication and contributing to the agent's business costs. Essentially the same range of transactions are available under the EFTPOS system, although historically it has tended to be used more for purchases and withdrawals than as a savings system.

There is no fundamental reason that such an arrangement could not be built on existing communication infrastructure—i.e. two-way radio—but there are reasons that it would be costly, slow to roll out and cumbersome. The most important difficulty with two-way radio is its insecurity, unlike with mobile technology there is no in-built way either to verify the identity of the author of a message or to protect information in transit from a third party. Cryptographic techniques have offered robust solutions to these twin problems for decades, and the technology necessary to embody such techniques is commonplace. However, the time and costs involved in customising this technology for the Solomon Islands context, manufacturing and distributing the necessary equipment, and teaching people to use it are probably prohibitive. Like travelling banking, it is a second-best solution which only becomes remotely attractive in the face of a total inability to make timely progress in the price and coverage of mobile telephony.

2.3.12 Technology-driven remote client-bank interaction

A final solution cuts out the agent altogether, enabling each client to deal direct with their bank using either a mobile phone or the internet. As the cost of handsets and text messages falls, this solution becomes increasingly attractive. Nevertheless, the problem of withdrawing and depositing cash will remain for as long as rural areas continue to regularly engage in cash transactions: in all likelihood for a very long time. In addition, while the use of a personal handset certainly improves convenience, it does not really improve an individual's ability to access financial services at an acceptable cost, compared to the use of an agent—provided the agent doesn't have the market power to charge a monopoly mark-up for his intermediation.

2.3.13 Financial literacy

The Solomon Islands Government recognises the importance of financial literacy in complementing the availability of financial services in enabling rural households to effectively manage their finances. In partnership with the UNDP, a training program was piloted in 2007 with the first communities to benefit from ANZ's rural banking services on Guadalcanal. The project aims to:

> [P]rovide rural communities with knowledge of money management, including recording their income and prioritising expenses, preparing a household budget and savings plans, and how to use available financial services to achieve individual and family financial goals (CBSI 2007: 47).

Clearly, it is crucial that the expansion of financial services be accompanied by investment in the financial literacy of those who stand to benefit from the new services. However, again the distinction must be drawn between the use of financial services in the process of expanding productive capacity, and their role in improving welfare by facilitating effective management of household finances. The goals of the existing program focus exclusively on the latter at the expense of the former.

A financial literacy program designed to meet the needs of the Integrated Framework must have a specific focus on the ways in which available financial services can be used by an existing or intending entrepreneur to support investment in productive capacity. At the simplest level, such a program would include an explanation of the different means of accumulating finance for investment, both through savings and different sources of lending. A more detailed program could provide specific training on the skills required to provide banks or other lending institutions with the information they need to have confidence in lending, such as preparing basic accounts and business plans.[5] Radio is the most viable means of achieving large-scale coverage in the short term, but face-to-face training such as is currently being performed by the UNDP on Guadalcanal can provide greater depth, albeit at much greater cost, lower coverage and with much larger delays. It is important also to realise that a program aiming to improve household financial management should be broadly targeted: the use of financial services in support of entrepreneurial activity has relevance to a much smaller proportion of the population. In addition, there is some value in allowing participants in a training program

[5] The Small and Medium Enterprise Council already funds an assistance program providing accountants' services to businesses seeking loans from commercial banks, to improve the quality of applications, using a trust fund established with seed funding from the Pacific Island Trade and Investment Commission in Sydney. While this is a valuable program, SMEC's lack of resources limit its coverage, and the rate of success of loan applications remains low at approximately 20%. A serious investment in businesses' ability to prepare their own documentation of this type would be a much larger undertaking.

BOX 2.1 **Technological solutions for mobile banking and remittances**

Source: Mendoza 2008

Mobile transactions: Celpay

Where?	Zambia and the Democratic Republic of Congo
How does it work?	The customer has a Celpay account and a Celpay SIM card which generates a menu-driven user interface which can be used to initiate transactions. Money can be paid into the Celpay account either from an ordinary bank account or by depositing cash at the branch of a partner bank. The customer can then make payments to any Celpay-enabled bank account (such as that of a shop) via SMS by entering the amount to be paid into the phone and authorising the payment with a PIN.

Remittances: G-Cash

Where?	Philippines
How does it work?	After registering via text message, customers (who must be GTel subscribers) can then transfer money into a G-Cash account by depositing cash at GTel offices or G-Cash affiliates. Transfers from one customer to another can then be initiated by SMS.

International remittances: SMART Money

Where?	The Philippines, with partners in 17 other countries
How does it work?	The customer has a SMART Money account and a SMART Money card, like a bank card. Money can be transferred into the account from an ordinary bank account, and then the card can be used to make purchases and withdraw cash from ATMs as with a normal debit card. However, customers can also transfer money from one card to another via SMS. Further, overseas workers in any of 17 partner countries can deposit cash with remittance partners, which can be instantly credited to any SMART Money account and notified to the account-holder by SMS.
Future plans?	In future, customers will be able to make repayments on micro loans via SMS from a SMART Money account.

to self-select, since successful candidates require significant motivation and interest in order to be successful. This difference has important implications for program design. For instance, the level of participation is a poor indication of program success: it is more important to give intensive support to the most appropriate candidates than to aim for universal participation.

2.4 TRANSPORT AND INFRASTRUCTURE

Transport and infrastructure are key to stimulating economic activity and reducing poverty. They facilitate the movement of agricultural and other inputs into the productive areas and help producers bring to market goods and services, and consumers to travel to markets. Good roads, air and sea transport are essential for development of the tourism industry. A number of exporters express dissatisfaction with domestic communications, and improvements will reap significant rewards.

The main objective of the Government's National Transport Plan (2007–2026) is to ensure that roads, bridges, ports, wharves and airfields are well maintained and that adequate funding is available for rehabilitation and maintenance. The Government is also concerned with addressing the extensive damage caused to infrastructure by the April 2007 earthquake and subsequent tsunami in Western Province and Choiseul.

The Ministry of Infrastructure and Development comprises two departments, the Department of Infrastructure Development (DID) and the Department of Communications, Aviation and Meteorology (DCAM).[6] DID oversees the country's road network, bridges, wharves, ports and marine services. The bulk of the ministry's work program is funded by donors. Some infrastructural services are contracted out to private companies. There are three donor funded projects: Solomon Islands Road Improvements Project (SIRIP) funded by ADB, AusAID and NZAID; Tsunami Assistance for the Western Province and Choiseul funded by ADB; the Domestic Maritime Support Project funded by ADB and the EU. Airports, airstrips and aviation services are the responsibility of DCAM.

2.4.1 Roads

Solomon Islands has a road network of 1,391km and 185 bridges extending over 30 islands.[7] 80% of the roads are located in Guadalcanal, Malaita and the Western Province. The road network consists of main roads, secondary roads and provincial roads. There are 391km of main roads that link major towns and villages and densely populated areas. Secondary roads are gravel roads in low density areas of which there are 455km, while provincial roads are gravel/earth roads of which there are 425km (see Table 2.1). About 80% of these roads have deteriorated over the years due to heavy rainfall and neglect. Most of these roads are impassable by cars and light trucks, resulting in excessive wear and tear of vehicles and high running costs. Therefore, the road network, including bridges, requires substantial reconstruction to bring it up to an acceptable standard. The Central Government manages the main and secondary roads and the provincial governments maintain the provincial roads.

The Ministry of Transport, Works and Utilities faces a shortfall in resources. The Government's priority is to build an additional 100km of roads per year, but the ministry's budget at present is only sufficient for carrying out maintenance work and surveys.[8] To address inadequate expenditure on road maintenance, legislation for a National Transport Fund (NTF) is to be passed. NTF will collect levies from fuel, vehicle licenses, vehicle and driving test fees, road tolls and duties on vehicles and spare parts to ensure the sustainability of road maintenance. Another challenge is improving inter-ministerial planning and coordination between the ministry's plans and the plans of the other line ministries, such as agriculture, industry, commerce and tourism to plan for infrastructure development.

As part of the Government's decentralisation program, the Central Government has started to involve and pay local communities to provide main-

[6] The National Transport Plan contains a proposal to reform and institutionally strengthen the ministry to provide policy oversight, manage the National Road Fund and handle procurement and monitoring of infrastructure maintenance and construction work performed by private contractors. The ministry is also to be split into two separate ministries.

[7] There is an additional 560km of private and plantation access roads; see ADB (2006) Proposed Asian Development Fund Grant Solomon Islands: Road

[8] The estimate for construction of 100km of roads is SBD60M but the ministry's budget is only SBD10M, which will be used to conduct surveys before road construction begins.

TABLE 2.1 **Distribution of the road network in Solomon Islands (km)**

Province	Main roads	Secondary roads	Provincial roads	Town roads	Total
Guadalcanal	148	18	278	120	***564***
Malaita	243	89	68		***400***
Western		53	62		***115***
Makira		120	6		***126***
Temotu		66			***66***
Isabel		22	5		***27***
Central		7	6		***13***
Choiseul		11			***11***
Rennel & Bellona		69			***69***
Total	**391**	**455**	**425**		***1,391***

Source: Mukesh Gupta (2004) 'Discussion Paper: Road Rehabilitation & Maintenance Strategy in Solomon Islands', ILO, 2.

tenance services such as cleaning and landscaping services. Accordingly, the ministry has trained and registered over 15 local companies through workshops held in Honiara, Auki and Lata with other workshops planned for the west. This training comes under the Trade Testing and Accreditation Division in the Ministry of Commerce, Industries and Employment. The ministry's capacity-building activities include training, prequalification of contractors and providing equipment for hire for road works.[9] One of the priorities of the ministry's training strategy should be the increased use of labour-based construction and maintenance methods in the rehabilitation of roads, bridges, wharves and jetties. The use of small scale local contractors applying labour-based methods would be more appropriate, initially, for construction and maintenance work on secondary and provincial gravel and earth roads. Routine road work would provide employment to local contractors and temporary workers all year round.

[9] The Community Support Program of AusAID is looking to introduce leasing and sale of construction equipment to contractors. The Government has also held discussions with the Republic of China (Taiwan) on grants and purchase of equipment.

2.4.2 Air travel services

The cost of international air travel has an important impact on Solomon Islands' competitiveness. As an example, the price of a return air fare to New Zealand has had a striking impact on the share of Pacific island countries able to benefit from the RSE scheme in New Zealand—with the result that Vanuatu, the qualifying country with the lowest fares, was able to send more workers than the other four initial 'Kick-Start' countries combined in its first year.

The price of international air fares to and from Solomon Islands is high by regional standards. The entrance of new operators Sky Air World and Pacific Blue (Virgin) between Honiara and Brisbane has resulted in an increased number of discounted fares, but has not lead to the wholesale reduction of ticket prices that many anticipated. The Ministry of Aviation and Communication (MAC) has an ambitious policy of liberalisation, accompanied by the upgrade of Munda airport in the Western province to serve as an alternative international airport. Considering that airlines are currently required to carry enough additional fuel to cater for an emergency diversion to Port Vila or Brisbane, further airports in Solomon Islands capable of accommodating a Boeing 737 (the aircraft used by most international operators, including Pacific Blue, Air Pacific and Our Airline) would reduce operating costs significantly.

However, Government policy is contradictory, and some urgent policy challenges have not been addressed. The most fundamental is the confused role of Solomon Airlines as either a Government-supported supplier of unprofitable routes, or an internationally competitive firm operating on a commercial basis. Solomon Islands' geography makes the country expensive to service domestically, even compared to comparator Pacific countries: Solomon Airlines' regular routes cover more kilometres than almost all other countries in the Pacific, and the distance from the most westerly domestic airport to the most easterly is the largest span of any Pacific country. Many of these routes will never be profitable, and yet are vital to the communities served and their livelihoods. In the absence of formal, systematic financial support from Government, Solomon Airlines currently covers these costs by cross-subsidising, using profits from international routes to subsidise domestic flights.

This is clearly an unsustainable situation if the Government is serious about creating a competitive international market—if successful, Solomon Airlines would no longer have the excess profits required to subsidise domestic flights to distant rural destinations. The Government must address this by reviewing which unprofitable routes it wishes to support, and designing an open, transparent tender system to permit airlines to bid for contracts to serve these routes.

Despite the ambition of MAC's corporate plan, Government maintenance of airport infrastructure remains weak. A recent report highlighted violations of a number of international safety standards. The international airport lacks qualified air traffic controllers to direct air traffic safely in the country's lower air space (upper air space is managed by Airservices Australia, based in Brisbane). There was one reported near-collision due to the lack of controlled airspace at Henderson.[10] A Pacific regional transport study, conducted in 2004, concluded that Henderson would be unlikely to pass an International Civil Aviation audit.

[10] Islands Business, www.islandsbusiness.com/islands_business/index_dynamic/containerNameToReplace=MiddleMiddle/focusModuleID=17766/overideSkinName=issueArticle-full.tpl

Not only do these failures have fundamental safety implications, endangering human life and threatening the reputation and future of the country as a tourist destination, but they also have the effect of passing on hidden costs to the airlines who have to operate under these conditions. Although no data is available, the effect is likely to be much more acute for Solomon Airlines, which has to operate between small domestic airports which are far less well maintained than Henderson. Placing the domestic airline in a position to be able to compete with international rivals should always be seen as a prerequisite to liberalisation of the airline sector. But if Government expects an airline to cross-subsidise while stripping away its profitable routes, and forces it to bear the hidden costs of a lack of routine maintenance of airport infrastructure, then there is every risk that a potentially competitive airline could be forced out of business by a Government policy that favours foreign firms over domestic.

Furthermore, air transport is yet another sector that is acutely disadvantaged by uncertainty over land rights. At present, two potentially profitable and popular routes near Honiara are both non-operational pending the resolution of lengthy disputes. While such disputes are not fundamentally different to other land disputes in the country, the real costs to the airline industry are such that it may be worth commissioning an analysis of the most important outstanding disputes, which might recommend which are the most easily soluble, and proposing the outline of settled solutions where appropriate.

2.4.3 International shipping

Solomon Islands' major export—i.e. logs—leaves the country in private vessels (although sawn timber is transported in containers through Honiara). One significant consequence of the current structure of exports is that a limited volume of exports leaves the country in containers.

Despite this, Solomon Islands is fairly well served by international shipping services to major markets around the world. The Greater Bali Hai group run fortnightly services to from Honiara to Asian destinations. In addition exporters have access to European ports via the large Bank Line vessels which make occasional calls in Honiara. Sofrana Unilines run regional services calling at Vanuatu, Papua New Guinea, Australia and New Zealand.

TABLE 2.2 **Main international shipping services to Solomon Islands in 2007**

Service	Operator	Frequency	Vessels Employed	Service Type Vessel Size
Kaohsiung/Hong Kong/Busan/Kobe/Nagoya/Yokohama/Majuro Atoll/Tarawa/Port Vila/Noumea/Lautoka/Suva/Apia/Pago Pago/Papeete/Nuku'alofa/Santo/Honiara/Kaohsiung	**Greater Bali Hai**	Twice monthly	*Kyowa Cattleya, Kyowa Hibiscus, Coral Islander II, Pacific Islander II MP*	Ro-ro: 400–900TEU (plus car deck for 500 vehicles); 8,000–7,000gt
Lyttleton/Napier/Tauranga/Auckland/Brisbane/Port Moresby/Lae/Rabaul/Lihir Is/Honiara/Port Vila/Lyttleton	**Sofrana Unilines**	Every 18 days	*Sofrana Magellan, Sofrana Kermadec*	Multipurpose: 550–600TEU
Algeciras/Hamburg/Hull/Antwerp/Dunkirk/Le Havre/Papeete/Auckland/Noumea/Suva/Lautoka/Port Vila/Santo/Lae/Madang/Kimbe/Rabaul/Jakarta/Singapore (PSA)/Algeciras	**Bank Line**	Once monthly	*Boularibank, Gazellebank, Mahinabank, Tikeibank*	Multipurpose: 700TEU; 18,600gt
Sydney/Melbourne/Brisbane/Port Moresby/Lae/Honiara/Tauranga/Napier/Nelson/Sydney	**Chief Container Line (Swire)**	Fixed Day weekly	*Papuan Chief, Aotearoa Chief, Lihir Chief, Coral Chief*	Multipurpose: 981TEU; 7,900gt

Source: From ADB (2007) Oceanic Voyages—Shipping in the Pacific, Tables 1-4
Key: TEU = Twenty Feet Equivalent Unit, GT = Gross Tonnage. Ro-ro = roll on, roll off. n.b. Bank Line makes only occasional calls in Honiara.

The Exports and Manufacturers Association has expressed concern that shipping routes restrict trade due to the fact that ships pass through Honiara on their way to Papua New Guinea and Asia, rather than going in the other direction to the major regional markets of Australia and New Zealand. Published shipping schedules tend to contradict this concern however and—depending of course on the good being transported—this should not matter too greatly in any case in terms of freight pricing.

The only instance where this does happen is with Fiji. It is interesting to note that while shipping routes on the Bank Line would tend to favour Fijian exports to Solomon Islands and Papua New Guinea, the latter two countries would find it hard to export directly to Fiji by ship. This situation is clearly one of the major factors driving the current direction of trade seen within the MSG countries (although air freight opportunities are better).

Solomon Islands has no access to the United States either by air or sea. The existence of a regular shipping route was one of the key reasons behind the (very much unpredicted) great success of Fiji Water in the Unites States market. Similarly, the existence of strong air connections was the only reason that Fiji has a value-added fresh tuna loin industry (most of the fish are actually caught in Vanuatu waters and it would be of greater advantage to be closer to the fishing grounds, given the high cost of fuel). This is not to suggest that if Solomon Islands had a direct transport linkage to the US that it would have a range of success stories to rival Fiji's, but it does give one example of how transport can direct or limit trade opportunities for Pacific Islands, and the importance of integrating transport policy more closely in thinking related to trade.

2.4.4 Domestic shipping

Domestic inter-island shipping faces particular challenges. Around 35 ships operate in a deregulated industry, yet co-ordination remains poor. Information problems mean that boats supplying small regional shops do not co-ordinate their activities in order to bring back agricultural produce, primarily copra. Many of the outer islands are inadequately served. From independence until the 1990s, provincial governments and CEMA collaborated in providing services that transported export commodities to Honiara and basic goods to the outer islands. Most operators are now from the private sector, often operating single boats. Dedicated high-speed passenger services also operate between Honiara and Western Province destinations, and Honiara and Auki.

For the most part, neither schedules nor tariffs for cargo are published. In practice most pricing is done at the wharf on an *ad hoc* basis. CEMA in particular have expressed a desire for greater coordination in inter-island services for agricultural producers, to avoid supply-chain bottlenecks. Better communication would help in this regard, although it is important to emphasise that the 'light regulatory touch' seems thus far to be working.

One area in need of investment is that of safety. The Department of Ports is in charge of the domestic shipping registry, with responsibility for maritime safety, including licensing and surveying boats and checking ship loading, carrying out competency tests on pilots and crew, issuing seafarer qualifications that are delivered by Solomon Islands College of Higher Education (SICHE) (including the power to suspend or cancel licenses), delivering their own training seminars, as wells as search and rescue. The harbourmaster sits on the board of the Solomon Islands Ports Authority, and the department also deals with international maritime organisation and other regional or international initiatives.

Following the entrance of greater numbers of private operators into the market, Government policy has focused on routes to remote islands that are uneconomic and will require subsidy. For example, a regular twice-yearly service to the remote northern atoll of Ontong Java has recently been rescinded, meaning that *ad hoc* charters are now required to service the area. A joint ABD/EU-sponsored project is currently being established that will create a framework for the granting of licenses to run subsidised services to around six remote locations that are currently receiving inadequate shipping.

2.5 ENERGY AND WATER

Reliable and low cost power generation in Solomon Islands is a major challenge, especially given the heavy reliance on diesel plants for power generation. The rising cost of imported fuel has resulted in a dramatic increase in the cost of electricity. Blackouts are quite common and while many businesses and Government offices rely on standby generators, many SMEs and most micro-enterprises are unable to afford this option. Similarly, water supply has had no investment in recent years and the infrastructure is old.

It is important to note that the utility companies providing services such as electricity and water are state-owned enterprises (SOEs). In the interest of improving services, increasing financial viability and fostering competition, the

Government is in the process of introducing reforms to commercialise the operations of Solomon Islands Electricity Authority (SIEA) and Solomon Islands Water Authority. Weak governance due to 'wantokism' and cronyism is one of the major causes of poor SOE performance. In order to check excesses and abuse, an independent regulatory body, possibly formed under a revised State Owned Enterprises Act, should be formed to regulate and monitor the performance of the boards, management and operations of these companies.

2.5.1 Energy

In 2007, SIEA generated 77M kWh.[11] However, the supply of diesel-based electricity has become unsustainable. The high cost of diesel, supplied by Markworth Oil, has contributed to frequent blackouts because SEIA has not been able to purchase sufficient quantities of fuel to operate its generators. Oil imports constitute close to a quarter of the nation's import bill. Rising energy costs have forced the Government to explore alternatives such as import substitution based on using a combination of biofuels and renewable energy. Energy alternatives to be considered include biodiesel from vegetable oils such as coconut oil or grasses such as *jatropha* as well as hydro, solar and wind power. The most promising solutions to the energy problem are hydropower (a World Bank project aims to build a new project on Guadalcanal), biofuels and solar and hydropower.

Solomon Islands is well placed to reap not only the benefits of hydropower due to the many rivers, streams and waterfalls it has, but also the advantages of biofuels given the abundance of fertile land. However progress on land reform is critical. Furthermore, the imperative of food security will have to be carefully balanced between the need for allocating land for food production and the production of

[11] The major fuel consumers were SIEA, SIWA, logging companies, fishing companies, GPPOL, aviation companies, RAMSI and shipping companies, according to the Central Bank.

BOX 2.2 **National energy strategy**

- Replace use of diesel for electricity generation in Honiara and the provincial centres with hydropower, e.g. Ngalimbu Hydropower Project in the Tina River will generate 33 mw to power Honiara and the periurban areas, including GPPOL and Gold Ridge. This will lessen the demand on SIEA in the long-run. The project is part of the World Bank's Sustainable Energy Financing Program, which will start once land issues are addressed.
- Provide the provincial centres with mini hydro schemes, e.g. Buala, (already done), Kirakira and Rualae hydropower for Auki township. Funding has been allocated by the Government for acquisition of land and awareness building. The purpose of rural electrification is to encourage economic growth centres and provide schools and health services. The mini hydro schemes will be small grids that could be expanded at a later date depending on demand.
- Encourage import substitution by locally producing biofuel. The MMERE is in discussions with a Brisbane company, with operations in Vanuatu and Kiribati, to provide technical assistance to use coconut oil to replace diesel. The ministries of commerce and agriculture have shown interest in the project. The project will boost copra production and encourage oil milling.
- Promote solar power in the rural areas. The cost of fuel has risen dramatically to SBD15 per litre. The worst affected are people in the rural areas since all rural dwellers rely on kerosene for lighting and cooking. Government has allocated SBD3M to tender for the provision of solar lighting systems.

biofuels. Currently, it is cheaper to import diesel than it is to convert coconut oil into biofuel. But food security may become an issue when the price of imported fuel exceeds the international price of coconut oil, thereby making the commercialisation of biofuels viable and food production less attractive.

The Ministry of Mines, Energy and Rural Electrification (MMERE) is responsible for the generation of electricity. Government policy is to move away from fossil fuels toward renewable energy like hydropower, biofuels and solar energy. The Government has initiatives to address the country's energy problem (see Box 2.2). The Government should be supported to implement renewable energy such as geothermal, hydro, solar, wood and waste (animal and vegetable waste, coconut shells for roasting cocoa beans) power after a careful impact assessment. Other options include tidal, wave and biomass power.

2.5.2 Water

The Solomon Islands Water Authority (SIWA), which also comes under the Ministry of Mines, Energy and Rural Electrification, monitors the quality and management of water supply and the sanitation system. There has been little investment in the sector in recent years and most of the infrastructure in the country is rundown. One of SIWA's weaknesses is the lack of managerial capacity to run the water authority efficiently. An audit should be conducted to identify capacity weaknesses, develop a business plan and provide technical assistance to restructure SIWA into a viable, commercially sound entity. Additionally, there is a need to improve water quality, reliability and coverage. Improvements in the supply of water will require upgrading of pipes, tanks, underground plants, new treatment facilities, pipelines and metering.

The Japanese Government has a project to undertake a major overhaul of SIWA infrastructure. The JICA project will replace old pipes and identify new water sources. For example, 16 boreholes are being drilled within the Honiara town boundary. Access to land is the main obstacle to project implementation and an agreement will have to be negotiated with the customary landowners including leasing and payment of monthly rentals. Another objective of SIWA is to increase water distribution while reducing operating costs by doing away with electric water pumps that consume large amounts of electricity. Indeed, SIWA is one of SIEA's largest customers. Instead, a project has been developed to harness water from a high altitude in the Kovi catchment area using a gravity-based system.

2.6 INFORMATION COMMUNICATIONS TECHNOLOGY (ICT)

So far this chapter has focused largely on the challenges facing the economy and business environment. However major opportunities also exist—in the form of information and communications technology (ICT). In most Pacific island countries ICT is severely under-prioritised, and Solomon Islands is no exception. In large part this is because of the telecoms monopoly. Solomon Telekom was granted a 15-year monopoly on a broad range of telecommunications services in 2003. Mobile phone coverage is limited to a handful of urban centres with prices far in excess of similar regional markets subject to competition. Internet connectivity is similarly sparse and expensive.

Solomon Telekom Company is owned by several shareholders, among them the National Provident Fund (64.74%), Cable & Wireless (32.58%) and the Investment Corporation of Solomon Islands (2.68%). The company has a 15-year exclusive license with the Government to provide international and domestic telephone and internet services. However, a new telecommunications bill was expected to be introduced by the Government in late 2008 to liberalise the telecommunications market in the hope of attracting competitors, bringing down telecommunications costs and improving service quality. It is expected that Telekom and the Government will reach a settlement to terminate the monopoly contract. One of the companies expected to enter the market is Digicel, a mobile phone service provider with operations in the Caribbean, Central America and the Pacific (Papua New Guinea, Samoa, Vanuatu, Tonga and Fiji). The benefits of liberalisation will be felt by both consumers and businesses in terms of reduced telecommunications costs and improved service.

Internet service speeds can be slow and the service is unreliable (see Table 2.3). The biggest constraint is old plant and equipment, including submarine fibre optic cables that are nearing the end of their useful life. Service availability and quality depend on where the customer wants to set up operations. The current technology is an internet-based GSM service providing broadband services including television, internet and mobile telephony. In addition, a dial-up service is available where there are existing telephone connections. Provincial townships where Telekom has a business centre, with the exception of Lata, have been upgraded with reliable, high speed dial-up services. Other services include solar-powered mobile and fixed GSM phones.

The People First Network (PFNet), funded by UNDP and other donors, is a non-profit Internet service with an internet café in Honiara and an expanding network of workstations (now 25), that provides access to email in rural and remote areas of the country using simple computers, short wave radios and solar power. The European Union has also provided valuable funding for Internet access via satellite dishes in a number of rural communities.

TABLE 2.3 **Internet services in Solomon Islands, 2008**

Type	Locations	Description
Dial-up	Anywhere with a telephone	Prepaid and post-paid are available anywhere as long as there is an existing telephone connection
WiFi Hotspots	Honiara (airport terminal buildings, most major hotels and selected other sites), Gizo (x3), Auki (x2), Noro, Munda	Prepaid only, available in the immediate vicinity of the hotspot.
ADSL	Honiara	Post-paid only. A wide variety of broadband packages are available.
Wireless Broadband	Gizo, Ringgi, Auki	Prepaid and post-paid broadband packages are available.
CIRIC	Honiara, Gizo, Ringgi, Auki	Committed Information Rate Internet Circuit–Post-paid only, available wirelessly (Gizo, Ringgi and Auki only) or via an existing telephone connection (Honiara, Gizo, Ringgi and Auki).

Source: Author/ Solomon Telekom Company Ltd., July 2008

In the absence of a far-reaching mobile network, some of the country is connected via radio links using a network of transmitters at key points on the islands. Although it has so far been slow to expand its service, Telekom claims that it now plans to provide mobile and broadband services to all the provincial governments. Satellites are rarely used outside Honiara because communications tend to be slow and there are delays in transmission. The cost of laying fibre optic cable is considered prohibitive.

In remote locations, diesel generators are used to power transmission equipment. The company is looking at using wind turbines to replace some of its diesel generators to reduce operating costs. An additional cost is security guards who are needed to protect the equipment from theft. The company has avoided acquiring customary land because of potential disputes with the traditional landowners.

For electronic banking, banks and airlines prefer to use leased dedicated circuits which are less secure but dedicated to one client. A cheaper option is a Committed Information Rate Internet Circuit (CIRIC), which is the internet equivalent of a leased circuit. CIRIC provides dedicated bandwidth and security can be enhanced through data encryption to enable, for example, secure credit card transactions. The local banks are limited in terms of the credit card transactions they can process because they lack local clearinghouse operations with each other. However, transactions between local and offshore banks have no problems.

The Government does not yet have an official ICT policy. However, an ICT Working Group is advising the Government on creating a national ICT strategy to help revitalise the productive sector and rebuild supporting infrastructure. The main objective of the strategy will be to introduce ICT to promote development in areas of particular interest to the Government, including health, education, agriculture, women, youth and children, land, commerce, trade and marketing and banking and financial services.[12]

[12] See www.peoplefirst.net.sb/General/SIG_ICT_policy.htm

2.7 CONCLUSIONS

Of the cross-cutting issues mentioned here, improvements to land tenure and the more widespread provision of financial services together have the potential to generate the widest impact. Problems with land ownership have long presented a major obstacle to development; a lack of clarity over ownership, together with associated difficulties, contributes to environmental damage and the exploitation of local communities. Land reform is in the interests of both those who advocate the maintenance of traditional ways of life, and those who wish to promote faster economic growth. It thus plays a valuable role in human development. The family tree approach may be a way of clarifying land title while remaining sensitive to local conditions.

The availability of financial services is one of the most pressing challenges facing the economy, and it is related to the issue of land ownership. Many people and businesses cannot borrow because they find it difficult to establish their ownership or legitimate use of land, and therefore cannot use it as collateral. As pointed out in chapter one on the macroeconomic environment, there has been a rapid expansion in the money supply, and credit should in theory be available, but the absence of financial intermediation means that many businesses and ordinary people cannot borrow.

As the current global financial crisis shows, access to credit is fundamental, and having fully-functioning institutions to convert savings into funds available for investment is a prerequisite to self-sustaining growth. Given the current global economic situation it is perhaps unreasonable to expect a rapid expansion of formal banking services, since the international banks face problems of their own. Yet a number of recommendations are made which are independent of international financial conditions.

2.8 RECOMMENDATIONS

1. Examine the possibility of creating a standard financial instrument representing logging access rights;
2. Undertake quantitative research to assess the extent to which different salaries contribute to productive investment through remittances;
3. Subsidise the additional cost incurred by a partner commercial bank in assessing a loan application from a rural area compared to one from Honiara;
4. Establishing a regular radio program dedicated to raising basic financial literacy;
5. Telecommunications reform is another vital area in which progress can be made at relatively low cost, where lessons can be learnt from neighbouring countries, and which can generate benefits in a number of areas;
6. Develop an ICT policy for SIG, exploring opportunities to provide financial services over the internet;
7. Support efforts to improve shipping and air transport infrastructure to address problems facing the supply side;
8. Formulate an energy policy as a priority, which can serve the dual ends of reducing reliance on imported fuels and reducing environmental harm.

The next chapter builds on this analysis by outlining pertinent features of the business environment and addressing some of the issues not covered in this chapter.

CHAPTER THREE

The business environment

3.1 INTRODUCTION

This chapter examines the business environment and investment policy, with particular emphasis on small and medium-sized enterprises (SMEs). The chapter first presents some features of doing business in Solomon Islands and makes an assessment of the most pressing priorities. Next, some key characteristics of the public and private sector are outlined, with some examples of some of the challenges facing representative private-sector players. After this is a discussion of investment and investment policy, followed by a look at the key institutions affecting the business environment, as well as training and human resources development.

3.2 DOING BUSINESS

Solomon Islands is a somewhat expensive place to do business compared with other countries in the region. This is a challenge at a time when some competitor economies are on a more established growth path and while one of Solomon Islands's nearest neighbours, Vanuatu, is perceived as being more politically stable. Yet overall the country does not rank particularly badly compared with other least-developed countries—particularly as it is emerging from an extended period of conflict. It should also be remembered that cost is only one of the considerations of doing business, and that other features such as policy stability and trade facilitation can have a major impact.

Data collected for the DTIS, shown in Table 3.1, shows that land is relatively cheap in Solomon Islands, costing only around a third of that in Vanuatu and Fiji, but construction costs are higher than in Fiji and Papua New Guinea. Solomon Islands has a reasonably good record of labour relations, and is not particularly uncompetitive in this regard. Most employees are members of the National Provident Fund (NPF), a savings scheme that provides retirement and death benefits. A total of 7.5% of contributions are from the employer and 5% from the employee's salary (see Table 3.1). Approximately 12 trade unions fall under the Council of Trade Unions. A Trade Disputes Panel handles disputes between employers and employees on issues such as pay, unfair dismissal, injuries and the like. The minimum wage, at USD93 a month, is almost double that of Papua New Guinea but much lower than in Vanuatu and Fiji.

The table shows that interest rates are higher than in neighbouring countries, while the high costs of electricity, water and telecommunications largely reflect the monopolistic nature of these industries. Diesel fuel is much more expensive than in the rest of Melanesia, making internal transport more costly and less competitive. International transport costs are lower.

TABLE 3.1 **Competitiveness indicators for selected countries**

Average Factor Cost	Solomon Islands	Vanuatu	Fiji	PNG	Australia	New Zealand
Cost of vacant land for industrial use (USD/m²)	**25**	70	77	14	420	237
Construction costs for an office building (USD/m²)	**428**	995	336	377	721	853
Minimum wage (USD/month)	**93**	198	113	48	1,597	1,104
Social security contribution (%)	**5**	4	8	5.5	n/a	n/a
Employer's contribution (%)	**7.5**	4	8	7.7	9	n/a
Interest rate on short-term bank loans (%)	**12–18**	5.50	0.90	18.68	5.25	5.77
Cost of electricity (USD/kWh)	**3.20**	0.26	0.16	0.05	0.03	0.05
Cost of water (USD/m³)	**1.80**	0.40	0.36	0.38	1.00	1.42
Cost of a local call (USD/3 min)	**0.37**	0.21	0.05	0.06	0.11	0.12
Cost of diesel fuel (USD/litre)	**1.80**	0.90	0.61	0.71	0.94	0.66
Cost of air freight to Europe (USD/kg)	**8.36**	16.00	13.00	12.47	12.74	16.70
Cost of maritime freight to Europe (USD/TEU)	**4,290**	4,450	4,150	2,897	1,397	1,497
Cost of maritime freight from Europe (USD/TEU)	**3,875**	4,000	4,150	2,647	1,297	1,597

Sources: Vanuatu Diagnostic Trade Integration Study 2008 Report and field work.

Notes: TEU = twenty-foot equivalent units, equivalent to one 20 foot-sized container or 32m³.

Exchange rate: USD 1 = SBD7.60

This picture is generally borne out in the latest annual World Bank survey of doing business. Among the countries in Table 3.2, Solomon Islands ranks at 79 globally, below Fiji and Vanuatu but above Papua New Guinea. According to the survey, registering property in Solomon Islands is 162nd-most difficult in the world and far below neighbouring countries. As shown in chapter two, this is a problem that has long impeded business development. Notable examples include expansion of telecommunications services in the rural areas and the Ngalimbu hydropower project in Guadalcanal—two developments which have the potential to have considerable knock-on development benefits. Land registration and obtaining the transfer contract can take anywhere from 240 days to more than a year and cost considerable sums in legal fees, stamp duty and unofficial payments.

Another notable feature of the survey, related to the issue of land, and again confirming the analysis in chapter two, is the difficulty of obtaining credit. On this indicator, Solomon Islands ranks 135th–worst in the world and the lowest in the region, level with Vanuatu.

Registering a business is also relatively expensive, at approximately SBD3,050 or USD401. This cost is particularly high as a proportion of overall costs for informal sector operators that wish to become formalised. While the 2005 revision of the Foreign Investment Act simplified the investment procedure, in reality the process remains somewhat complex (see section 3.4).

Enforcing commercial contracts is another challenge. According to the World Bank, 37 procedures are involved and it takes 455 days for a claimant to receive a court settlement in a breach of contract. The cost of a claim, legal fees as well as court and enforcement costs, is also a major contributor to the high cost of

TABLE 3.2 **Doing business in 2008**

Source: www.doingbusiness.org

The number expressed in each column is a rank out of a total of 178 countries; the lower the number the better.

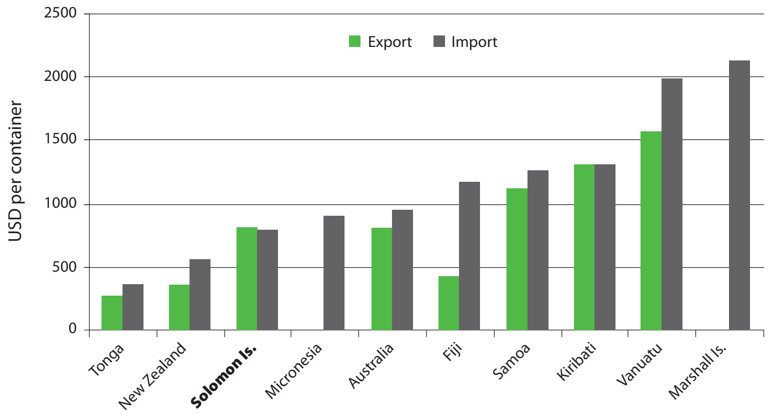
Criteria	Solomon Islands	Vanuatu	Fiji	PNG	Australia	New Zealand
Doing business rank	**79**	62	36	84	9	2
Starting a business	**85**	73	69	76	1	3
Dealing with licences	**34**	24	28	118	52	2
Employing workers	**47**	77	16	31	8	13
Registering property	**162**	111	77	64	27	1
Getting credit	**135**	135	48	115	3	3
Protecting investors	**51**	64	33	33	51	1
Paying taxes	**26**	18	52	79	41	9
Trading across borders	**74**	142	111	82	34	16
Enforcing contracts	**104**	66	62	162	11	13
Closing a business	**101**	49	114	97	14	16

doing business. Closing a business and bankruptcy filing can be a costly undertaking for financially distressed firms and constitutes a disincentive to new market entrants. While closing down a business takes about a year, slightly better than the regional average, the costs are substantially higher and the recovery rate of assets from insolvent firms is below the regional norm.

Trading across borders has improved in the last few years, and Solomon Islands appears to be among the most competitive in the region, as shown by the following figure. But unnecessary red tape and delays remain. It takes 24 days to export, including the preparation of documents, customs clearance, handling and transportation. Import takes an average of 21 days, better than the regional average, but costs per container are higher.

Finally, the survey finds that it is easier to deal with licences and to pay taxes in Solomon Islands than it is in Australia. This suggests that Government bureaucracy, although problematic in some critical areas, is not always the primary obstacle to doing business, and that certain costs, land and access to finance may be bigger challenges.

FIGURE 3.1 **Costs to export and import in Pacific island countries**



Source: World Bank Doing Business Indicators 2006; export costs not available.

3.3 OVERVIEW—PUBLIC AND PRIVATE SECTOR ACTIVITY

Solomon Islands economy is so small that a relatively limited number of public and private sector players account for a significant proportion of economic activity. As indicated in the chapter on the macroeconomic environment, the public sector and donors play a major role. Expenditure associated with official development assistance, including donor procurement and consumption by foreign aid personnel, have a major impact on the provision of services in the capital, as well as on the construction trade. Several companies prosper largely as a result of the donor presence, including building companies, cafes, restaurants, hotels, resorts, tour agents, printers, and flower growers (see the chapter on agriculture).

The Government itself has long run a number of major businesses. The portfolio of the Investment Corporation of Solomon Islands (ICSI), a Government-owned holding company established under the Investment Corporation of Solomon Islands Act, includes eight companies; fully owned SOEs as well as companies with minority shareholdings (see Table 3.3). A number of these companies, notably Solomon Airlines, Soltai Fishing & Processing Company and Sasape Marina, have performed poorly and are either insolvent or close to being bankrupt. One of ICSI's main challenges is dealing with political interference in the management and appointment of the boards of directors. The Government has already identified two SOEs for privatisation: Home Finance and Sasape Marina. The commercialisation of Solomon Islands Electricity Authority is also under consideration. Reform is imperative, partly given the risk of debt liabilities to Government, but also because the underperformance of SOEs in some areas is a source of economic inefficiency.

TABLE 3.3 **Investment portfolio of the Investment Corporation of Solomon Islands (ICSI)**

Entity	% owned
Solomon Islands Printers Ltd.	100
Sasape Marina Ltd.[1]	100
Solomon Airlines Ltd.	100
Solomon Islands Plantation Ltd.	97.7
Soltai Fishing & Processing Company Ltd.	51
Kolombangara Forest Company Ltd.	19.7
Solomon Telekom Company Ltd.	2.68
Pacific Forum Line Ltd.	0.6

Sources: ICSI and ADB (2007) State Owned Enterprise Reforms and Private Sector Participation.

[1] To be privatised

A number of large, primarily foreign-owned businesses account for a significant share of private sector activity, mostly in forestry, logging and sawmilling. Logging was estimated to contribute 18% of GDP in 2007. The services sector, although accounting for the largest single proportion of GDP, is dominated by Government. Much of the remainder of services output comes from the hotel and retail trade. A variety of companies operate in finance, retail and wholesale trade (largely Chinese-run) and transport. Some small services companies are linked to the agricultural sector, supplying timber, fish products, copra, cocoa and related support services. The number of companies supplying business services is relatively limited and include customs and shipping agents, insurers, business associations, IT, taxation, marketing and advertising specialists. Local media is vibrant, with a range of TV radio channels and daily newspapers.

The following case study highlights some of the business challenges and opportunities confronting two representative businesses in Honiara:

BOX 3.1 **Case study—two private companies**

Arania Enterprises Ltd.

Arania Enterprises Ltd., a family-owned company, is the leading cocoa exporter in the country and has been in business since 1987. The main export destinations of the cocoa exports are Singapore and Germany. Cocoa is bought from all the regions, but mainly Malaita, Guadalcanal, Makira, Isabel and Central Province. Out of the six registered cocoa exporters, Arania was biggest in 2007, with a turnover exceeding 1,000 tons of dried beans or a quarter of the national output. Its main competitors are Purple Investment, El-Shaadi and Direct Management Ltd..

Arania supports growers by providing small loans to enable them to buy wet beans from other growers. This money is deducted when the growers are paid for delivering their produce to the company's agents. The agents purchase the dried beans from the farmers for delivery to Honiara where Arania has its head office.

Despite its success, Arania faces constraints related to credit, product quality and transportation. A major constraint is the lack of a readily accessible and cheap pre-shipment credit facility. The company can only produce limited product due to insufficient working capital and restrictive bank overdraft facilities. In order to enable it continue exporting, agents and brokers based in Australia and Singapore advance funds to the local exporter to purchase cocoa beans but the exporter incurs a loss in income of 20% to 30%.

Product quality is not consistent and Arania has requested CEMA to provide training and technical support (drying, harvesting and cooking wet cocoa beans) to growers. Most cocoa farmers live in rural areas where feeder roads are absent and have to carry 100 kg jute bags to the collection points to be loaded onto trucks and boats. In one specific case, Arania petitioned the Member of Parliament for East Kwaio, Malaita, to build a 20 to 30 km road to facilitate access to markets by farmers. Related to transportation is the cost of fuel and the high cost of domestic inter-island shipping. For example, over a short period of time freight rates for the Auki-Honiara route doubled to SBD60 per bag.

Szetu Enterprises Ltd.

Szetu Enterprises Ltd., founded in 1983, is a family-run food and beverages company which started out as a family business manufacturing under license for Cadbury Schweppes. The company, employing 55 workers, produces purified drinking water, cordials, carbonated soft drinks, carbonated alcoholic beverages and spirits under its own Szetu label, such as Saratoga Whisky Cola. The company imports most of its raw materials, packaging and machinery to manufacture bottles, food and beverages. One shortcoming of the business environment that has impacted all firms in the industry is the lack of facilities such as a public health laboratory to inspect food quality and hygiene and a national standard setting and certification body to test and certify products for the export market. The company's future plans include restarting production of instant noodles, discontinued since the Tensions, and bottling mineral water for export.

3.4 INVESTMENT AND INVESTMENT POLICY

Foreign Direct Investment (FDI) inflows declined almost to zero during the Tensions and increased afterwards—but still to very low levels relative to the size of the economy. In 2004, 2005 and 2006, FDI inflows increased to USD6M, USD19M and USD19M, respectively. The increase in inflows are the result largely of the commissioning of large-scale projects such as Guadalcanal Plains Palm Oil Ltd. (GPPOL), Gold Ridge Mine and activities related to post-conflict reconstruction.[2] The total number of investments from June 2005 to June 2008 was 314 across all sectors. 80% of the approved investments are established and operational, while 20% are yet to be implemented due to constraints such as access to land or a failure to fulfil Government requirements.[3]

In 2007, the Foreign Investment Division registered 265 investment applications with a total value of SBD4.57B or USD59.2M. It is estimated that these investments had the potential to earn SBD265.6M in export receipts and create about 9,700 jobs—however actual committed investment was likely to be much lower. The distribution of FDI by sector is indicated in Table 3.4 below. The sectoral distribution of FDI in order of the top five priority sectors was 32 projects for manufacturing, 67 for forestry, 31 for fisheries, 44 for transport and communications and 19 for mining. FDI flows were mainly concentrated in logging activities. Other sectors receiving a significant number of investments were wholesale and retail services with 44 investments and 'other services' with 118 investments.

[2] Source: UNCTAD (2007) World Investment Report 2007: Transnational Corporations, Extractive Industries and Development (New York and Geneva: United Nations). Outflows of USD2M were recorded in 2005, with none in 2004 or 2006.

[3] Information obtained from the office of the Registrar of Foreign Investment.

TABLE 3.4 **Proposed investment by sector, 2007**

Sector	Number of investments				
	Q1	Q2	Q3	Q4	Total
Manufacturing	8	17	7	0	**32**
Forestry	17	21	18	11	**67**
Fisheries	9	8	8	6	**31**
Transport & Communications	12	13	12	7	**44**
Mining	4	7	7	1	**19**
Agriculture	7	5	5	2	**19**
Construction	3	8	4	3	**18**
Tourism	8	2	9	3	**22**
Wholesale & Retail	17	13	12	2	**44**
Consultancy Services	4	0	3	2	**9**
Other Services	31	35	37	15	**118**

Source: Foreign Investment Division

In 2007, the sources of FDI were Australia, Malaysia, China, New Zealand, Taiwan, Fiji, Papua New Guinea, Hong Kong, USA, United Kingdom and others. Malaysia is one of the leading investors in the forestry industry. In terms of impact, it is difficult to determine to what extent proposed investments were translated into actual investment. In the third quarter of 2008 the Foreign Investment Department was scheduled to start conducting annual surveys to ascertain the proportion of approved investments that were realised and their impact.

The most notable features of the amendment to the Foreign Investment Act in 2005 were the focus on registration and monitoring and the simplification of the entry process. The new act is simpler and approval of investments by the board is no longer a requirement. Investors must still apply to the relevant sectoral Ministry for technical approval; to the Ministry of Labour for further permissions, and to the Ministry of Commerce for immigration permits (see Box 3.2 below). It can take four to six weeks to obtain a business license.

The corporate income tax for foreign investors has been reduced from 35% to 30%, ensuring national treatment. Additionally, there are no performance

BOX 3.2 **Entry process**

1. Investor submits an application, including information on the owners, shareholders, partners, products, province, markets, number of employees, the value of the investment and the sources of financing
2. Investor registers and pays a non-refundable SBD200 fee.
3. Formal approval takes five days, taking into account;
   - Reserved list[4]—there are 14 protected activities, including restrictions on dealing in arms; the director/registrar has the discretion to grant waivers;
   - Government priorities—manufacturing and downstream processing, e.g. agriculture, forestry;
   - Technical review, e.g. environmental impact assessment, if applicable;
   - A Certificate of Registration is granted on acceptance of the application.

requirements such as a minimum export requirement or the mandatory use of local inputs. However, investors are monitored to ensure compliance with their approved investment activities and impacts are assessed on job creation and training.

Technical projects are referred to the relevant competent authorities for screening and recommendation as to their soundness and conformity with the Government's priorities (for example mining projects require an environmental impact assessment). Delays are still encountered, mostly due to limited access to land caused by disputes and litigation or delays caused by the technical ministries in assessing proposed projects. While the registrar has the authority to grant approvals, investment decisions may still encounter political influence.

The incentives offered include tax holidays up to five years and the repatriation of profits and royalties for a similar period. Exchange controls enforced by the Central Bank are aimed at ensuring that reserves remain stable. Both foreign and domestic investors are granted exemptions on imports of machinery and other inputs (see the chapter on trade policy)—although exemptions are granted according to questionable criteria and cannot be considered to follow strategic priorities. Increasing total exemptions may not be desirable given the Government's precarious fiscal situation, although a review of exemptions may wish to consider reassigning existing exemptions to strategic areas.

The Solomon Islands Government ensures the protection of foreign investment against expropriation. The country is a member of the International Centre for Settlement of Investment Disputes (ICSID) and it subscribes to the guarantees of the APEC non-binding investment principles, ensuring prompt and fair compensation for assets expropriated in the national interest.

Priority sectors for long-term investment are fisheries, forestry, agriculture, aquaculture, mining, telecommunications, aviation, finance and construction.[5] New investment opportunities have been identified in the aviation and telecommunications industries. The endorsement of the Pacific Islands Air Services Agreement has led to the entry of the Australian airline Sky Air World since March 2008. The Government has appropriated land for the development of Bina harbour in Malaita and Noro port in Western Province.

In exceptional cases where access to land presents difficulties for foreign investors, it may be useful to learn lessons from GPPOL and Gold Ridge Mining, two recently commissioned projects (although Gold Ridge has not yet solved all of its land problems). Lessons from these two companies are that investors must be

4 The reserved list, according to the Foreign Investment Act (2005), includes the cultivation of plant crops for the domestic market; production of not more than 2,500 m^3 of sawn timber; retailing within an area of $200m^2$; handicrafts and cultural artefacts; buses, taxis and hire car services; livestock for the domestic market; wild forest products for the domestic market; laundry services outside hotels; restaurants, cafes and hospitality services within an area of less than $25m^2$; market vending and roadside stalls; domestic help; security business with less than 20 employees; office cleaning and landscaping services; customs clearing agents.

5 Business Advantage (2006) 'Solomon Islands. Business and Investment Opportunities in Solomon Islands' p3.

prepared to agree to fixed term leases on land and be willing to share the profits and other benefits of a business with indigenous landowners.

3.4.1 Assessment

The new Foreign Investment Act came into force in 2006, developed with assistance from the World Bank's Foreign Investment Advisory Service (FIAS). It has been somewhat successful in meeting its main objective of streamlining foreign investment registration procedure and improving transparency. However, while the Foreign Investment Division has served as an effective one-stop shop for foreign investors the equivalent service is not available for domestic investors.

The Act is also silent on the country's investment policy in terms of priority sectors, and weak on the criteria for reserving business activities for Solomon Islanders. The current reserve list is merely defensive, consisting of 14 business activities reserved for Solomon Islanders, with a provision for review every two years.[6] Due to the absence of a clear investment policy, the list is prone to pressure for review by politicians or business lobbyists.

Currently the registrar has the authority to develop and review the reserved list. There is a requirement for consultation in the Act but only in best endeavour language. The criteria are also extremely broad.[7] The development of such a list should ideally be done through a formal consultation lead by the Foreign Investment Division with relevant authorities, e.g. MDPAC, sectoral authorities and MFAET. At the moment the Foreign Investment Division is not even aware of the commitments that the country has made under GATS. Closer consultation between FID and MFAET will ensure that trade negotiations are conducted in confirmation to the list, and vice versa.

A clear investment policy place that is reflective of productive sector and economic development objectives is vital. A reserved list should be carefully developed under clear criteria and in line with the policy. This will be more robust, reducing the need for frequent review and mitigating the risks of political or industry pressure to give unsustainable protection to inefficient businesses. Nevertheless, the list should not be seen as a substitute for institutional support for real sector development and domestic entrepreneurship.

While the income tax incentives structure partially reflects a strategic approach to investment promotion, trade taxes do not. Ideally, policy objectives would be met through the tax structure, which provides more certainty and transparency than tax holidays or exemptions and minimises administration costs. While tax holidays and exemptions lead to foregone revenue, a well developed tax structure may actually broaden the tax base. A tax structure that is sensitive to the needs of smaller businesses can even stimulate SMEs to join the formal economy providing them with institutional and legal protection and easier access to finance. An example of suboptimal targeting of tax holidays can be seen in the case of mining. Granting tax holidays to mining companies means forgoing substantial revenue that can be better invested in the rural economy.

Like Vanuatu, it is likely that an investment policy will be developed as the next stage of FIAS-assisted reform. Solomon Islands should aim for a development-focused policy, taking into account the following:

a The investment environment should be conducive to business development but should still clearly communicate the country's sectoral priorities. This will help to increase certainty and send the right signals to investors;

[6] The 14 reserved activities include, among others, customs clearance, retail trade in an area smaller than 200 m2, handicraft, security, domestic work, etc.

[7] An investment activity shall not be specified in the reserved list: *(a)* unless at least one citizen of Solomon Islands (whether by himself, as a member of a joint venture, as a partner in a partnership, as a trustee or otherwise or by an agent or employee) conducts the investment activity in Solomon Islands; *(b)* unless at least 10 business operations conduct the investment activity in Solomon Islands; *(c)* if it is carried on as a business or part of a business that produces or supplies goods or services which are used regularly by, or are otherwise important for the operation of, other businesses in Solomon Islands (Foreign Investment Act 2005).

b Tax incentives should be targeted at sectors with higher potential to contribute to human development and poverty reduction. Identification of sectors should be based on employment, backward linkages to the rural economy, environment, social and economic sustainability;

c Tax holidays should ideally not be granted to industries with few backward and forward linkages, such as mining. Tax revenues can be better spent on supply-side stimulus for the rural economy;

d Discretion in granting tax holidays and exemptions can be reduced by making the eligibility criteria more specific.

3.5 GOVERNMENT POLICY AND INSTITUTIONAL FRAMEWORK

Further to the specific measures surrounding investment policy, Government policy on the business environment can be found in macroeconomic objectives in the MTDS, the Coalition for National Unity and Rural Advancement (CNURA) Government policy statements, and the Medium-Term Fiscal Strategy 2008–2013. The latter mentions "structural reform to make Solomon Islands an easy and reliable place for businesses to invest and for industries to grow."[8] Structural reform, including significant liberalisation, has been the main thrust of policy in recent years. The Government, often with donor support, has embarked on a number of reforms, some of which have been implemented (see box on following page).

Despite two changes of government, in the last three years the country has shown greater consistency in its approach to economic development. First, there is a clear commitment to promote economic growth in a way that is supportive to rural development. Second, there is a general acceptance of the inevitable decline in the forestry sector, thus highlighting the need to develop alternative productive sectors as the engine of economic growth. Third, there is greater recognition of the role of private sector in contributing to economic growth and independence.

One of the key objectives in the policy statements of the CNURA Government is the creation of job opportunities for the growing population in conjuncture with high economic growth. This is consistent with their policy of rural advancement and the identification of the economic and productive sectors as one of six priority areas.

With most of the population living in rural areas and only a small share involved in the formal cash economy, prioritisation of productive sectors should be made based on equitable increase in rural income, labour intensity, backward and forward linkages to the rural economy, and environmental and socioeconomic considerations. The five key productive sectors highlighted are agriculture, mining, forestry, fisheries, tourism and energy. The policy statements also advocated domestic value adding and downstream processing in agriculture, fisheries and forestry sectors.

The Government also recognises the need to foster effective co-operation with development partners by engaging their support in sustainable initiatives to improve living standards. This is to be done through the linking of aid to development strategy that fosters economic independence rather than aid dependency. The Government commitment to the IF initiative is an articulation of this policy intention, where a nationally owned trade policy could be built upon the DTIS, and the latter can be used to co-ordinate donor assistance on trade and trade-related programs.

[8] Solomon Islands Medium-Term Fiscal Strategy: 2008-2013: 1.

BOX 3.3 **Key economic reforms**

Reforms already implemented

- The Foreign Investment Act has been revised and streamlined.
- A comprehensive rural development program has been developed that includes infrastructure, telecommunications, maritime services, a franchise scheme to subsidise shipping on the under-served domestic routes.
- Tax reform—Government removed the 5% duty and 5% goods tax on rice imports and reduced import duties to 10%, offsetting these reductions by shortening the exemptions list from 27 to 18 products and increasing the excise tax on beer, tobacco and gaming.
- The National Transport Plan includes rehabilitation and construction of roads and wharves and improvement of the Munda airstrip.
- International air routes have been opened as per the Pacific Islands Air Service Agreement and Pacific Islands Civil Aviation Safety and Security Treaty.
- ANZ launched a rural banking service and microfinance loans, including mobile banking.
- A World Bank-funded rural energy project is planned to supply hydroelectric power on Guadalcanal.
- A secured transactions framework was passed in 2008, aimed at increasing the availability of credit .
- A new State-Owned Enterprise (SOE) Act ensures that SOEs update and audit their accounts, publish performance requirements and are held accountable to the public.
- New work and residency permit arrangements that will consolidate permit applications.
- Land recording and registration.
- A bill on state-owned enterprises, ensuring accountability and autonomy.

Reforms yet to be implemented

- Review of company and trusts legislation, e.g. simplification of business registration and enabling customary landowners to enter into legal contracts.
- Review of the Insolvency Act to streamline bankruptcy proceedings.
- Deregulation of the telecommunications industry.
- Privatisation of Home Finance Ltd (mortgage lender) and Sasape Marina; commercialisation of Solomon Islands Electricity Authority.
- Further tax reform. Government is looking for other revenue sources such as mining, fisheries and food processing. There will be sequenced, modular reforms to broaden the tax base and strengthen compliance and auditing.

A relatively outward oriented approach to productive sector development has been adopted as a move away from inward looking strategy of import substitution.[9] The policy statements clearly underscore the provision of a sound and open investment climate and an increase of export opportunities.

In an increasingly globalised world, Solomon Islands also recognises the necessity to form collaborative partnerships with other countries. However, while the need to negotiate agreements that benefit Solomon Islands was listed under the PMO portfolio, the portfolio held by MFAET on trade and economic partnership negotiations is hardly mentioned. There is also no reference to linking policy objec-

[9] Although the policy statement on sectoral development places more emphasis on project-based strategies, better executed by the private sector, it is relatively silent and less-specific on a long-term approach to institutional design and strategy. There is also a notable exception, and perhaps valid, case for import substitution for rice, whose increasing imports have cause an enormous strain on the trade balance.

tives to trade negotiations.

The priority given to real sector growth is also reflected in the leader's direction on tax policy. Tax reform is supposed to be aimed at supporting economic growth, while making the system more efficient and fairer. This is an acknowledgement that tax policy should be more than just a revenue tool; it has direct impact on the real sector. This is discussed further in the chapter on trade policy.

The main difficulty with the tax system is that it is complex and non-strategic rather than that taxes are too high (as shown in Table 3.2, Solomon Islands ranked very highly on paying taxes, at 26th in the world). Companies can be faced with up to eight taxes and charges, creating unnecessary problems with collection and payment. A schedule of taxes and rates is shown in table.

TABLE 3.5 **Tax types and rates**

Tax type (SBD)	Rate (%)
Personal income tax	
1–15,000	11
15,001–30,000	23
30,001–60,000	35
60,000 and over	40
Company tax	30
Withholding tax	5–15
Goods tax[10]	5–15
Sales tax	10
Stamp duty	2–4
Licence charges	various
Customs duty	5–15

Sources: Ministry of Finance, Central Bank and IMF

[10] The tax on rice has been reduced from 5% to 0%, taxes on beer and tobacco have been increased by 20% and there is a gaming tax of 35%.

3.5.1 Institutional environment

Below is an overview of Government institutions involved in business policy.

The Ministry of Development Planning and Aid Coordination and the Ministry of Finance

According to the Ministry of Development Planning and Aid Coordination, the main development areas are infrastructure, social services, micro-enterprise development, transportation and shipping. The Government has developed sector strategies in several areas, including education, health, infrastructure, agriculture, industry and rural development. With respect to the reform process, the Government's reform program is being led by the Economic Reform Unit in the Ministry of Finance. One of the main objectives of the economic reforms is to create a business environment that is conducive for the growth of the non-logging sector. This is being tackled by focusing on regulatory reform and economic development planning.

Provincial governments

The nine provincial governments have a role to play in supporting enterprise development. The administrative structure of the Government of Solomon Islands is composed of the central Government, provincial governments, wards and constituencies. The functions of the provincial government (Provincial Government Act, 1997) include the provision of social services such as education, medical services and maintenance of infrastructure; issuing business and shipping licenses[11] to com-

[11] For example, a license for the Honiara-Malaita route costs SBD3,000 per year.

modity buyers and ship charterers.

Examples of the problems that affect the provinces include a lack of stable markets and low purchasing power; a lack of veterinary services and abattoirs; a shortage of cold storage facilities for shipments to Honiara and overseas, resulting in damage and loss of perishable products; a lack of all-weather roads linking the production areas of cocoa, copra and fish to the markets; limited access to credit facilities; financially weak credit unions due to poor local market conditions and a shortage of qualified human resources. To overcome the lack of demand for goods and services, there is a need to support increased agriculture and related processing activities geared for both the local and export markets. Many of these problems can be tackled by the national trade facilitation committee, as suggested in the chapter on trade facilitation.

The Central Government's rural development program has devolved decision-making powers to rural communities and involves them more in the identification of needs and provision of rural services such as agricultural and fisheries extension services and basic infrastructure like roads, water supply, electricity and reliable and cheap telecommunications. However, the limited resources available to the provincial governments are a constraint on what they are able to do and in many cases the resources controlled by the members of parliament exceed the provincial budgets. For example, the 24 national Members of Parliament in Malaita have a budget of SBD24M compared with the SBD3.7M or SBD22 per head controlled by the provincial government. Therefore, there is a need for the Central Government to reallocate some of its funding to promote economic initiatives such as establishing producer associations in the provinces and financing the registration and acquisition of land for development.

Labour Commission

One of the roles of the Labour Commission is to act as an impartial arbiter in disputes between employers and employees. Some quarters of the business community express discontent with the interpretation of the current labour legislation. The labour laws may contribute to labour inflexibility. For example, employers are obliged to pay every year for the transport of an employee, the spouse and up to four dependents up to the age of 18; employees are entitled to a maximum of 22 paid sick leave days. Employers also see the Trade Disputes Panel as biased in favour of employees, although it is a tripartite arrangement representing the employees, employers and Government as chair.[12] The issuance of work permits to foreign workers, despite ongoing reforms, is still cumbersome and time-consuming.[13] The Government is to be commended for putting in place measures aimed at ensuring good conditions for workers. It would not be desirable to enact reforms that worsened workers' rights or overall welfare. However a more flexible arrangement may be to reduce benefits in kind, such as transport for workers' families, and to raise the minimum wage by the equivalent monetary value. The minimum wage of USD93 is considerably lower than in Vanuatu and Fiji, although it is higher than in PNG.

The Labour Commission has several other functions. One is to provide technical and vocational education training (TVET) in collaboration with the informal sector division of the Ministry of Education and Human Resources Development (MEHRD). The Commission also has a National Trade Testing Certification Unit that certifies the curricula of TVET schools. However, the level of skills and competencies of the staff are inadequate and need to be updated. The Labour Commission

[12] In 80% of the cases, TDP hearings have favoured the employee, according to the Deputy Commissioner. A case involving the management of a local company in a dispute over unequal pay and discrimination has led to workers demanding that the management be sacked.

[13] The Labour Commission is less strict in issuing work permits to foreigners for management positions. However, in the case of technical posts, priority is given to nationals. To ensure that no national is disadvantaged in the recruitment of technical personnel, the employer must advertise the vacancy for two weeks. If no suitable local candidate is identified then the department can issue a work permit to a foreign worker.

chairs the National Training Council, which is responsible for allocating overseas Government scholarships for degree-level courses. Third, the Labour Commission co-ordinates the functions of the Labour Advisory Board. This board, now defunct, is a consultative mechanism that was set up to share information between the Government and the private sector on skill gaps and the training and development of skilled workers for industry. One of the main problems with respect to training is that the national standard on TVET and apprenticeships is obsolete. The result is that trainers have no one set standard to follow with all of the implications this has in terms of the quality and relevance of training programs.

Given the institutional weaknesses and the shortage of competent staff in the Labour Commission, it is necessary to review its mission, terms of reference and capacities. The Labour Commission could focus on wage setting, collective bargaining, dispute resolution, guest worker programs and the like. Tasks such as training, certification and co-ordinating attachments with industry could be made part of the proposed National Skills Training Council in MEHRD.

Industrial Development Division—Ministry of Commerce, Industries and Employment

Due to limited capacity, the Ministry of Commerce, Industries and Employment has been unable to support the SME sector effectively. The ministry has extension offices in five provinces (Makira, Malaita, Guadalcanal, Isabel and Western Province). The services provided include business advice, training,[14] feasibility studies, food technology and IT support. However, there are no resources to increase export opportunities and no financial support is provided to SMEs in the form of seed money for working capital, purchasing or leasing equipment and so forth.[15] There is clearly a need to strengthen the Industrial Development Division by conducting a review of its structure, mandate and budget to ensure that it is able to perform its functions effectively.

Two pieces of legislation, the Industrial Development Act and the Protected Industries Act, may require review. The Protected Industries Act protects new businesses that are pioneers in their industry for a period of five years at the discretion of the minister. The Act applies to firms that are 100% locally owned in the manufacturing and transport industries. As such, no licences are given to competitors for five years. Examples of companies that have enjoyed protection in the past include Honiara Bus Service and Solrice. This legislation should be reviewed to ensure that it is in line with the country's development plans and international commitments.

With regard to development plans, there is a need for a comprehensive long-term industrial development strategy that nurtures local industries. Preferably, a development strategy should be formulated with input from the private sector before another free trade agreement is signed. At the recent EPA negotiations, the Government was unprepared. An outline of such a strategy already exists but it is lacking in detail and is not very practical for conducting trade negotiations.

Ministry of Rural Development

The Ministry of Rural Development has two divisions that handle matters concerning co-operatives and SMEs. The functions of the co-operatives division include registration and execution of the Co-operative Society Act. The Act mandates the ministry to provide services to the co-operatives such as on-the-job training in areas like bookkeeping, management and constituting a board of directors; auditing of accounts of the co-operatives and preparation of financial accounts; con-

[14] Training includes food processing, furniture making, copra and cocoa milling, entrepreneurship, management, bookkeeping, marketing and proposal development.

[15] An offer was made by the Government of Taiwan to make available an export guarantee scheme that is yet to be taken up by the Ministry of Foreign Affairs and Trade.

ducting AGM meetings and assisting in the election of new boards of directors, amending by-laws and constitutions and resolving disputes and conflicts among members. The other division of the ministry provides advisory and training services to registered SMEs and has published various guides such as 'Running a Village Store'.

Commodities Exporting and Marketing Authority

The Commodities Exporting and Marketing Authority (CEMA), formerly the Government's commodity marketing authority, is the regulatory body that issues export licences, sets standards and monitors export crops such as coconut, copra, cocoa and spices. CEMA is discussed further in the chapter on agriculture.

3.6 NON-GOVERNMENT BUSINESS SERVICES, TRAINING AND DEVELOPMENT

Solomon Islands has a thriving non-government business services sector, involving a number of associations catering to the private sector in Honiara and the provincial capitals. The following institutions provide business services to SMEs: the Small and Medium Enterprise Council (SMEC), the Business Council of Solomon Islands (BCOSI), the Association of Solomon Islands Manufacturers (ASIM) and Solomon Islands Chamber of Commerce. There are also co-operatives, producer associations and training institutions that perform related functions, including the Cocoa Exporters and Producers Association (CEPA) and Solomon Islands Women in Business Association (SIWIBA).

Some of the business services that these institutions provide, with varying degrees of success, include: assistance in starting up a new business, marketing, accounting and financial management, facilitating access to bank loans and guarantee programs, identifying strategic partners, establishing advisory boards and mentoring programs, assisting with regulatory compliance, for example standards, and preparing business digests on changes in Government policy.

Small and Medium-sized Enterprise Council

SMEC's main objective is to integrate SMEs into the formal economy as follows:

1. *Financial services* SMEC assists SMEs access financing. It has a SME Trust Fund (SBD100,000) to help SMEs prepare documentation for loan applications, including assisting members who are illiterate. There is a spotter agreement with ANZ Bank to provide guaranteed loans and an arrangement with an independent accounting firm to screen the applications.
2. *Training and attachments* SMEC arranges its own training and uses the Pacific Island Forum for attachments. The problem with training is that there are too many providers and no single standard curriculum and therefore it is difficult to monitor quality. The Ministry of Commerce needs to develop a national standardised curriculum to be used by the whole country.
3. *Guidance and marketing information* SMEC has a website that provides marketing information to its members. Examples of advertised products include fish, furniture, chicken, motels, construction and aluminium can recycling. SMEC also assists members obtain exemptions for imported

equipment, such as saw milling machines.

4 *Consulting and mentoring* SMEC provides consulting and mentoring services to its clients. It also has a provincial office in Auki to conduct outreach services to its clients.

Business Council of Solomon Islands

BCOSI is a business association representing manufacturers based in Honiara. Members have 10 to 200 employees. The priorities are obtaining permanent office space, establishing a national standard setting and certification body to test and certify products for export and land reform.

Association of Solomon Islands Manufacturers

One of ASIM's objectives is to support Government in articulating a strategy for the manufacture of products for the domestic and export markets. ASIM encourages its members to supply locally made products to satisfy the domestic market. For example, there is an un-met demand in the local market for furniture as many households and schools do not have quality basic furniture. Priorities include establishing standards and testing facilities to ensure local manufactures meet international standards, exporting, apprenticeship training, increasing access to skilled labour and subcontracting. ASIM encourages its members to subcontract rural-based suppliers of timber and other commodities to supply raw materials to manufacturers based in Honiara and other urban centres.

Solomon Islands Chamber of Commerce

The chamber represents the largest businesses in the country. Its interests are wide-ranging, including national development planning, taxes, work permits and other labour issues, training, land reform, telecommunications, energy policy, utilities and transport infrastructure. One of its key roles is advising Government on economic policy.

Co-operatives

The co-operative movement was established by the British colonial government in the 1950s and currently 384 registered co-operatives engage in activities such as retailing, cultivation of copra and cocoa, fishing, logging and saw milling. The objective of most co-operatives is to improve the livelihoods and the standard of living of their members. Co-operatives generally have three components: a credit union, a farmers association (registered as a charity under the Trust Act) and a marketing operation. Each component of the co-operative has its own board of directors and functions according to its own act and by-laws. The credit union provides credit to the producers or farmer's associations to use as working capital. The farmers association uses the marketing operation, such as retail shop, to sell its products to the general public and the proceeds are shared among the members of the co-operative.

There is an annual membership fee for the farmers or producers association and membership in the credit union is by purchase of shares which pay dividends to the members. The services offered by the credit union to its members include loans, savings accounts, production of financial accounts, training and education (financial management, financial literacy and practical training). Practical training, for example, involves the use of demonstration farms to impart farming techniques to the members.

The co-operative movement, however, has increasingly begun to fail. 85% of co-ops are defunct and slated for liquidation, partly as a result of international competitive pressures, mismanagement and a lack of support. A common problem is the absence of accountability systems and the lack of enforcement of the rules contained in by-laws. Another reason is partly cultural, in the form of the wantok system. Co-ops are particularly vulnerable to wantokism because they are communal in nature and recruitment is not competitive. A shortage of qualified staff and the lack of adequate support from the central and provincial governments contribute to mismanagement. While the system may currently be encountering difficulties, the role of the co-operatives in mobilising the rural population to focus on commercial farming and diversification has thus far been valuable. The communalist nature of Melanesian society and the gradual and indigenous development of co-ops make them a method of production particularly suited to the rural areas.

In light of the above, the mandate of the co-operatives division in the Ministry of Commerce should refocus on liquidating the failing co-ops, and concentrating on assisting any functional co-operatives or producer associations to address supply constraints and improve efficiency. The operational co-ops broadly need reorganisation, capacity-building and working capital. Currently, the co-operative division is handicapped by understaffing and a lack of capacity There is a shortage of co-operative officers stationed in the provincial centres and presently there is only one officer to perform all of these functions. The Government has promised six officers (Gizo, Buala, Auki, Honiara—2—and Kirikiri). There were mass redundancies in 1995 resulting in the reduction of staff members from 42 to three, two of whom are now retired. As a result, the support given to the co-operatives is very limited. Technical assistance may be sought to engage a specialist on co-operative and producer association development to review the existing Co-operative Society Act (1969) and recommend a strategy that promotes export-oriented producer associations and downstream processing that involves smallholders, input and farm implement suppliers, banks and exporters.[16]

Cocoa Exporters and Producers Association

CEPA, registered under the Charitable Trust Act as a non-profit, is composed of 16 licensed cocoa exporters and 16 licensed producers. It brings together and consults with producers, middlemen, shippers, licensed exporters and Government regulators (quarantine, CEMA, the ports authority and customs).

CEPA's priorities are to set up an office that can dialogue with the Government to articulate a clear policy on cocoa; build the capacity of small farmers by supplying seedlings and new trees; establish a micro-loan scheme for the smallholders to access working capital for purchasing supplies;[17] conduct pre-harvest activities; set up nurseries and extend acreage under cultivation; standardise storage facilities; introduce a pre-shipment credit facility for local exporters. Currently, most of the registered exporters of cocoa and copra receive their pre-shipment financing under a private arrangement with Holland Commodities International of Australia, commodity contracts brokers and dealers. The current arrangement suits most of the exporters because they do not have to finance the costs of purchasing, transporting, storing, grading, certifying and shipping the commodities overseas at their own expense. For example, in the case of cocoa the cost borne by the broker is about USD450/t or SBD3,420. Commercial bank loans presently attract an annual interest rate of at least 17%, which is prohibitive for most exporters. The main disadvantage of relying on brokers who advance funds is that the exporters are limited in

[16] See similar work done by ACDI/VOCA in other countries to create well-functioning producer associations: www.acdivoca.org/852571DC00681414/ID/ourwork_co-ops. ACDI/VOCA has developed diagnostic tools and instruments such as memoranda of understanding, protocols, contracts and franchise agreements to ensure accountability to stakeholders and the cohesion of associations. It also uses sustainable financing, including levies, to keep the associations solvent.

[17] SBD4,000 could buy supplies such as wet beans, cocoa secateurs, hoes, axes, slashers, knives, wheel barrows and drying units.

the quantity of cocoa or copra they can buy from the farmers. Furthermore, these exporters incur a 20% to 30% loss in income when they work with a broker compared with what they could earn if they sold the goods directly on the open market. As a result, the exporters operate on very thin profit margins of between 5% and 10%, with the bulk of the profit accruing to the growers and the brokers. The local exporters perform a useful function because the smallholders do not have the capacity to market and export their products on their own.

Training and human resource development

The majority of people are subsistence farmers. The generally low skill level of the labour force[18] means that there is an acute shortage of nationals with qualifications for managerial and technical jobs. The result has been that vacancies in the private sector requiring professionals such as accountants and engineers, professions commanding higher wages, are generally filled by expatriates.

Since independence, the education system of Solomon Islands has been marked by capacity weaknesses and a limited range of training opportunities. These weaknesses were further compounded by the near breakdown of public services caused by the Tensions. Donor support to the Government has helped to pay teachers and improve and maintain facilities. Currently, Solomon Islands has a network of 31 rural training centres and vocational training institutions owned and operated by both the church and Government education authorities, including Solomon Islands College of Higher Education (SICHE). According to Director of the Informal Sector of MEHRD, most of these institutions lack quality instructors, are under-resourced and regularly experience management problems. About 14,000 people benefit from technical and vocational education annually. According to the Labour Commission, the current strengths of vocational training are in the electrical, carpentry, mechanics and plumbing trades.

However, there is still a shortage of skilled workers in areas such as tourism, information and communications technology (ICT), accounting, human resource management and personal services (hairdressers, beauticians and housekeepers). Other skill gaps include agriculture (agribusiness, horticulture, floriculture), fisheries, aquaculture and maritime services, forestry and timber processing, mining, transportation (operators and maintenance workers in aviation and marine services) and construction (infrastructure maintenance and construction).[19] Constraints on training and human development, with a few exceptions, include the generally low quality of the curriculum and teaching offered,[20] inadequate funding and poor planning and coordination between the Government and industry, a function that is no longer being performed by the Labour Advisory Board. The result is that these training institutions fail to produce in sufficient numbers the technicians and professionals needed to provide the research and extension services in the agricultural sector[21] or ICT expertise required in the telecommunications industry. Instead, advanced training has to be sourced from overseas.[22]

The priorities of training and human resource development should include:

- Developing technical skills and entrepreneurship to fill vacancies in local industries in support of agricultural processing and diversification;
- Reviewing the national policy on education and strengthening the capacities and programs of the domestic training institutions;
- Obtaining certification and providing accredited training programs;
- Reviving the Labour Advisory Board to identify and address skill gaps;
- Conducting labour market surveys on a regular basis.

[18] Sources: CBSI; Unusi and Biliki (2006).

[19] Carmen Voiigt-Graf (2006).

[20] The National Trade Testing and Certification Unit certifies the curricula of the apprenticeship schools and vocational training institutions of the country. However, the level of skills and the competencies of the staff are outdated and need to be upgraded. Also see Siddiqui (1992) for an overview of the structure of vocational training.

[21] Source: Solomon Islands Agriculture and Rural Development Strategy, (2007) 35.

[22] The National Training Council manages the allocation of overseas Government scholarships for degree level courses. There are 50 scholarships granted every year, of which 15 go to the private sector and 35 to Government. This year, the private sector submitted the applications of 150 applicants for 15 scholarships.

Furthermore, training and development of the members of producer associations could be outsourced to qualified service providers such as SMEC and SICHE to provide technical advice, training and research.

3.7 CONCLUSIONS

Considering the turmoil caused by the Tensions, and the relatively high cost of doing business in some areas, the Solomon Islands business environment does provide some opportunities in which to do business. On some indicators—such as ease of paying taxes and trading across borders—the country scores well, and it is certainly true that the private sector has grown rapidly in recent years. This evidence is borne out in the experience of some business people, who suggest that infrastructure, accessing credit and land represent some of the most pressing challenges to expansion, rather than costs *per se*. The previous chapter made some recommendations as to how to attempt to improve access to credit and land, as well as some other cross-cutting recommendations.

The business environment is heavily influenced by donor and Government spending, and private sector activity dominated by the logging industry. There is potential for an increase in activities related to agriculture, fisheries and possibly mining, as well as for the provision of basic services. To a certain extent business service enterprises are likely to grow as a result of political and social stability, and the opportunity for Government incentives in this area is minimal. Chapters one, two and five, as well as the sectoral chapters, all make the point that Government must be permitted to develop strategic policy toward the productive sectors using strategic policy. The business environment is already reasonably liberal, and future reforms must take into account the need to develop productive capacity.

FDI is low and concentrated in a few select areas. Reform of the Foreign Investment Act has resulted in improvements to the investment environment, although domestic investors have not received similar advances in treatment. Increased FDI has the potential to bring with it much-needed capital, enhanced working practices and management, and new technologies. To this end additions to the reserved list of investments are not recommended. Yet attracting FDI is not simply a matter of further liberalisation; after a certain point foreign investors may place greater value on political stability, continued economic growth and the resulting opportunities for profit.

Finally, training stands out as an area in which further improvements can be made. Rather than follow a strictly donor-led model, it is suggested that existing non-government business organisations be used. A number of active organisations may be funded with a view to providing mentoring and targeted training in areas demanded by members.

CHAPTER FOUR

Trade facilitation

4.1 INTRODUCTION

Broadly speaking, trade facilitation can potentially cover any activity that makes it easier or less costly to send goods from the farm or factory outlet to the final destination market. Increasingly, trade facilitation issues also include things that make production possible in the first place, such as maintaining a disease– and pest-free environment to enable agricultural production. Trade facilitation initiatives can consist of a number of measures across otherwise unrelated sectors of the economy, including:

- The simplification of customs border procedures and duty drawback systems;
- More efficient sanitary and phytosanitary regimes;
- The development of agricultural product standards;
- More reliable and frequent shipping services;
- Improved trade support services such as customs agents and stevedoring;
- Adequate storage and wharf infrastructure;
- Better internal transport networks;
- Stronger certification of technical standards;
- Improved coordination of Government agencies to deliver services more efficiently to exporters and importers.

Each of these elements plays a crucial part in making trade possible. If one link in the chain is weak, it has the potential to severely disrupt the whole supply chain, and with it overall production. By contrast, strong trade facilitation policies and more efficient levels of service have the potential to reduce delays and bring down costs for importers and exporters, with benefits across the whole economy, and sometimes entirely new market opportunities.

Fostering a favourable environment for trade is also especially important in the context of an increasingly global economy in which countries—even small island states—are competing against each other for inward investment and business. Over the next few years competitive pressures between developing countries are likely to grow as a result of increased liberalisation and falling tariff preferences. As more traditional influences on trade such as tariffs and tariff preferences decline, other factors—customs systems, quarantine (SPS) measures, quality standards, and domestic infrastructure—will grow in relative importance both for overseas buyers and for potential investors. Donors are also paying more attention to developing countries' trade facilitation needs, both in the context of multilateral aid-for-trade discussions and in bilateral trade negotiations.

4.2 TRADE FACILITATION ENVIRONMENT

Besides the dominant logging sector and fisheries, the economy has traditionally relied on the export of just a few established unprocessed commodities: copra, cocoa, and most recently palm oil. By their nature these sectors have tended to be dominated by production on large plantation holdings distributed across the archipelago, with the larger investments also helping to sustain production by smallholders. The spread of the archipelago across a vast area of ocean makes internal transport important and raises issues over the ability to access shipping and other essential services—for example bridging finance or capital to invest, or advice on export market standards—in order to carry out the business of trade.

Both the recent economic climate and the trading environment create implications for efforts to strengthen trade facilitation:

1. **The focus on capacity-building**, which naturally features prominently in technical areas associated with trade facilitation such as customs and quarantine, will likely be all the more important in Solomon Islands, where physical, human and administrative capacity is being rebuilt after the Tensions destroyed much of it. Having successfully managed to re-stabilise the security situation and economy to some extent, donors and the Government will now need to focus on a longer-term approach to building capacity in infrastructure and within departments.
2. **The urgent need to diversify away from the dominant logging sector** over the next few years will create challenges for the economy as a whole, including some specific ones for technical agencies involved in trade facilitation. The need for greater emphasis on fisheries, tourism and especially agriculture will, for example, require that new quarantine measures be introduced or strengthened to make these sectors viable.
3. **Links between the islands will continue to be of great importance**, especially for smallholders, creating implications for transport and infrastructure. In some cases, another important long-term objective should be to open up linkages between certain provincial centres and international destinations, to enable a greater range of goods to flow more quickly and cheaply to the outer islands, and increase the possibilities for trade to flourish in rural areas. Over time this will require investment in new facilities but also greater decentralisation of services such as customs and quarantine.

As shown in chapter three, according to the World Bank's *Doing Business* indicators Solomon Islands performs well on 'Trading Across Borders', especially when compared to other areas, such as enforcement of contracts or ease of starting a business, and to other Pacific Island Countries. However, broadly speaking, trade facilitation in Solomon Islands is relatively undeveloped as a distinct activity of Government. Other areas, in comparison, in particular international trade negotiations, have witnessed something of a boom of late. While the responsibility to facilitate trade is recognised in the technical agencies such as customs and quarantine, specific activities to improve the flow of trade or ensure new market access opportunities have recently been secondary to other concerns. In the case of customs the emphasis has been on border security, in quarantine the priority has simply been rebuilding the department so that they can operate effectively.

In coming years the Government may wish to devote more resources to trade facilitation. Firstly and as mentioned above, the economy needs to diversify away from logging into new areas if is it is to sustain current levels of growth, and agencies such as quarantine play a crucial—though generally under-appreciated—role in this transition. The second reason is that many of the donors themselves have now acknowledged the central role that trade plays in poverty alleviation in developing countries, and have made commitments to provide funding to build their capacity to trade. Many donors are currently in the process of determining how they can fulfil aid-for-trade commitments that they have made in WTO negotiations and elsewhere. Much of this aid-for-trade assistance is intended for trade facilitation activities.

TABLE 4.1 **SWOT Analysis of potential for trade facilitation**

Strengths	**Weaknesses**
• Clarity of roles with no apparent inter-agency conflicts; • Culture of minimal interference from Government in key areas (e.g. ports) or technical border functions; • Strong performance in some areas, indicated by World Bank rankings; • Growing economy.	• Export base dependent on logging; • Lack of prioritisation and vision for trade facilitation; • Weak capacity in most areas (in terms of infrastructure, financial and human resources, administration); • Outdated legislation in some key areas; • Change tends to be slow and reactive.
Opportunities	**Threats**
• Integrated Framework (IF) and aid-for-trade funds to prioritise new activities; • Revitalised National Trade Facilitation Committee, dedicated program; • Potential for regional co-operation and support in a number of areas; • Current trade negotiations.	• Deteriorating export base; • Lack of political will to prioritise trade facilitation problems; • Diversion of resources to other areas; • Failure to reform entrenches poor practices.

One of the strengths of trade facilitation in Solomon Islands is that there appears to be very little by way of the inter-agency conflicts or policy controversies seen in some developing countries. Although numerous agencies are involved in the complicated process of exports and imports, each is generally aware of its role and responsibilities, particularly in the potentially complicated area of sanitary and phytosanitary (SPS) standards and quarantine. There also appears to be little political interference in key functions. For example, the Solomon Islands Ports Authority (SIPA) operates independently as a state owned enterprise—the Government therefore tends to oppose, rather than support, increases in port charges. Inter-island shipping is now carried out mostly by the private sector (although with the coming prospect of some limited and appropriate Government intervention for uneconomical routes). In general there is little threat—as in some countries—that Government will intervene to try to transfer responsibilities to other bodies, or refocus policies or legislation for political or other gain. Such stability gives Solomon Islands a solid foundation for building successful trade facilitation initiatives.

In general terms, the main weaknesses continue to relate to gaps in capacity. While most of the organisations involved in trade facilitation have clear ideas about what needs to be done in their specific areas, many departments lack infrastructure and equipment (much infrastructure was destroyed during the Tensions), staff, investment in new systems, and training. In most of the technical areas an initial problem is that legislation is outdated and needs to be reviewed and amended before new reforms can be put into effect—although some agencies have made more progress than others here. In some cases amendments to legislation are needed to bring Solomon Islands into line with trade agreements that it signed up to long ago (most notably in the area of customs valuation).

Administration also needs to be highlighted. Apart from being the agencies responsible for facilitating trade, large departments such as customs and quarantine are also fairly big employers, and as such need to ensure that staff at all levels are monitored effectively and also given adequate opportunities to develop over time. Management training for senior officers is important along with solid vision for the organisation concerned; realistic targets and goals (e.g. time taken to clear containers) can also help focus and improve the performance of departments and make them more accountable. There is need for attention in the fields of human resources, general recruitment and advancement, salary levels and rewards, and long-term skills and human development planning to ensure continual staff improvement. Organisations that fail to pay attention to these basics may find that their staff become unmotivated and bad habits set in—flexibility to adapt is then lost and essential reforms become difficult. All of this is important, because the business of trade facilitation and border operations in today's world requires administrations to be able to adapt rapidly to changing situations and emerging concerns.

Finally, another important general weakness is that, notwithstanding the fact that some of the key elements in the trade facilitation chain appear to be performing reasonably well, there still appears to be a lack of any co-ordinated vision for improving trade facilitation. The lack of coordination probably stems from a lack of awareness about the role that departments collectively play in facilitating trade, and how they can work together to improve their separate operations. On the one hand, the fact that there are apparently few inter-agency conflicts means that this is less important than in other countries. On the other hand, communication in some areas is not happening or messages are not getting across (e.g. on tariff reforms or communication of the benefits and opportunities available under trade agreements). Some form of coordination will also be necessary in order to prioritise the aforementioned expected aid-for-trade resources over the coming years. Coordination is discussed in the next section.

4.2.1 Roles and responsibilities in trade facilitation

In the quarantine and SPS area, responsibilities are split amongst Solomon Islands Agricultural Quarantine Service (SIAQS, responsible for border inspection, plant health and final export certification), the Environmental Health Division (EHD) within the Ministry of Health and Medical Services (responsible for domestic food safety) and the Department of Livestock with the Ministry of Agriculture (responsible for animal health). Standards are left to the private sector with support from EHD (for fisheries products) and the Commodity Export Marketing Authority (for traditional export commodities). Customs is mandated to perform its expected functions, and Solomon Islands is also fairly advanced amongst Pacific Island Countries in having a consumer affairs unit within the MCILI responsible for metrology, weights and measures.

While roles are fairly well defined, coordination amongst the different departments has until now been very limited. A National Trade Facilitation Committee (NTFC) met intermittently from 2003 to 2005. After an initiative led by the Pacific Islands Forum Secretariat, many Pacific Island Countries established such NTFCs at that time, with generally mixed results as countries were unclear about who should be involved, what their role should be and how they might make a contribution to the development of trade and the national trade policy framework. In many countries, NTFCs have been used mainly to discuss and disseminate information about the various international negotiations that have dominated trade officials' time in recent years, rather than acting as a counterweight to that trend to make progress on equally pressing domestic matters.

Recently, the Integrated Framework National Steering Committee (IF-NSC) has managed to bring together relevant officers from many of the key trade facilitation ministries. While the aims of the IF-NSC are currently limited to overseeing the IF project, there are obvious overlaps with the kind of co-ordinating body that would be necessary to drive forward a policy on trade facilitation. While the IF project will eventually run its course, the need for a National Trade Facilitation Committee is ongoing. Therefore it is recommended that the IF-NSC serve as the basis for a new national trade committee with responsibility for trade facilitation.

4.2.2 National and regional approaches

In addition to national-level efforts, regional organisations led by the Pacific Islands Forum Secretariat (PIFS) are also implementing the Regional Trade Facilitation Program (RTFP).

TABLE 4.2 **Summary of the Regional Trade Facilitation Program**

Source: PIFS

Customs	Quarantine	Product Standards and Conformance
Funding for: • Strengthening the Oceania Customs Organisation • A rules of origin committee for PICTA **Assistance in:** • Adopting the HS • Adopting WTO customs valuation agreement • Updating laws and regulations • Adopting revised Kyoto convention • Risk Management • Customs Integrity	**Funding for:** • Technical advisory unit for import-export biosecurity • Dedicated Pacific quarantine officers in Australia and NZ **Assistance in:** • Improving capacity to conduct Import Risk Assessments • Developing market access proposals for exports	**Funding for:** • Studies on: legislative and regulatory frameworks; metrology; regional and national standards bodies; accreditation bodies; testing and inspection centres and systems **Assistance in:** • Integrated Food Standards Project to update legislation, provide training

Funded by Australia and New Zealand under the Pacific Agreement on Closer Economic Relations (PACER), the RTFP is a relatively modest USD2.7M, five-year program designed to complement existing regional integration efforts, and recognises the need to provide assistance to Pacific countries in order to help them successfully integrate into the world economy. In addition to PIFS, the program also draws upon the resources of two technically focused organisations: the Oceania Customs Organisation (OCO) and the Secretariat of the Pacific Community (SPC).

The RTFP has three main components (summarised in the table above):

1. Support for strengthening Customs regionally and nationally;
2. Support for a regional Quarantine centre and training;
3. Support for developing import and export product standards.

The program began in 2005, after some delay. Implementation was also slow at first, but appears now to be picking up.

Thus far Solomon Islands has received some limited benefit from the program—mostly training in the quarantine area—although it could potentially benefit more. In many respects the goals of the RTFP have been designed to achieve uniform minimum standards across the Pacific—for example in the adoption of the Harmonised System of goods classification, application of the WTO Customs Valuation Agreement, standards in customs integrity, updated biosecurity or food safety laws. In a majority of these areas, Solomon Islands is behind some of its Pacific neighbours—especially when considered in comparison with some of the 'bigger' Pacific Island Countries with higher levels of trade. It is in therefore in the interests of both the success of the program and Solomon Islands that it takes full advantage of the opportunities available, which can be achieved through seeking support under the program at annual regional Trade Ministers' Meetings and in correspondence with those who administer the programs. Those countries that are proactive in seeking such support, through a national trade facilitation committee, are more likely to get funding and assistance under the program.

Beyond the RTFP a number of other opportunities exist for pooling of resources at the regional or subregional level. Bilateral co-operation agreements with other neighbouring developing countries could be of great benefit for Solomon Islands in some areas where its knowledge base is currently undeveloped, such as standards and conformance.

The Melanesian Spearhead Group (MSG), with similar cultural and economic characteristics, is a natural arena for co-operation, and has been recently strengthened with the addition of a new secretariat. As yet, the MSG has no mandate or funding to work on trade facilitation issues, but with political will and the support of donors, could potentially be a vehicle for a new range of common commitments, technical co-operation agreements, staff exchanges and even the integration of some administrative functions or policy-setting bodies in customs, quarantine and standards. Inevitably this may involve relinquishing a degree of sovereignty in some areas; a gradual approach focused on technical co-operation (but with clear end goals) would likely prove non-controversial and achievable.

Some potential areas for greater regional integration are considered below. In terms however of general approaches that could be adopted by the Pacific Island Countries or MSG countries, a paper by Nathan Associates (2003) on regional approaches to integrating small economies into the global economy summarises the issues well, in recommending that future approaches:

- Begin with a core of the most committed countries;
- Focus on concrete results, not commitments;
- Address technical issues technically (i.e. apolitically);
- Minimise regional bureaucracy;
- Connect with large, developed countries.

4.3 CUSTOMS

4.3.1 Context of Customs and trade facilitation

Customs plays a pivotal role in regulating trade, laying out requirements and procedures for imports and exports which have the potential to substantially increase the time it takes to trade (IFC 2006). Significant opportunities exist to draw upon best practice from around the world, encourage transfer of technology and knowledge through training, and attain standards and benchmarks through implementation of obligations under international agreements such as the Revised Kyoto Convention of the World Customs Organisation (WCO). It is worth noting that Solomon Islands is one of the few countries that is not a member of the WCO.

Prior to 1998, Solomon Islands was in the process of initiating a customs modernisation program with the support of donors, similar to those that were being carried out at the time in other Pacific Island Countries. This involved reorienting customs to encourage greater emphasis on trade facilitation, including customs automation based on the UNCTAD-developed ASYCUDA system that was introduced in a cost-sharing regional project. However the modernisation program was disrupted by the Tensions of 1999 to 2002.

Following the end of the Tensions and the start of the Regional Assistance Mission to Solomon Islands (RAMSI), support for the Department of Customs and Excise resumed and a limited amount of technical support has been in place since 2004. The emphasis has understandably been on stabilising the business and security environment in the first instance, rather than new modernisation initiatives. Although a modernisation program now exists, it appears at this stage to lack the required strategic vision—the program seems at present to be a collection of piecemeal initiatives with more thought needed as to sequencing and costing.

The most significant piece of reform has been the amendment of the tariff schedule, which was prepared in 2006 and carried out in early 2007.

4.3.2 Overview of Customs

Solomon Islands Customs and Excise Division (SICED) sits within the Ministry of Finance and Treasury. The stated objective of the division, as outlined in the most recent corporate plan, is 'to provide effective management of Solomon Islands borders for the purpose of:

1. Collecting the right amount of revenue for the Government;
2. Facilitating trade and travel;
3. Protecting the community of Solomon Islands from prohibited goods and illegal movements across the borders.

The corporate plan for 2008-2011 is indicative of some of the problems faced by SICED. The plan lays out objectives in each of five key areas: revenue collection, compliance and community protection, trade facilitation, human resource development, and customs reform. In a number of areas the objectives are however fairly vague—perhaps the most important two come under the 'reform' heading:

a. To have a comprehensive diagnosis of SICED's current needs for reform and modernization;
b. To establish long-term and short-term reform and modernization program which is adequately resourced with clearly defined roles and responsibilities, focused on simplifying and harmonizing systems and procedures, well supported by all stakeholders and staff, effectively co-ordinated and managed at the local level.

Source: SICED 2008-11 Corporate Plan.

Currently progress in customs reform in Solomon Islands is *ad hoc* rather than driven by a clear plan and set of objectives. By contrast, other FICs that have had success in implementing customs reforms have paid close attention to sequencing issues and ultimate goals. There are clear questions of both sequencing and long-term commitment involved in customs reform: for example, the introduction of WTO valuation techniques might be easier after the introduction of the HS2007 classification system, since some valuation methods require the use of international data. The introduction of HS2007 classification might in turn be easier if done at approximately the same time as the move to an improved automated system. Schedules or a consolidated program for enacting different pieces of legislation and conducting officer training would assist in budgeting and where to focus resources. Private sector stakeholders can also benefit from prior knowledge of what kind of changes are forthcoming, so that they can plan ahead.

SICED has roughly 65 staff, making it one of the larger line divisions in the Government. Given that the role of a modern customs officer is becoming increasingly skilled, one of the central duties of any customs agency is arguably to continually promote staff development. Success in this area can make reforms themselves easier to introduce, while a lack of attention to staff development is likely to lead to untrained and unmotivated staff, and stifle any attempts at innovation.

A Human Resource Development plan exists for SICED, although it is unclear whether it is being put into practice. There is a lack of knowledge beyond key positions, which creates problems when such staff are on leave or sick. Private operators also complain of an apparent unwillingness of officers to take responsibility for the work of other officers who are temporarily absent, leading to delays in clearance.

4.3.2 Legislative reform and transparency

The key piece of legislation executed by SICED is the Customs and Excise Act. The Act is outdated in a number of areas. Neither personal allowances nor penalties have been adjusted to take account of price inflation and no longer reflect realistic levels, resulting in a significant delays at entry points. More significantly, the provisions on valuation need to be amended if Solomon Islands is to fulfil its obligation to observe the WTO Valuation Agreement (see Box 4.1 below).

In general there are few restrictions on the importation of goods contained in the Act, apart from commonly restricted goods such as arms and ammunition, indecent material, and so on. The main restriction on imports relates to quarantine: any import of food must be accompanied with an import certificate from the Solomon Islands Agriculture and Quarantine Service (SIAQS). This is administered at the border by SIAQS inspectors and is therefore covered is the section on SPS below. Notwithstanding the quarantine requirements, the only other noteworthy restriction contained in the Customs Act is a ban on the importation of honey—probably for the protection of local industry.

Within the Customs Act the Minister of Finance may restrict the importation of any good, without the need to provide justification. In recent years, some countries in the Pacific have encountered problems when Ministers have used such provisions (which tend to date from previous eras) to impose import bans on competitor products in a manner that violates trade agreements such as the MSG, resulting in potential 'trade wars'. Solomon Islands may wish to bring domestic legislation into line with its international trade agreements.

Service charges are published in regulations under the Customs Act, and

BOX 4.1 **WTO Customs Valuation Agreement**

Applying the WTO Customs Valuation Agreement (as laid out in the GATT) would benefit both the Department of Customs and Excise and the private sector trading community. As a member of the WTO since 1996, Solomon Islands is obliged to do this already for imports.

The current method of valuation contained in the Customs Act is to take the 'domestic price' (i.e. the pre-tax price that the good fetches in its home market) and add all charges related to cost of insurance and freight. There is no apparent right of appeal to the valuation by customs officers.

There are numerous problems with this approach (for example it is likely to be difficult to get precise information on what the domestic price would be for exactly the same good, and it assumes that the same profit mark-up would be applied in different markets). In practice, the value as listed on the bill of lading is generally taken as the value of the goods for the purposes of calculating duty, making it potentially easy to cheat.

The WTO Customs Valuation Agreement stipulates that, except in specified circumstances, customs valuation be based on the actual price of the goods to be valued, which is generally shown on the invoice. This price, plus adjustments for certain elements listed in Article 8 of the Agreement, equals the transaction value, which constitutes the first and most important method of valuation referred to in the Agreement. For cases in which there is no transaction value, or where the transaction value is not acceptable as the customs value because the price has been distorted as a result of certain conditions, the Agreement lays down five other methods of customs valuation, to be applied in the prescribed hierarchical order. The WTO Customs Valuation Agreement does not contain obligations concerning valuation for purposes of determining export duties.

The WTO Customs Valuation Agreement aims for a fair, uniform and neutral system for the valuation of goods for customs purposes—a system that conforms to commercial realities, and which outlaws the use of arbitrary or fictitious customs values. The main cost is the sunk cost of renewing the legislation and training officers to apply the new techniques, and the administrative cost from time to time of having to collect information to ascertain the value of the goods by certain of the methods.

When creating legislation to apply the agreement, Solomon Islands should also ensure that similar if not identical methods are in place for the valuation of exports, particularly in light of the potential for fraud in the payment of export duties. Other Pacific Island Countries have recently witnessed cases where Government has challenged the value of exported shipments, in suspicion of companies using transfer pricing to avoid payment of income taxes.

reflect the actual transaction cost involved. Licenses are needed for the export of timber and scrap metal. Solomon Islands does not have any anti-dumping legislation.

Solomon Islands is currently using a 'localised' version of the outdated 2002 edition of the World Customs Organisation's Harmonised System (HS) of product classification. In theory there should only be limited need for localisation of codes, and all of the basic code groups up to a certain level (i.e. six-digit codes) are designed to be universally applicable—indeed, that is the point of the HS. It is only because of administrative weakness that Solomon Islands has been unable to apply the codes, leading to potential misunderstandings for both importers and exporters. One consequence of this has been that trade data has been difficult to interpret, with knock-on effects for presenting schedules of protected industries within trade agreements. SICED report that they have legislation drafted that would facilitate the application of the latest 2007 version of the HS, but have thus far been unable to send this to parliament for fear that they would be unable to implement the new system given the current problems with the PC Trade automated system.

4.3.3 Customs automation

Customs automation is a crucial part of trade facilitation, particularly for imports and the industries that rely on them. Other elements of customs reform—such as customs valuation and classification—are made much easier when a good automation system in place, and far more difficult when there is no system or where technical difficulties are hampering the effective operation of automation. In other Pacific Island Countries, projects to install customs automation systems have acted as the foundation for putting in place most of the other elements of the modernisation programs.

Solomon Islands have recently introduced the PC Trade system. Solomon Islands was originally included in the regional project to introduce the Automated System for Customs Data (or ASYCUDA), but this plan was delayed and eventually shelved during the Tensions. PC Trade is a package intended to capture trade statistics designed by New Zealand Department of Statistics. Although it is not designed as a full customs automation system, some of its features can nonetheless be adapted for use in customs operations, particularly in small economies.

While ASYCUDA is a fully integrated Customs automated system deployed as part of a comprehensive technical assistance project, and PCTrade as a data-capture and validation system, they are different systems with different objectives. PCTrade's perceived advantage over ASYCUDA for small customs administrations is low installation cost. A 2006 study on Customs Automation for the Pacific Islands Forum Secretariat found that the estimated costs for installing PC Trade was approximately USD135,000 per country, while the reform, modernisation and automation of Customs with ASYCUDA was around USD1M. However, considering that the ASYCUDA software is only one element of a general customs reform program in each of its countries, the costs in the end are fairly similar.

After significant delays to the project, New Zealand pulled out of financing the implementation of PC Trade in Solomon Islands and Australia stepped in with funding, providing a technical advisor in the later stages of implementation (although she left in June).

Upon the introduction of PC Trade in April 2008, the main change has been to introduce a spreadsheet template for declarations, to replace the previous manual written form. There are two administrative advantages of this. Firstly the spreadsheet requires that declarations have the correct information before being submitted (reducing the number of returned forms) and secondly it no longer requires customs officers to type and log declarations themselves.

While acknowledging that it is a good choice for small countries with low levels of trade and uncomplicated customs procedure, the PIFS study pointed out a number of general shortcomings of the system. Unlike the ASYCUDA system, PC Trade lacks connectivity—there is no opportunity for direct trader input into an online system and shipment tracking. While in theory it should be possible to email declarations to customs officials in Solomon Islands, due to mistrust or communication problems most importers currently still prefer to deliver forms in person via a USB device. So far the system has only been installed at SICED head office—the offices at Honiara Port or Honiara International Airport have yet to be connected. The system has not been installed at the other declared port in Noro, and there are no set plans for this to happen. One other drawback of PC Trade it has no ability to deal with two particularly important areas: bonded warehouses and transhipment. Potentially this may lead the authorities to revert to paper records, which would defeat the purpose of automation.

As far as implementation of the system is concerned, there have been significant teething problems since April. Importers report a rise in the clearance time for containers from one or two days, to four or five days. The new system was supposed to be accompanied by the introduction of a 'Red-Yellow-Green' channel system for customs clearance, but lack of training and understanding by customs officers seems to have slowed things down. Another reason appears to be a lack of technical training for those charged with running the system. Technical back-up for PC Trade is supposed to be available from Statistics New Zealand by phone on a 24-hour basis, although there may be some delays taking place in communications between Solomon Islands officers and New Zealand on this front. It may be that inexperienced officers in the PC trade unit are not able to diagnose the technical problems correctly. Despite the current problems, PC Trade can be an important step forward in the area of customs automation for Solomon Islands if it can be implemented properly using all of its possible capabilities, including developing the system for use in customs automation.

Finally, it is unlikely that the PC Trade system will be upgraded in coming years, given the fading support for it that has already been witnessed. Future iterations of customs automation systems should be able to make use of the internet for shipment tracking, appropriate instant data sharing between different stakeholders across the whole trading community (e.g. including customs officers, agents, shippers, final clients, quarantine officers, etc) and electronic payment of duties owed. Although it has committed to using PC Trade over the medium term, Solomon Islands should consider joining a future regional project to upgrade to ASYCUDA and bring it in line with other MSG countries so that work on regional customs integration can begin in earnest. This should be at an appropriate cost with potential sources of donor funding identified, yet taking into account the longer term potential benefits in terms of regional pooling and support. SICED would then benefit from the existing ASYCUDA expertise already available in the region through the ASYCUDA Support Mechanism for the Pacific (ASMP) which is managed and operated by staff from the other MSG member administrations.

4.3.4 Import procedures

Procedures for import clearance are fairly straightforward at the main port. Ship or aircraft cargo manifests are required three days in advance of the date of arrival from shipping agents. Upon being unloaded, cargo is dealt with on a first-come first-served basis for clearance. Customs officers have a range of appropriate powers to conduct inspections.

As noted above, the introduction of PC Trade was also supposed to facilitate a 'Green-Yellow-Red' channel system, but a lack of preparation is at the moment delaying clearance by about three days beyond the normal one to two days. There are apparently no targets for clearance turnaround of shipments.

In respect of risk assessment, SICED report that they operate a committee that develops and reviews the criteria for assessing which cargoes need to be checked. According to SICED, the main classes of products they tend to examine more closely are electronic goods and personal effects. Consultations indicated that inspections of containers are probably rarer than inspections of personal shipments—this is also a source of resentment by freight forwarding companies, given that genuine personal effects are exempt from duty. On the one hand, the focus on personal effects probably reflects the greater perceived risk that individual unknown importers are more likely to be committing fraud. On the other hand, there may also simply be a habit of no longer questioning established importers.

Unfortunately no statistics were available to assess the accuracy of these points, nor were there any statistics with regard to clearance times. An audit of risk assessment procedures is probably necessary at this point. As noted above, some automation programs can assist by identifying risky goods and random selecting shipments and PC Trade might be adapted to carry out its risk assessment function better. If personal effects are indeed found to be a problem, other solutions might be considered—such as the installation of x-ray equipment at the airport, or the strengthening of a post-clearance audit function to ensure that personal effects are genuine.

On the export side, serious problems are known to exist in the inspection of logs for the purposes of collecting export taxes as well as regulation of the forestry sector. The Government has recently injected funds into strengthening inspection in this area (for example for the recruitment of more inspectors), although the increase may not be enough to make a significant impact.

4.3.5 Rules of origin and existing preferential trade agreements

For imports, preferential trading has been limited to the MSG-FTA. Trade officers have voiced concerns that certain items (e.g. cement, some processed foods, rice) are merely transhipped and do not actually qualify under the rules as being products of their supposed MSG countries of origin. While these concerns are shared in at least one other MSG country, they have however yet to be raised officially—the MSG Rules of Origin committee has not met regularly. Aside from the MSG-FTA, Solomon Islands has recently announced its readiness to trade under PICTA although the actual required duty reductions will not begin for some time yet.

To some extent trade is small under the MSG-FTA and the agreement itself has fairly liberal rules of origin, implying that the potential revenue leakage involved is minor. Depending however on the outcomes of current trade negotiations and assuming that Solomon Islands signs up to new agreements, there is likely to be an increased need for vigilance in rules of origin in order to protect revenue, and it is likely that authorities will need additional assistance for meeting the costs of implementation in this area.

There are generally few problems in certifying export rules of origin, as most Solomon Islands exports clearly qualify as originating products.

4.3.6 Integrity

Promoting and ensuring high standards of integrity within the customs service is a crucial part of the job of the division. Most of the comments on customs integrity (for example in Transparency International integrity reports) have focused on the exemptions system already covered above.

SICED appears to be aware of the need to work in this area, and has recently issued a code of conduct for officials. Senior officers report that training on the code of conduct is a priority for the coming year, and that SICED is in need of resources to carry this out. Naturally, the work on customs integrity is linked to the need for a wider focus on human resource development, as mentioned above.

A desire for greater levels of integrity was one of the motivating factors behind the proposal for a regional customs service in a study by the Commonwealth Secretariat in 2006 for Forum Economic Ministers. Barring any fundamental objections by the Solomon Islands Government, it should support the initiative and proactively look at steps towards facilitating its progress.

4.3.7 Regional integration of customs

Like the push towards a Pacific-wide free trade area, efforts at integrating customs systems at the regional level are still at an early stage in the Pacific. The major initiative so far has been the customs component of the RTFP. This is being delivered by the Oceania Customs Organisation (OCO) in Fiji and has currently has eight main goals:

1. Strengthen the OCO with a new Trade Facilitation Officer;
2. Establish a new Rules of Origin committee for the PICTA Agreement;
3. Adopt the Harmonised System for classifying imports and exports across the Pacific region;
4. Adopt the WTO Customs Valuation Agreement on valuing goods across the Pacific region;
5. Update Customs Laws, Regulations and Administrative Arrangements across the Pacific region;
6. Assist with adopting of the revised Kyoto convention on the simplification and harmonisation of Customs procedures;
7. Provide technical assistance to help countries develop and implement customs risk management policies;
8. Annual training to improve procedures on customs integrity.

One big problem with the program is the level of difference in customs administrations within the Pacific, as some are more advanced than others. Nevertheless from Solomon Islands' point of view it is probably in the best interests of any country to demand the most possible assistance from the program. This is because in comparison with other of the 'bigger' Pacific Island Countries, it lags in many of the areas that the program is supposed to support and deliver.

As mentioned above, the Commonwealth Secretariat has produced a study on a regional customs service which is still being considered. Without examining the details the concept in principle would appear to be worth exploring, if not actively supporting from the outset.

4.4 SANITARY AND PHYTOSANITARY SYSTEMS

4.4.1 Relevance of SPS measures to Solomon Islands

In general terms, SPS and quarantine measures are as important to Solomon Islands as they are to any similar developing country. By virtue of long-standing preferential trade agreements and its status as a LDC, tariffs and quotas are negligible as a barrier to market access for Solomon Islands products being exported to developed countries such as Australia, New Zealand and the European Union. Collectively however these three markets apply the most stringent SPS requirements in the world, with compliance becoming more stringent with each new regulation that is passed. Beyond pure SPS compliance, private importers are also applying new standards of their own when selecting where to buy produce. On the import side, Solomon Islands faces the same biosecurity challenges as other countries—perhaps more so, given that it would wish to maintain its valuable reputation as a relatively pest– and disease-free environment. Food safety is a growing concern and is important as a general health concern, as well as for the development of tourism for example.

In terms of specific products, Solomon Islands has yet to experience real challenges, due to its current reliance on logging. The exception is in the fisheries industry, which is currently faced with a large list of needed investment to maintain its access to the lucrative EU market, and where much SPS-related investment has recently been diverted. It is however no coincidence that Solomon Islands products with possibly the highest added value—canned and loined fish—are also those that are most 'SPS-sensitive', i.e. for which SPS export standards are most strict. Worldwide, value addition in agriculture is increasingly associated with meeting standards, and comparative advantage lies in having systems being able to meet them.

Over time therefore, and like all countries, Solomon Islands will find itself having to adapt to meet export standards for its agricultural produce. This is even more urgent given that current levels of logging are deemed unsustainable. The most likely candidates for diversification are traditional export commodities such as copra and cocoa, the reinvigorated and rapidly expanding oil palm sector, fisheries (including the current tuna processing and loining operations but extending also to other fisheries products) and planned mining initiatives in nickel and gold. Beyond these products, the Government has also identified a range of non-traditional exports as potential exchange earners, including root crops, fruits, kava, noni juice, *ngali* nuts, spices, and livestock. Minerals aside, each of these products has either minor or significant SPS-related challenges associated with their export, as well as opportunities for quality-centred value addition, given the right amount of investment.

4.4.2 Overview of SPS architecture

The functions of an effective SPS system can be divided into four broad areas:

1. Plant health protection;
2. Animal health protection;
3. Quality assurance and meeting export standards;
4. Food safety.

When outlining the SPS 'architecture' or system, many studies have tended to focus on the responsibilities of various stakeholders in the system. In Solomon Islands as in most other countries, an extensive patchwork of Government agencies and private sector stakeholders is involved in delivering SPS-related outcomes. Despite this, roles across the SPS system are fairly well-defined both by legislation and in practice, and there are few inter-agency conflicts over responsibilities. It is well recognised for example that the cost of complying with quality standards should be borne by private sector producers themselves—though Government agencies can assist with the provision of technical services (such as laboratory testing or Hazard Analysis Critical Control Point certification) at cost, where requested or in some cases necessary.

TABLE 4.3 **Key organisations in Solomon Islands SPS architecture by function**[1]

Function	Key activities	Government agencies	Private sector
Animal health	Disease surveillance Border inspection Fumigation/incineration Butchery inspection Information/training	SIAQS Department of Livestock	Private vets contracted by Government; Private fumigation firms
Plant health	Pest surveillance Border inspection Fumigation/incineration Emergency response Information/training	SIAQS	Copra, cocoa kava, coffee, root crop, fresh produce industries
SPS certification	Issuing SPS certificates SPS market research Negotiation of protocols SPS diplomacy	SIAQS	Industries seeking market access
Quality assurance and standards	Developing standards Enforcing standards Training	DEH CEMA	Exporters/buyers, Farmer Support Associations
Food safety	Inspection and licensing of food establishments Training	DEH, Provincial Health Officers	Food sellers and establishments

[1] Background details of the different Government and private sector stakeholders are given in section 10 of the UNCTAD Study on Costs of Agri-food Safety and SPS Compliance, August 2006.

4.4.3 Importance of an comprehensive agricultural policy

Ultimately it is difficult to separate quarantine and SPS-related activities from a wider agricultural policy to which it is accountable, and by which it is driven. Ideally a coherent approach to SPS matters should emerge from and form one pillar of an agricultural export policy, arrived at through discussions between departments of agriculture, quarantine and trade, amongst others to include private sector stakeholders. In addition to SPS matters such a policy might look at comparative advantage, trade preferences and markets, clarification of the roles of Government agencies and the private sector, programs and levels of support for specific sectors, and overall objectives.

In Solomon Islands, one problem is that while goals span a range of different commodities, it is hard to discern a clearly articulated agricultural export policy. There is a potential overlap in the mandates of the Ministry of Agriculture and the Ministry of Rural Development. Policies themselves are subject to constant change which often related to shifting political priorities. Donors also have different approaches and focus on different sectors, from copra to rice to beef. One result is that SIAQS are still unsure about which sectors they should be focusing on.

Given that it is unlikely some of this incoherence will be resolved in the near future, the recommendation for quarantine stakeholders at this point is to continue to focus on developing their proficiency across the range of core functions (outlined in detail below) and the flexibility to respond to changes in policy whenever necessary. Within the DTIS, it is necessary to point out that any recommendations for this section of the chapter on trade facilitation will need to follow those of the agricultural chapter.

4.4.4 Plant and animal health protection

Responsibility for plant protection is divided between SIAQS and the Department of Livestock, both of which are situated within the Ministry of Agriculture.

The total number of SIAQS staff is currently 36, with plans to increase that number to 46 within three years. It is important to point out that SIAQS has only within the last 18 months undertaken a large recruitment exercise to fill almost half of its posts, which had lay vacant throughout the previous few years. Most of the current staff are based in Honiara entry points or main office, with a few officers posted at entry points in the outer islands:

- 8 border officers based at Honiara Port;
- 8 based at Honiara International Airport;
- 2 based at Noro Port (working on the certification of copra and cocoa);
- 1 based at the Honiara Post Office;
- 1 officer each based in Gizo, in the Shortland Islands and on Santa Cruz.

The remainder are in the main office in Honiara. All staff have at least a diploma in agriculture.

After a long period during which budgets were squeezed, the total budget for SIAQS in 2008 is an abnormally large SBD11.5M—up from only SBD2.2M in the previous year, due to the inclusion of a significant development budget. Over the coming years the budget is expected to fall back again to SBD8.5M in 2009 and SBD5.2M in 2010.

In addition to revenue from central Government, SIAQS charges clients for services such as inspection, fumigation and both import and export certification, with schedules laid out in the Quarantine Act and amended by Ministerial order. In the last two years SIAQS has received approximately SBD1M in fees levied on inspection; increases of around 35% are currently in the process of being gazetted, which are expected to increase the level of fees collected to SBD2.2M in 2008 and SBD3.5M in 2010 (or 65% of the total SIAQS budget in that year). Although the corrections probably represents a correction of longstanding undercharging—rather than an unjustified increase—the fact that SIAQS is able to retain any revenue it gains from fees and charges does appear to create a potential conflict of interest.

4.4.5 Border quarantine operations and import regulation

Inspections of SPS-sensitive imports at the border involve an initial examination

BOX 4.2 Administration of SIAQS and staff on remote outer islands

Staff posted to outer islands are supposed to be sent for a period of two years to ensure inter alia that their skills are kept up-to-date. However, the rotation of postings has not been taking place, with some current officers having been in outlying islands for five years or more. One particular gap is that officers serving on outer islands need to be equipped with basic management skills (potentially provided through the Institute for Public Office Management in Honiara) to run their offices once in place.

Communication between headquarters and the outer island offices is mixed. While the outpost in the Shortland Islands is connected to the national PFNet internet network, which makes email possible, the office in Santa Cruz has only a telephone. SIAQS lacks resources to bring its outer islands officers to Honiara on a regular basis—this takes place only when donors run workshops. SIAQS itself sees strengthening of quarantine services with more staff and improved infrastructure in the outer islands as a priority.

of the import documentation, including sanitary or phytosanitary certificates. In addition to these, all importers of foods require an import certificate in advance from SIAQS. It is not possible for importers to obtain a general license covering multiple shipments over a period of time.

The import certificates apparently take the place of standardised import protocols for Solomon Islands, specifying the conditions and advance requirements under which each imported foodstuff or animal may be accepted. Given that the certificates are required for every food and animal import, the intention may also be to ensure a higher degree of quarantine compliance by adding another layer of regulation to the process. Technically, a sanitary or phytosanitary certificate from the exporting country, together with a standard quarantine inspection—which can be carried out under the Quarantine Act in any case—should suffice.

With regard to inspections, potential risks are assessed on the basis of where the shipment originates and the contents as detailed on the cargo manifest (which are usually accurate). Products from certain countries (such as Hong Kong) are deemed to be likely to pose a higher quarantine risk. As with customs, cargo manifests are requested from shipping agents three days in advance, and co-operation between agents and border agencies is good on this front.

In carrying out their work at the border, SIAQS reports that a lack of certain basic equipment limits the effectiveness of its inspections to prevent potential threats. In particular, SIAQS lack powerful hand lenses to examine cargoes in detail for small threats. Inspection benches at the Honiara port also need to be rebuilt to provide an adequate environment for carrying out the work.

One urgent need is for the construction of an incinerator for Honiara to dispose of biohazards, after the previous one was destroyed during the Tensions. SIAQS report that they are currently using spare wood and tyres to burn potential threats in a vacated part of Honiara wharf. This exposes the Solomon Islands environment to an unacceptable level of risk, as well as being a public safety hazard.

4.4.6 Quality assurance and export standards

As in most countries, quality assurance and export standards are the responsibility of a mixture of Government departments, statutory marketing authorities, private sector collectives, and both large-scale and niche-market individual producers. Whereas the area of 'export standards' is generally restricted to ensuring the exports are complying with importing country SPS protocols (and negotiating the market access in the first place where this is possible), quality assurance is associated with meeting specific quality targets above basic quarantine requirements—commodities such as coffee and cocoa might be exported easily, but higher quality grades attract a price premium. While the latter has always existed, meeting quality standards is becoming increasingly important as consumer awareness and demand in developed countries rises, especially with the introduction of new opportunities to distinguish products as 'fair trade' and organically produced. The distinction between the two areas can often be hazy, so both issues are dealt with to some extent.

The area in general has already been the subject of detailed study in September 2006 by UNCTAD, which attempted to estimate the micro-costs (i.e. in each particular sector) of compliance with developed country SPS regimes, as well as the macro-costs (interventions required at the national level).

In general the set-up in Solomon Islands is satisfactory, with Government and private sector aware of their roles. There are different set-ups in different agricultural sectors: for the tuna fishing industry for example, the strict requirements of the main EU market mean that the industry has had to invest in its own robust quality control and testing systems, with a strong role for the Department of Environmental Health in auditing fishing companies and carrying out its own independent tests. In the agricultural sector, it is interesting to note that the structure of production in different sectors dictates the response: in the plantation-dominated palm oil sector, companies themselves have sought and won certification to ISO9001 and ISO14001 standards to meet the requirements of their buyers. In the copra and cocoa sectors, the Commodities Export Marketing Authority (CEMA) has a significant role in promoting standards and the long-term strategy and viability of the industries amongst smallholders, although the market itself is private-sector led, with buyers able to carry out the transactions with minimal interference from Government.

4.4.7 Food safety

The area of food safety is currently the subject of a significant initiative by the Solomon Islands Government. To add to the Pure Foods Act 1996, a set of new Food Hygiene regulations has been drafted (with some advisory input from the FAO) and a round of consultations are currently underway across Government and with the private sector and wider civil society interests. The regulations are expected to be gazetted before the end of 2008, when the challenge will shift to implementing the new provisions.

Food regulatory systems and standard setting systems are the responsibility of the Environmental Health Division (DEH) within the Ministry of Health. This is in addition (although closely linked) to the roles of the division detailed above in export certification for the fisheries industry, and as the national Codex Alimentarius (food standards) contact point. Inspections and enforcement of the regulations are expected to be carried out by Provincial Health Officers as well as municipal councils where they exist.

While food safety is primarily focused on domestic systems and bringing about improvements to the health of Solomon Islanders, there are clear linkages with the export sector, especially if improvements allow the country to develop national export standards or encourage and make it easier for producers to become certified to HACCP standards. As indicated by the 'pyramid' of SPS interventions in figure 3.1 above, the most significant actions are those that help to increase the general level of sanitation in countries (such as access to water, toilets and improvements in food hygiene), as these provide a *sine qua non* basis for all other types of SPS activities to prosper. However, the investment in this area will in the long run also help agricultural and fisheries exports: there is no point putting in traceability systems or seeking organic certification for example, if simple food hygiene standards cannot first be met. Amongst other things, the new regulations cover:

- Administration of the regulations, including the duties and functions of a new Pure Food Advisory Board and qualification of inspectors;
- Standards for food handling and storage, including separation of hazardous substances, thawing and storage of raw foods and ingredients as well as their transportation and packaging; additional standards for certain types of food such as 'street food' (i.e. food sold in street markets);
- Standards for additives and nutritional supplements;
- Requirements for labelling, naming, list of ingredients, additive, flavourings, net contents, traceability, use by dates, instruction for storage and use, as

well as advertising of certain products;
- Construction of premises and certain vehicles, equipment and procedures for cleaning and disinfection, hand washing, maintenance, pesticides for pest control and refuse disposal—including lists of certain premises requiring HACCP compliance;
- Food handling practices, training and certification: certain food handlers must be certified.

The regulations are vast in scope and enforcement poses a serious challenge. Table 4.4 below outlines one of the bigger elements of the enforcement regime: the inspection regime for all classes of food related businesses. Before this can begin however, a number of things first need to happen: for example, a public information campaign will be needed, sufficiently qualified inspectors will need to recruited, and the national laboratory will need to be equipped with all the apparatus needed to carry out the various tests that the regulations set out as necessary. In particular, the ability of the DEH to provide training for food handlers and assist businesses with meeting HACCP requirements will need to be strengthened. While initially modest fees—envisaged to be no greater than SBD1,000 for Class 1 businesses, with some classes exempt altogether—will generate some revenue once the food safety operation has been established for some time, start up costs will be significant.

TABLE 4.4 **Draft inspection regime for food-related businesses**

Note: draft only (from August 2008 version of the draft Food Hygiene regulation)

Class of Premises	Minimum no. of inspections p.a.
Class 1 Abattoir, processor of milk and dairy products, poultry processing plant, fish processing plant plus all cold stores, processors, importers, retailers, transport vehicles and vessels dealing with potentially hazardous food (including fishing vessels)	6
Class 2 Bakery, take-away bar, café, fast-food and sandwich bars, mobile food vendors, restaurant, delicatessen, caterer, health food retailers, processor of beverages, brewery, canteens and kitchens in schools, hospitals and other places of employment, plus all processors, cold stores, importers and retailers of food other than potentially hazardous food	3
Class 3 vehicles and ships used to transport food other than potentially hazardous food within Solomon Islands	0
Class 4 Premises in or on which the only food for sale is preprocessed and packed and is sold in that state, including retailers and wholesalers; retailers and wholesalers of fresh fruit and vegetables only (not including those operating with a market license)	2
Class 5 Market stalls or premises selling whole fresh fruit and vegetable only.	1
Class 6 Parts of premises used to prepare traditional stone ovens; premises for which a temporary license is granted in association with any day, festival, feast or event proclaimed by State, Province or Honiara Town Council; premises used for eating and drinking in association with an organized tour.	at time of operation
Class 7 Premises or places where itinerant vendors display and sell only whole fresh fish and seafood (not including those operating with a market license).	Time to time

On a wider level, one hidden benefit of the regulation is that could provide a good example for the Government in an area of domestic trade facilitation, and a model for legislation and action in other areas. For example, a similar approach would most likely need to adopted in the area of standards and conformance and consumer protection.

4.4.8 Regional integration and international co-operation in SPS

Thus far, there have been no attempts made to integrate SPS controls, policies and protocols at the regional level, although there is some pooling of resources amongst Pacific Island states. Nevertheless, as with Customs, scope exists for common approaches at the regional or sub-regional level, and benefits should accrue from greater integration and resource-pooling in specific, strategically important functions.

Under the current Regional Trade Facilitation Program, Solomon Islands receives training at the regional institution responsible for SPS matters, the Secretariat of the Pacific Community. Under the program New Zealand has also established an officer within its Biosecurity Department, to work specifically on developing Import Health Standards (IHSs) for Pacific products. For Solomon Islands and other Pacific Islands this work has resulted in IHSs for a number of products, including Tahitian limes, paw paws, pineapples, sweet corn, cucumbers, eggplant, green beans, chiles and mangoes.

The crucial point, however, is that in order to get relevant and useful outcomes from regional training initiatives, national quarantine departments need to have greater ownership of program designs and what is delivered, and regional institutions need to be accountable for the training they deliver. This will be especially important in light of the aid resources which may be directed to areas like SPS over the coming years in the context of multilateral trade negotiations and current bilateral discussions.

The enquiry point notified to the WTO is the Director of the Environment Health Division of the Ministry of Health and Medical Services.[2] Some technical assistance will be needed to upgrade the department's capacity to deal with requests, especially if Solomon Islands makes more binding commitments on transparency in the SPS area within a bilateral trade agreement.

[2] See WTO document G/SPS/ENQ/23 and G/SPS/NNA/13 of 27 March 2008.

4.5 FREIGHT AND WHARFAGE

4.5.1 International ports

Port services at the two declared international ports of Honiara and Noro are generally good. Honiara is the main port through which the vast majority of trade passes, while Noro is used mainly for fish and commodity exports. In addition to the two declared ports, the Government from time to time also declares suffrage ports to facilitate the export of timber for a limited time. The Government has considered establishing another declared port at Bina on Malaita, but is struggling with land issues (see Box 4.3).

The two international ports are the responsibility of Solomon Islands Ports Authority which is regulated under the SIPA Act. This is a state owned entity, part of the Ministry of Commerce, with a board consisting of Government stakeholders. Governance structures are fairly good in this crucial area of trade facilitation: along with managing the financial viability of the authority, SIPA is duty bound in the Act with ensuring that 'no particular person is given any undue preferences or subjected to any undue disadvantages'. Rates for the range of port charges—including ship berthing and queuing charges, stevedoring, transport of containers and

BOX 4.3 **Concessionary finance in the construction of Honiara Wharf**

In the project to construct the main berth at the Honiara wharf in 1997, the ADB offered a concessionary interest rate of 1%, available to Solomon Islands in its position as an LDC. However the rate was not passed on by the Government in its financing agreement with SIPA. Instead of the concessionary 1% rate, the Ministry of Finance charged a market rate of 12%, which SIPA now pays.

This could be interpreted as a significant transfer of funds away from their intended recipient (and the intended activity) towards the general Government budget (which was obviously not the intended recipient), which makes fewer funds available for other SIPA projects. Alternatively, it could be forcing SIPA to structure its business in a sustainable way in order to account for the true costs of competitive interest rates in its price-setting and cost-recovery policies. Accepting this latter argument however raises the question of why the interest rate subsidy was deemed necessary in the first place, and questions about future financing of infrastructure projects.

On the second question of who should fund investment, given that Solomon Islands is likely to remain a LDC for some years. It may be better to continue to look to established donors such as the Asian Development Bank or Japan to fund large-scale infrastructure projects in the area of ports. It is nevertheless of obvious importance that any concessionary finance is passed on as intended.

warehousing—are prescribed under the Act in a transparent manner and may only be altered by amendment. The authority is one the biggest employers in Honiara, providing work for roughly 200 staff, including engineers, permanent stevedores, warehousemen and office personnel.

SIPA reports that while its charges cover the running costs of its operations, it would like to increase levies to levels that are closer to market rates, to fund capital investment projects such as an upgrade of the wharf at Noro. The fact that SIPA feels constrained by the Government illustrates the fact that the set-up as it stands results in strong incentives to keep trade facilitation costs low. Nevertheless, there are some major issues that relate to the interest that SIPA pays on large-scale construction projects (see Box 4.3 above).

There is an emerging problem of ships having to queue to access the main berth at Honiara. To date this problem has not resulted in any major problems, but each time a ship has to wait, it incurs a substantial queuing fee. SIPA has requested the Government look into resources for the construction of a second berth at Honiara.

4.5.2 Domestic ports and wharfs

The Solomon Islands Government has, in its most recent policy statement, committed itself to putting wharf infrastructure projects at the centre of its rural economic development policy. It is envisaged that the two activities of making improvements to wharfs and making nearby land available for commercial development will spur economic activity at Noro and Bina (where there is less certainty about whether the project can work) and a range of rural areas. The policy is outlined in box 4.2 below. As indicated in the MTDS, the Government will need to identify funding to carry out some of this work. The European Union is set to provide some of the funding along with the Solomon Islands Government.

Source: Draft Medium-Term Development Strategy

BOX 4.4 Government policy on wharf infrastructure projects for rural economic development

The Noro Industrial Development project, which had a budget of SBD4M in 2008, is an established township and industrial area developed in parallel with the Soltai fisheries project. The land is already developed and subdivided and ongoing activity is concerned with attracting new investors for the remaining plots.

Bina Industrial and Harbour Development, with a 2008 Government development budget of SBD5M, is based on a similar concept of an on-shore fisheries base with a large fish processing factory and associated industrial and commercial activities developed around it. Initiated before the Tensions, there is increasing uncertainty about the development, particularly the ability to attract fish processing activities as the core investment. As yet, the land is undeveloped as it remains customary land without registered titles. A pre-feasibility study has been undertaken but the prospects for the project remain very uncertain. In this context, it is appropriate for Government to thoroughly review the proposal and resolve uncertainties before providing more development funds or seeking donor support, including in the form of a feasibility study.

In addition to the development at Noro and the Bina Harbour project, the third economic centre development program is the rehabilitation and development of wharf-centred commercial developments, not yet funded but potentially of much wider importance for rural and economic development.

The economic centre model promoted consists of a package of a small wharf, for inter-island ships of up to a few hundred tonnes (associated with one or several sheds/warehouses for collection and storage of produce) and open storage for suitable products, such as timber, awaiting shipment. Locations will be chosen where there is the prospect of accumulating adequate volume and value of product to make the trading activity viable, with the trader accumulating quantities worthwhile for shippers to collect. Locations would also be in or convenient to population centres—rather than physical port conditions—so that the wharf is attractive to passenger traffic and the commercial area can attract retail shops (some selling goods shipped to the wharf) and other service activities meeting the needs of passengers, traders and the local community.

Government will acquire the land to avoid problems of customary land and build sheds, hard standing and other facilities, which will be leased to private sector parties. The rental would then fund maintenance of the commercial and wharf areas and the tenants would be a 'monitoring group' whose self interest would promote effective maintenance.

Initial studies at Suava Bay in North Malaita, appear to have the population and agricultural produce to make a viable wharf/commercial operation. In some cases, old CEMA can be rehabilitated and developed into viable units. At Choiseul Bay, the old shed is now owned by foreign, private traders and the wharf remains the property of the province. Here, development could consist of more sheds, hard standing and retail units to generate economic activity and rental income for maintenance. At Kaonasughu in Makira Province, a community group took over the shed, which now needs rehabilitation, and the wharf structure, not permanent, needs to be replaced. Here, the activities will be combined with development of new hard standing and retail units. Much of the original CEMA infrastructure at such locations was provided with EU support.

4.5.3 Stevedoring and storage at international ports

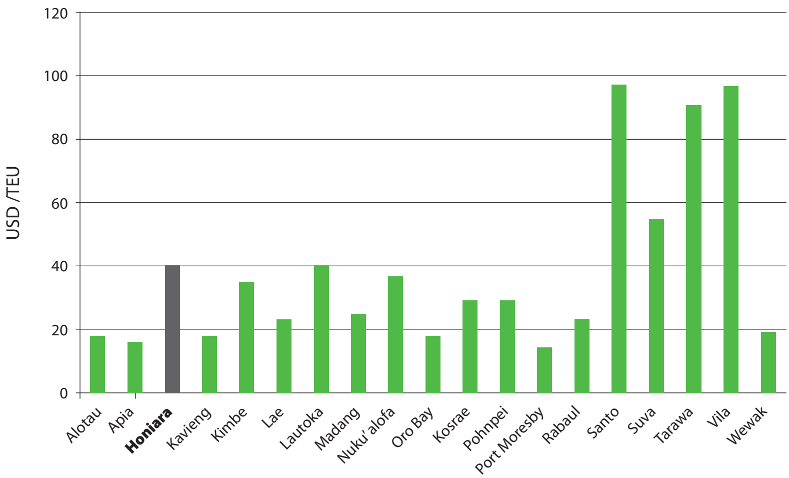
Stevedoring is carried out by mostly casual labourers. Machines occasionally break down, leading to delays. The main complaint from importers is that containers are occasionally damaged by stevedores. Following completion of customs and quarantine clearance, full container loads are transported immediately from the wharf by the importer.

Storage is generally adequate but fluctuates unpredictably according to export trends. Globally, better logistics are giving rise to a long-term trend towards more use of full container loads rather than break-bulk loads, meaning that storage for imports at the wharf is increasingly unnecessary. Nevertheless, the recent surge in agricultural exports, particularly copra, has required extra capacity in storage in recent months at Honiara port. If Solomon Islands were to move upstream into coconut oil, the need for warehouses at the wharf would again decrease.

As noted above, both stevedoring and storage charges are prescribed in the Ports Act, and as a result are quite reasonable. The ADB described Honiara as a relatively low cost port, and the comparison with other Pacific ports shown in figure 4.1 confirms this view.

FIGURE 4.1 **Comparison of stevedoring charges in Pacific island countries**

Source: ADB (2007); original data attributed to Vanuatu MFEM



4.6 TECHNICAL STANDARDS AND CONFORMANCE

The area of technical standards is one where Pacific Island countries have already acknowledged that, due to their small size and lack of experience, there is great scope for regional co-operation. Some have already taken some decisions in respect of a regional standards and conformance framework under the Regional Trade Facilitation Program.

4.6.1 Relevance of technical barriers to trade and related issues

In a predominantly agricultural and rural small island economy, it is important to recognise when it comes to applying, enforcing or encouraging standards, an appropriate balance is necessary. Investment in capacity should match the demand from private sector stakeholders for testing, training, information and certification: currently services are provided on request to only a few producers in Solomon Islands (for example, industries relying on accurate weighbridges and measuring such as air carriers, copra industries, fisheries producers or RAMSI logistics), though increased mining could spur growth. At the same time, in the area of consumer protection, weak capacity is likely to limit efforts to selected interventions, and will need to be built gradually over time.

Fortunately a fair amount of preparatory and diagnostic work has recently been done by the Consumer Affairs Division of the Ministry of Commerce, which is the agency primarily responsible for industry standards. Work has focused on metrology aspects (weights and measure checks) both in terms of the legal framework for establishing and regulating commerce that involves weights and measures, and in building testing capacity to ensure that prescribed standards are met, and that the private sector has access to services. Work in this area was being carried out before the Tensions, so the Government's focus on rebuilding here is correct. Once the infrastructure and basic regulatory framework is in place, the next steps would be in fully implementing basic consumer welfare standards (e.g. weights for foods at markets and supermarkets) and then in advocating greater use of established standards against producers, and advice to help them achieve them.

4.6.2 Draft weights and measures regulation

A regulation to accompany the Weights and Measures Act has been drafted by the Consumer Affairs Division (CAD) in 2000, but was never passed into legislation due to the Tensions. The CAD report that until the regulation is passed, they continue to base their work on the Weights and Measures Act itself, as well as some outdated provisions of the Customs Act (see comments in the customs chapter above). The adoption of the regulation would however establish clear standards across a number of different product areas and weighing machine types, and clarify powers through *inter alia*:

- The appointment of inspection officers;
- Inspection regime and fees payable;
- Regulations on requirements and deviation tolerances for various types of weighing or measuring machinery such as: weighbridges, weighing masses, fabric length measurers, transport vehicles, self-services pumps, flow meters, counting machines.

It is recommended that, with IF support, any necessary further consultations are carried out and that the legislation is submitted for gazetting at an early stage.

4.6.3 National Metrology Laboratory

A pressing short-term need is to rebuild the National Metrology Testing Laboratory. Like much of Solomon Islands Government infrastructure, the building that had previously accommodated the machines and laboratory equipment, located at the Guadalcanal Provincial headquarters, was destroyed in 1999 during the Tensions. At that time most of the laboratory equipment was transferred to the Ministry of Commerce—however the latter building proved to be an unsuitable environment for operating precision instruments (which require, for example, rooms with fixed temperature settings) and they could not be installed. Most of the instruments were also damaged during the evacuation and need to be replaced.

The CAD have developed a project proposal for rebuilding the national metrology laboratory, which would include facilities for testing of mass, length, volume, temperature, machinery and products. Technical requirements for each sub-laboratory (room environment, installations and equipment) have also been identified. A site close to the Ministry of Commerce has been identified and the project awaits only donor funding of roughly SBD5M in order to proceed. Under the project, the CAD envisage that the Solomon Islands Government would be able contribute fully to the running costs—including staff for an expanded inspectorate—for the new laboratory. Funding for a technical assistant (envisaged within the project proposal) might also be considered under the IF.

One activity not mentioned in the proposal is the desirability, once established, for the laboratory to be accredited to international standards. This will provide additional confidence to users of the laboratory and in turn the purchasers of *their* products. Accreditation is a longer term activity that will require significant additional effort and might be considered for inclusion in the project through the IF. Accreditation may become easier if there is progress on a regional service.

4.6.4 Potential for regional co-operation

Regional co-operation in technical standards is essential for small economies that on their own may have neither the economies of scale in demand nor capacity. At the same time, a fairly experienced and capable institute—Papua New Guinea's National Institute of Standards and Industrial Technology (NISIT)—has already been recognised as the regional forerunner in various resolutions, including the only meeting thus far of PIC Standards and Conformance officials held in Nadi, Fiji in August 2006. That meeting considered five studies into standards and conformance issues commissioned by PIFS under the *aegis* of the RTFP: on a regional standards institutional framework, accreditation, metrology, certification and legislation. One example recommendation was for the PNG Laboratory Accreditation Service (based in NISIT) to be converted into a service for all Pacific Island countries.

Given that it is in a rebuilding stage and will require some technical assistance over the next few years in this area, Solomon Islands would benefit greatly from improved linkages with institutions such as NISIT. NISIT itself has expressed a willingness to work with other countries to develop a framework for regional co-operation, including staff exchanges. A program should be developed—perhaps similar to that which enables PIC quarantine officers to train for three months on market access at SPC's Import-Export Technology Centre. If a staff and knowledge exchange project cannot be achieved through the RTFP, a bilateral or MSG approach based on a Memorandum of Understanding could be considered, and other donor funding sought.

Standards harmonisation is one of the most important, yet under-prioritised, foundations for free movement of goods and greater regional market integration. If Pacific Island countries or MSG countries are serious about deeper economic integration, they will need to invest more heavily in this area.

4.7 CONCLUSIONS

Trade facilitation receives a relatively low priority in Solomon Islands. As in many countries, the diffuse nature of trade facilitation makes it difficult to promote as a single 'activity', yet simultaneous incremental changes in a number of areas have the potential to reap significant rewards. While institutional coordination is reasonably good, considerable institutional improvements could be achieved. The first priority should be to re-establish the National Trade Facilitation or Trade Policy Committee with a small budget, clear terms of reference and workplan/strategy for trade facilitation. The latter point is particularly important: if trade facilitation is considered an active work program, it is more likely to achieve future success, rather than remaining a static activity performed by another Government committee. Full use should be made of regional funding.

Customs reform should involve a clearer, costed and sequenced modernisation program covering progressively greater automation; risk assessment procedures; compliance with WTO valuation; HS classification; schedule of legislative reform and training and improvement of services in the outer islands. The use of external technical assistance and better human resources policy will remain crucial.

Solomon Islands is likely to encounter increased SPS challenges in the years ahead, particularly if it successfully builds productive capacity and diversifies exports. An improved SPS environment will initially involve strengthening the competent authority for fisheries exports and resourcing the National Public Health Laboratory to carry out tests with respect to other potential export products. The new food safety regulation will also need to be implemented.

Finally, reform in the area of standards and conformance should focus mainly on metrology in the first instance, comprising the finalisation and implementation of the draft weights and measures regulations; the rebuilding of a metrology laboratory; a training program with PNG's NISIT as a first step towards greater regional co-operation.

CHAPTER FIVE

Trade policy

5.1 INTRODUCTION

This chapter initially provides a summary of the trade regime including trade taxes, non-tariff issues and relevant legislation. Policy objectives are then identified, and some suggested ways of designing and implementing policy.

The chapter then provides a descriptive analysis of the existing institutional framework for trade and trade-related policy making, with discussions on the current constraints and opportunities for improvement. A suggested basic position on trade negotiations is also presented. The key objective is to provide executable recommendations to enhance the mainstreaming of trade into national development policy, and to use it as a tool for sustainable growth and human development.

5.2 TRADE REGIME

The trade regime of Solomon Islands is relatively open. The MFN simple average applied rate was 9.3% in 2008,[1] slightly lower than the average of 11.68% for low income countries.[2] Export taxes are imposed on selected commodities such as logs, fish and marine products and minerals. The maximum export tax rate, on logs, is 30%.

Tax policy is currently used mainly for revenue purposes. Until the January 2007 tax reform it was also an important aspect of investment, industrial and trade policy. Prohibitions and restrictions on exports and imports where they exist are in place mainly for environmental and welfare reasons.

Trade liberalisation under existing and future trade agreements and unilateral duty reforms like in the recent past limit the scope for using trade taxes to meet development policy objectives.

[1] WTO (2009). Specific duties are levied on items such as tobacco, alcohol, petrol and cassettes.

[2] World Trade Indicators 2008: info.worldbank.org/etools/wti2008/3b.asp?pillarID=1&indList=66&indList=118&indList=152&indList=161&indList=190&average=i1&regionID=i1&periodID=14

5.2.1 Trade taxes and related issues

International trade taxes make up a significant share of total Government revenue. In 2007, 34.1% of total tax revenue came from import duties and export taxes; the latter contributed a greater share. Import duties fell from 20.2% of tax revenue in 2003 to 12.3% in 2007, despite tighter monitoring on and reduction in exemptions. This can be at least partially attributed to the unilateral tariff reduction undertaken in January 2007.

Taxes on Imports

As a WTO member, Solomon Islands has bound all of its tariff lines. The simple average final WTO bound tariff is 71.3% for agricultural products and 80% for non-agricultural products.[3] Due to its LDC status and high binding coverage, Solomon Islands will have no obligation to further reduce its tariffs under the Doha Development Round.

[3] Source: WTO (2009)

In January 2007, the import tariff structure was significantly restructured from five bands (20, 15, 10, 5, and 0%) to three (10, 5 and 0%). The nominal cap of 10% on import duties effectively halved the rates on the majority of tariff lines and affected three lines at 15%. The tariff schedule currently comprises 5,496 tariff lines at the eight-digit level.

In the past, tariffs were applied following the general escalation principle, where processed goods are subjected to higher duties than semi-processed, capital and unprocessed goods in priority sectors. After the reform, the applied tariff escalation index was down to 1.60%, well below regional and low-income countries average, and less than half of that of Australia (3.89%) and New Zealand (4.15%).[4]

[4] Source: World Trade Indicators 2008

The tariff reform was relatively controversial within Government, given the fact that tariff reductions under the current round of trade negotiations will take place according to a long-term schedule, and the fact that the Government also lacked a trade baseline study to show the effects of the duty reductions on local future value adding initiatives in this area.

A preferential import regime is applicable to members of MSG FTA, where a duty-free zone has been established aside from a negative list of sensitive products on which tariffs will be eliminated over a longer period. Under PICTA, tariff liberalisation for parties will start in 2009 and be completely eliminated by 2021.

Currently the goods tax structure discriminates against imported goods. While domestically manufactured goods are taxed at 10%, imports are taxed at 15%. This is incompatible with Article III of the GATT, requiring national treatment for imports in the internal taxation structure, allowing tax differentiation only through tariffs. Efforts to rectify this situation will require adjustment in tariff rates or strategic development of alternative taxation to reduce potential shocks to Government revenue and the economy.

This problem could have been avoided through better communication between MoFT and MFAET, as the latter has better technical expertise and understanding of Solomon Islands multilateral commitments. This reaffirms the need for a formal and inclusive consultation mechanism for tax policy development, which will be discussed in Section 5 on the institutional framework.

Taxes on Exports

Export taxes form a substantial share of Solomon Islands Government tax revenue, reaching 22% of total tax revenue in 2007. Log export taxes made up 96.5% of total export tax receipts. Export taxes are payable on the free on board value of goods. Goods entered for re-export, exported on drawback, or samples, are exempted. The three main commodities that are subjected to export taxes are logs, fish and minerals. There are also export taxes applicable to live animals, ferrous waste and scrap, rattans and antiques, corals and skins.

In the case of minerals, the current global commodity boom offers opportunities to the Government to capture a share of the resource rents generated by mining companies. The tax earnings can support public goods and service provision or used as a buffer in times of economic downturn. This will benefit the country more in the long run than granting tax holidays.

Fish is vital for food security and an important source of protein in Solomon Islands. Export taxes on fish are used to encourage sustainable management and as an incentive for domestic value adding. However, there is incoherence in the fish export tax structure in its role to promote domestic downstream processing. Currently fresh, chilled and frozen fish and selected fish fillets exports are taxed at 5% and canned tuna not at all. However, prepared (cooked) loins of selected fish including tuna, and dried, salted, in brine or smoked fish are taxed at 20%, although the latter also involve value addition. If Solomon Islands wants to promote downstream processing in the fish industry, the tax structure needs to be revisited.

Even though there is no obligation under the WTO to eliminate export taxes, this is often demanded by multilateral institutions or trading partners during trade negotiations.[5] The high dependency of Solomon Islands Government revenue on export tax means that their elimination or restriction will substantially destabilise Government finance, and possibly disrupt the delivery of essential public goods and services.

Nevertheless, there are commodity-specific export taxes that can be restructured to better facilitate productive sector development as in the case of fish. There is also a need to strengthen administration for collection and criteria for exemption as in the case of logs and minerals.

Trade tax exemptions

Trade tax exemptions are currently administered by the Customs and Excise Division of the MoFT. Import duty and export tax exemptions can be classified as either statutory exemptions, or those granted by the exemption committee.

For export taxes, only re-exports and bona fide samples are listed under the statutory exemption schedule. There are also no taxes on export commodities such as canned tuna, palm oil, copra, cocoa, rice, some shells, spices and coconut. Nevertheless, this does not reduce the scope for getting exemptions through the committee. Big mining companies with strong negotiating power may have been receiving or be in the process of trying to gain export tax exemptions (see Chapter 1). There might also be substantial revenue leakage from exemptions granted on log exports.[6]

Statutory exemptions for import duties can be further classified into full and partial exemptions. Statutory exemptions are used to provide tax relief for personal and diplomatic use as well as for religious, cultural and educational uses. In the previous tariff structure, statutory exemptions in addition to tariff bands were also used to stimulate priority sector development through the inclusion of agriculture and stock control equipment and fishing gear.

In the January 2007 tax reform, the statutory exemptions list was reduced from 26 to 18 items, removing all the ones given to priority productive sectors e.g. agriculture and agro-processing, fisheries and tourism. The reasons given for the review were mainly to reduce revenue leakage and to offset the reduction in revenue from import duty due to the corresponding tariff reduction.[7]

While exemptions can still be applied through the committee, this is not an ideal solution for a number of reasons. The need to apply for exemptions through the committee adds to uncertainty of doing business.[8] Applying for exemptions is also disproportionately more costly to small business and those located in the provinces, as any application would have to be lodged in Honiara.

In terms of minimising uncertainty, the tax structure is a more transpar-

[5] Elimination of export taxes is one of the provisions under the Interim EPA initialed by PNG and Fiji on 23rd November, 2007, although export taxes are permitted where necessary for fiscal reasons. Solomon Islands cannot afford to sign an FTA that requires the elimination of export taxes, due to its high importance for revenue purposes, amongst other uses.

[6] The Government has recently decided to revoke export tax exemptions for round logs.

[7] ERU (2006).

[8] Despite the broad guidelines, decisions on granting trade tax exemptions are still subjected to considerable discretion.

ent and fair policy instrument than exemptions, as it has less potential for abuse or misuse and is applicable to all. Applications through the exemption committee could be restricted to special cases.

Post-reform, the only remaining full statutory exemption for productive sector development is Schedule 16, applicable to "raw materials or other inputs for manufacture, which include substantial transformation or change in essential character of the goods." This schedule has been problematic owing to its ambiguous definition. It is often subjected to disputes and misinterpretation, not just between businesses and customs officials but also among customs officials themselves. As Solomon Islands has lost a substantial share of its tariff policy space through the unilateral tariff reduction, the cost of having imprecise exemption criteria is even higher.

Schedule 16 of the statutory exemption list can be amended to minimise room for discretion, reduce uncertainties, and to better reflect sector prioritisation. Change in tariff headings (between imported inputs and final goods) at a specific digit level can be used as criteria for substantial transformation or change in essential character of goods. The digit level can then be further differentiated by sectors or chapters referring to specific sectors, in order to clearly reflect prioritisation of sectors.[9]

The second form of statutory exemptions is partial exemptions. Currently there are three eligible types of partial exemptions: a repeat of article 16, which is essentially an administrative error; capital items in HS chapter 84, 85 and 90; imports used solely for or in the production or repair of containers and packaging.

In June 2006, the MoFT released tax exemption guidelines. To improve transparency and accountability, the Minister of Finance is required to table to parliament and publish in the gazette the details of exemptions granted.[10] In practice, it was quite difficult to get hold of information on trade tax exemptions. Although the guidelines, combined with better administration and collection, have been quite effective in increasing revenue, there is still some room for improvement.

In the guidelines, goods which are used in the normal course of doing business are not eligible for exemptions. This contradicts schedule 16 of the statutory exemption list, which is applicable to inputs and other goods used in manufacturing. The current exemption policy is in contrary to the Government's sector prioritisation by excluding inputs for priority sectors e.g. agriculture, agro-processing and fisheries, while possibly giving prolonged subsidies to inefficient import-substituting manufacturers.[11] Even if some of the manufactures serve as important inputs into other sectors, it is better to review the tax rates on their inputs.

Applications to the exemption committee are currently considered on a case-by-case basis. There is no limit as to how many applications can be lodged in a year or how much exemption can be granted to a business. Additionally, there is no mechanism to cross check exemptions granted to an applicant for different taxes.[12] Due to a lack of monitoring capacity, the committee often depends on the applicant's goodwill to state the value of previously granted exemptions while no post-exemption check is undertaken.[13] Although it is possible to place limits on exemptions, strengthening the capacity for collection and monitoring should remain a priority.

The Government should also consider reducing or even removing duties on specific tariff lines with a long history of duty exemptions. This can avoid giving unintended indirect protection just to selected industry actors.[14] Less need for exemptions will also reduce administration costs.

The exemption committee needs to be strengthened and made more account-

[9] The problem of using the same digit level for all sectors was highlighted by a customs official, who pointed out that while imports of meat to be further processed into sausages is seen as a sufficient transformation process, importing iron sheet to be made into corrugated roofing is not, although both cases involve a change in tariff heading at two digit level.

[10] The information published includes the name and address of applicant, the nature of their business activity, the nature and period of exemption granted and the reason for granting the exemption.

[11] An example was given where poly bags for seed nurseries, previously imported duty free are now subjected to 10% duty. Importers have had to use the partial exemption for packaging to reduce costs.

[12] An interview with IRD indicated that placing a limit on the value of exemption is difficult. Having clear criteria for tax holidays is preferable.

[13] Implementation of the recommendation made in Watergall (2007) to introduce a single tax payer number may be useful in monitoring exemption applications and reducing revenue leakage.

[14] An example of this is meslin which has always been imported duty free as a raw material for SolBrew.

able. Currently the membership structure of the committee is listed in the Customs and Excise Act. In practice, due to work commitments, representation at the committee often has a high rate of turnover. A transparent reporting mechanism can help increase accountability, by ensuring details on the value and recipients of, and reasons for, exemptions available to the general public and subject to audit.[15]

[15] In an interview, a Government official who once sat in the exemption committee meeting described the process as highly discretionary. Information on applications to be considered was only distributed during the meeting.

5.2.2 Export incentives

Income tax

Technically the objectives of income tax incentives are to promote export, tourism, and agriculturally centred investments conducive to growth and development. This can then help to create employment opportunities, increase export earnings and induce technology transfer.

There are a few income tax incentive packages in the form of tax holidays, including 3 to 6 year tax holidays for export oriented manufactures with 25% of value adding, and 5 to 10 year tax holiday and deductions for exports of fresh agricultural and seafood products. Whether there is adequate capacity within the Government to accurately assess the level of value adding is unknown. Interviews with the IRD revealed that no official tax holidays have been granted in the past two years.[16]

[16] The IRD was not in a position to disclose whether or not exemptions have been granted to mining companies by others in the Government.

Income tax relief can also be used to better stimulate value adding in priority sectors. Currently under the second schedule (part III) of the Act, tax relief is available on the profits of fresh agricultural and fisheries exports, as well as processed/ manufactured goods. The latter can be made more explicit to also include processed agricultural, horticultural and fisheries products.

Under part III of the same schedule, any investor engaged in agriculture production, dairy and goat farming, beef production, reforestation and fisheries is entitled to income tax exemptions for five out of every ten years from commencement of commercial production. This provision can be extended to also cover pig and poultry farming[17] and possibly related processing industries. This will better articulate Government policy and reduce ambiguity for small businesses.

[17] In fact pig and poultry farming might be more viable than goat or dairy farming in Solomon Islands. Donor assistance is known to exist in pig husbandry and some local entrepreneurs are known to have established small-scale pig farms.

Trade taxes

The unilateral tariff reduction of January 2007 meant that tariff bands were not used to provide export incentives in the priority sectors. As previously discussed, import duty exemptions have also not been optimally utilised to promote exports. In some cases, duty exemptions even work against prioritisation of sectors and trade policy by favouring import substituting manufacturers rather than promoting the priority sectors.

The removal of export taxes on copra, cocoa, shell money, highly processed wood products and farmed seafood coherently reflects the country's sector prioritisation. However some inconsistencies are found on some commodities. For example the 20% export tax on prepared tuna loins can act as a disincentive to the development of downstream processing in fisheries exports.

Export incentives embedded in the structure of income tax will reach only those in the formal sector. Where the majority of businesses operate in the informal economy, their effectiveness is limited. As Solomon Islands' narrow manufacturing base requires many capital goods and intermediate inputs to be imported, having the incentives articulated in trade taxes could be more effective.

Export grants/assistance

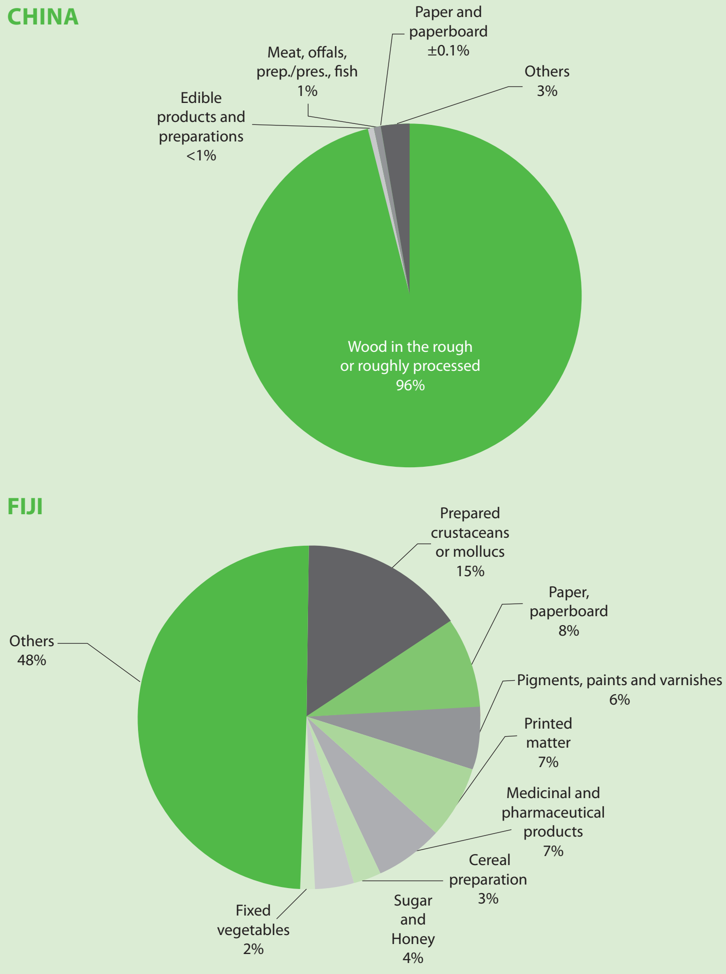
There is a known practice of assistance granted to local traders or exporters. This

BOX 5.1 Technological level of exports

Categorising exports by destination helps gain an overview of the potential for the upgrading[18] of Solomon Islands exports. The country's biggest export markets generally import undiversified and unprocessed commodities. This exposes Solomon Islands to greater risks of being trapped as a raw commodity exporter. The situation would be further exacerbated in the absence of any proactive internal effort to increase value adding and diversify exports. On the other hand, the composition of Solomon Islands exports to regional markets with a relatively similar level of development tends to be more diversified and include low to medium technology manufacturers.

The immediate objective should be to expand the production of traditional

FIGURE 5.1 **Composition of Solomon Islands exports to China and Fiji**



Source: UN COMTRADE Database (using mirror data where appropriate).

[18] Upgrading in this context can be loosely interpreted as the ability of Solomon Islands firms to export higher value, including more processed, products, improve processing management or undertake additional functions in exporting e.g. labeling, branding, logistics management, input sourcing etc.

commodities like fish, copra, cocoa and palm oil and promote downstream processing to make coconut oil, copra cake, dried cocoa beans and fish products. In order to increase output, supply constraints on production, distribution and marketing will have to be addressed.

Yet identifying alternative goods and services and diversifying exports should be a major component of the country's export strategy. Intra-regional trade already tends to cover a broader range of natural resource-based products e.g. shell money, handicrafts, and also include low-to-medium technology manufactures (such as biscuits, kava powder, tea and canned fish). Export diversification and the development of niche markets may also in future extend to the Polynesian and Melanesian populations living in Australia, New Zealand, Hawaii and other parts of the Pacific region; niche markets with particular dietary requirements in the Far East; the market for organic food in the European Union. Potential export opportunities may also include:

Goods

- Branded goods: SolBrew beer, mineral water and herbal treatments;
- Certified organic foods: rice, beef, poultry, milk, fruit extracts and juices, cassava flour, processed or unprocessed taro, banana, potato and cassava;
- Handicrafts: handmade jewellery, baskets, mats, bags, paintings and sculpture;
- Manufacturing: furniture-making and ship-building using local tropical hardwoods, textiles, canning, solar stoves, solar water heating;
- Mining: phosphates, nickel, bauxite, cobalt and nickel, copper, gold.

Services

- Tourism: diving, game fishing, ecotourism, souvenirs, sailing.

was previously administered by the Business Development and Co-operatives Division under MCILI, which was then suspended when the CBSI-administered Credit Guarantee Scheme was introduced. Nonetheless, interviews during the mission found that similar schemes might have been transferred or introduced to other ministries.

In the case of copra and cocoa, grants are currently available through MAL under the cocoa and copra rehabilitation project. The scheme essentially funds traders to buy products from farmers, and then sell these to exporters. There is no obligation for payback or way to assess if benefits are being passed on to the farmers. While in theory the scheme is meant to assist in linking farmers to markets, the criteria for granting such assistance is vague and there is no monitoring mechanism.

Applications for such assistance are often made on the pretext of assisting indigenous businesses. However, there is little evidence that the scheme can stimulate the development of sustainable indigenous farming in the long run. In fact the scheme might crowd out indigenous traders who have no access to such assistance.

The way the scheme is being managed may also reduce the incentive to move towards sustainable entrepreneurship. It increases discretion and creates room for misuse of public funds to the benefit of a few traders. Rather than providing assistance to only a select few, it would be better to develop a strategy to improve access to finance and trade infrastructure.

Trade Finance

As shown in the chapter 2, access to finance is costly and difficult. Consequently, local traders often have to seek credit from exporters and accept lower prices as a result, passing the lower prices on to farmers.

5.3 NON-TARIFF ISSUES

5.3.1 Quantitative controls

Exports

The list of prohibited and restricted imports can be found in the second schedule of the Customs and Excise Act. In general prohibitions and restrictions on exports are mainly embedded in other sectoral laws and regulations. Prohibitions and restrictions are in place chiefly for environmental sustainability reasons.

For logs, there are selected species that are protected and thus cannot be harvested e.g. mangrove, breadfruit and mango trees etc. There are also restricted species that can only be exported in the form of sawn timber e.g. *ngali* nut, rosewood.

For fish and marine products, there are prohibited species e.g. baitfish, bêche de mer, and restricted species. Restrictions are mainly on the basis of size, though there also cases of quantitative restrictions on specified species.

Imports

Generally, importation of goods into Solomon Islands is free and open. Prohibitions on imports are in place mainly for welfare and environmental reasons. A list of prohibited and restricted imports can be found in the second schedule of the Customs and Excise Act.

Currently, importation of the following are banned: counterfeit currencies, food deemed unfit for human consumption, indecent articles, honey bee and second hand bee keeping equipment, matches containing white and yellow phosphorus, goods that violate Solomon Islands or UK trademarks, opium products, Royal Arms, fictitious stamps, flick knives and other goods whose importations are prohibited by other Solomon Islands laws.

Goods whose importation are restricted are alcohol, arms and ammunition, brandy, whisky and rum, cannabis, worn clothing, spirits, tear gas, tobacco extracts, electrical equipment, fluorocetamide and fireworks. Most of these require approval or permission from the Comptroller of Customs or the relevant authorities in Solomon Islands.

5.3.2 Licenses

Exports

The Licensing, Surveillance and Enforcement Division of the MFMR issues annual licenses for fish processing establishments including exporters/traders. An export permit is required for every consignment of fish exports, which costs SBD100. There are charges for transhipment of fish with different rates for sashimi-grade and normal-grade tuna. For tuna and processed fish exports, export certification is issued by the Competent Authority, at the Department of Environmental Health of the MHMS.

Copra and cocoa exporters require a license issued by the CEMA as governed under the CEMA Act. The license requires the exporter to own a proper storage facility that includes permanent building, proper ventilation and a good floor. An annual fee is charged for the license. In addition, the CEMA charges a levy for export quality inspection, currently SBD30 per tonne of copra and SBD40 for cocoa.

There is a need to revisit some licenses which might impede trade development. The SBD10,000 annual license fee for the farming of fish and any other marine species will substantially increase the cost to anyone, but disproportionately more for smaller entrepreneurs that want to invest in aquaculture. This contradicts the policy objective to develop a sustainable fisheries sector in Solomon Islands.

Imports

Import permits are required for the import of meat, fruit and vegetables by SIAQS quarantine, while permits for imports of live animals can be obtained from the Department of Livestock, both at the MAL. These measures are for animal and plant protection purposes.

5.3.3 Price control

Price control is in place to monitor prices and restrict the margin on goods deemed important for the livelihood of the people. The function is currently performed by the Price Control Unit of the Consumer Affairs Division of the MCILI. The 1982 Price Control Act provides a legal framework for an appointed Price Control Advisory Committee to monitor and restrict prices on a list of selected goods. Price restriction is done based on a certain profit margin above the landed cost. The margin is differentiated based on products and location of sales.

In practice, the Unit only controls prices on very few commodities, such as fuel and rice. The Act has long been outdated; with many of the brands of essential products listed no longer in the market, while new brands are unaccounted for. There is an urgent need to review the list under the Act. References to brand names should be removed. The list should also be restricted to cover only those that are critical to the welfare of rural and other vulnerable communities.

There is a plan to move the Unit to the MoFT, possibly as an ad hoc response to increasing public complaints about consumer price increases despite import duty reduction.[19] This is not a sustainable or effective solution. The duty reduction was made on over 1,400 tariff lines while the Price Control Act only gives the legislative power to monitor and restrict prices on selected goods.

[19] One of the arguments given for the import duty reform is that prices of consumer goods would decrease.

5.4 LEGISLATION

5.4.1 The Customs and Excise Act 2002 (Amended)

The Act is currently administered by the MoFT. It needs to be updated and amended in a number of areas to make it compatible with Solomon Islands policy objectives. Article 8 gives the Minister of Finance the full authority to set duty rates and other trade taxes. As trade taxes directly affect the portfolio of other ministries (i.e. international trade policy (MFAET) and industrial development (MCILI)), there have been some issues during the most recent import duty changes. This will be discussed in Section 5.

Article 13 of the Act gives the MoFT the right to set the determined values of exported goods from time to time, including logs and fish.[20] This may be incompatible with article VII of the GATT, which stipulates actual value as the value on which duty should be assessed, not arbitrary values. While a review can be used to bring the determined values more in line with international price, there is scope for industries to exert pressure on the Government, as shown in the recent backtracking in the Government's attempt to increase the determined value of logs.[21]

[20] There have been many discussions on the setting of the Determined Value Schedule (DVS) for logs. The Government has been losing millions in revenue due to undervaluation in the DVS. See the chapter on logging and forestry.

[21] www.solomontimes.com (2008)

5.4.2 The Price Control Act 1982

As stated earlier, the relevance of the Act needs to be re-evaluated. The economy has become increasingly open, thus it is not practicable to expect a single authority to monitor and control prices on a broad range of goods in the whole country.

The current major gap in Solomon Islands trade policy is competition policy. Having a properly administered competition policy will greatly reduce the need to perform any price control. There is, however, scope to maintain the Price Control Act by using this as a means to monitor and control the prices of the most basic goods deemed important for the people's welfare.

5.4.3 The Weights and Measures Act 1982

To date, the key problem is in the enforcement of the Act. This is one of the three acts administered by the three-man strong Consumer Affairs Division at the MCILI. Currently only the Director is certified to conduct calibration of scales, and the metrology lab has still not been rebuilt since its destruction during the 'Tensions'. There have been reported instances where Solomon Islands exporters did not receive full payments due to claims of weight disparity from the other end. A properly resourced enforcement authority will help to prevent such incidences from reoccurring.

5.4.4 The Consumer Protection Act 1990

Enforcement of the act is limited within Honiara due to weak implementation capacity.

5.4.5 The Foreign Investment Act 2005

As suggested in the chapter on the business environment, the mechanism to develop and review the reserved list can be improved.

5.4.6 The Income Tax Act 2002 (Amended)

As discussed earlier, there is scope for targeted tax incentives to support the country's development objectives, including through coherent prioritisation of sectors.

5.4.7 CEMA Act

Administered by CEMA, the Act governs trade in specific agricultural commodities i.e. copra and cocoa including export licensing, quality inspection and commodity development.

5.5 GAPS IN TRADE AND TRADE-RELATED LEGISLATIVE FRAMEWORK

5.5.1 A Fair Trading Act

The Government needs to consider resuming the process to enact of a Fair Trading Act. A draft act has been developed based on that of Fiji, and has been with the MCILI since 2000. The draft act covers competition policy (restrictive trade practices), consumer protection, conditions of warranties, and information and safety. Some amendment to the current draft might be needed with a view to reducing the level of discretion given to the minister in dealing with competition issues.

5.5.2 A Intellectual Property Act

To date, there is no IP Act in Solomon Islands. The Office of the Registrar General administers the Acts on the registration of United Kingdom trademarks, patents and designs, as well as the 1987 Copyright Act.

The Copyrights Act is not currently enforced. The reason given by the administering office was the absence of regulations to facilitate implementation, and the lack of capacity.[22] As Solomon Islands entertainment and media industry gains popularity, the Government may consider addressing the operational aspects of the Copyrights Act.

[22] Interview with the Acting Registrar General at the Office of Registrar General.

5.5.3 A Trade and Commerce Act

Despite its critical portfolio on international trade policy and negotiations, currently the MFAET does not have any legislative power and thus control over any aspect of trade policy. The enactment of a Trade and Commerce Act would give the Ministry the legal framework to co-ordinate the different policy aspects relevant to international trade *inter alia* tariffs and safeguards. A similar recommendation has recently been made in the Vanuatu DTIS.

5.6 INSTITUTIONAL FRAMEWORK

Solomon Islands currently does not have a comprehensive trade or productive sector development policy. The IF Initiative is the country's first proactive step to mainstream trade into national development strategy. The DTIS can be used as a building block for future development of trade policy. Although its more immediate objective is to identify the main bottlenecks and prioritise actionable recommendations that can be executed with adequate resource support.

The trade policy will need to have a long-term focus, be technically and practically justified, and allow for stability at times of political change. It must be strongly owned and developed by national stakeholders, and sensitive to the local environment. A generic policy template developed by external advisors with little understanding of the local context will not be practicable or sustainable.

Strategic sequencing is crucial. Trade and productive capacity development should be the main focus. This needs to involve all relevant authorities, moving away from the current situation where the Department of External Trade (DET) is the sole authority in charge of trade development.

Trade liberalisation must be conducted strategically to meet development objectives. For Solomon Islands, these are a reduced dependence on aid, sustainable growth, and inclusive outward-looking productive sector development that support rural advancement. A more strategic and co-ordinated approach to trade and economic partnership negotiations is needed.

Trade policy development and implementation require multi-stakeholder involvement outside the DET. Currently the DET focuses on international trade policy, mainly on negotiations. Nevertheless there is little realisation and understanding across departments and ministries as to how their portfolios are inseparable instruments for trade development.

The lack of co-ordination across different ministries and relevant policies is a major impediment to trade policy development. The absence of any long-term national development plan has been an ongoing problem, although there are plans for a National Development Strategy. The Medium-Term Development Strategy only covers three years, the first one from 2008 to 2010, and there have been issues in terms of the mechanism used for consultation. An isolated approach to policy development[23] can result in fragmentation and discontinuity.

[23] The policy statements and translation documents were developed by the PMO, the MTDS by the MDPAC, corporate and work plans by individual ministries.

5.6.1 The Department of External Trade (DET)

In 2006, the DET was moved from the MCILI to the Ministry of Foreign Affairs. The latter then became the MFAET. This move has raised the profile of trade and trade-related issues among Government ministries, and allowed the DET to focus more on international trade policy by leaving its promotion portfolio to be more appropriately dealt by the MCILI. The DET's focus is on trade negotiations.

The DET is currently led by a Director, and effectively consists of only four people (a senior trade officer is being seconded to the IF-NIU and the Deputy Director has been away on study leave since 2005). As some new positions have been officially approved by the Permanent Secretary, the Director needs to strengthen the human resources in the DET by actively recruiting personnel without delay. Improved administrative support would help avoid a situation whereby officers with technical responsibilities spend their limited time dealing with logistics and administrative issues.

Understanding of the various trade agreements remains limited even among key Government departments including the division in charge of export development in the MCILI. There is a common misconception that the DET deals with international trade, including international trade exhibitions, while the MCILI deals with internal trade.

The MCILI should take the lead in trade development i.e. industrial and investment policy, and trade promotion in both domestic and international markets, promoting the utilisation of various trade agreements and preferential market access to Solomon Islands' producers and exporters. It should work closely and proactively with relevant cross-cutting and sectoral ministries and take charge to address the supply-side constraints to trade and export development. At the same time it should be working closely with the MFAET, which deals with international trade policy, e.g. securing market access for Solomon Islands products overseas.

5.6.2 Mechanism for trade and trade-related policy-making

Ideally a co-ordinated trade policy will involve both proactive and defensive aspects. The proactive side covers supply-side development including investment and industrial policy, supply-side stimulus (i.e. infrastructure), access to credit and competitive utilities, taxation policy and incentives, trade facilitation and guaranteed goods and services market access through trade agreements. The defensive side covers competition policy, consumer protection and intellectual property rights, dispute settlement, safeguards, policy space, and selective and strategically sequenced liberalization.

Government tasks can be broadly summarized as formulation of clear productive sector development trajectories, development of the necessary institutional framework and implementation of a coherent and comprehensive policy package. For Solomon Islands, this means having visible commitments on a rural economy-sensitive productive sector development strategy in future National Development Plans and MTDS. Solomon Islands stakeholders in trade and trade related policy making are:

- **MDPAC** in charge of developing the MTDS and future development of the National Development Plan;
- **MCILI** deals with investment policy and promotion, industrial development policy, consumer affairs including consumer protection, metrology and price control, labour and immigration;

- **MFAET** deals with international trade policy;
- Ministries and authorities that deal with cross-cutting issues relevant to productive sector development are **MoFT** (financial reform,[24] tax structure and incentives, Government finance), **Ministry of Infrastructure and Works** (trade infrastructure), **Ministry of Aviation and Communication** (fair and competitive air transport and telecommunication services), **Ministry of Provincial Government** (ensuring inclusive policy development), **CBSI** (macroeconomic stability) and **utility boards** (SIWA, SIEA);
- Productive sector ministries: **MAL, MFMR, Ministry of Forestry and Natural Resources, Ministry of Mines and Energy**. They should ideally be in charge of market-based research and development, knowledge transfer, efficient and sustainable production technology;
- Trade Facilitation: **Customs and Excise Division** (MoFT), **Quarantine services** (SIAQS), **Competent Authority for Fisheries** (MHMS), **Standards and Conformance** including metrology (Consumer Affairs Division), **Marketing and Export Promotion Division**, foreign investment registration (**FID**), **Labour, Immigration and the Trade Dispute Panel** (MCILI);
- **Non State Actors:** Private Sector Associations including SICCI, SMEC, ASIM (SMEC and ASIM formed an umbrella organisation BCOSI) and SIWIBA, financial institutions (commercial banks and credit unions), NGOs, women's groups, consumer groups (none exist at the moment), trade unions, producers' associations, and regional networks.

[24] Note that currently there is high interchangeability in the use of the term economic and financial reforms in Solomon Islands. It should be noted that while financial reform is within the technical portfolio of the MoFT, economic reform has a much broader coverage beyond financial matters, including real sector development.

The current institutional environment for trade and trade-related policy-making is fragmented. There is insufficient coordination and minimal provincial outreach. On a more positive note the IF can be seen as the first step to address this.

Local Government has had little participation despite the current policy focus on rural development, as policies are often developed using a top-down approach. Existing NGOs and other civil society organisations, for example. Oxfam,[25] SIDT, Save the Children, and church groups, have not been involved in trade and trade-related issues, with the possible exception of Transparency Solomon Islands who has been quite vocal on log trade issues. Understanding of trade issues is lacking.

[25] There is scope to address this problem. For example while Oxfam Solomon Islands does not have any current work in trade, Oxfam New Zealand has been very active and engaged in trade issues in the region. Collaboration between and within civil society organizations can help to share the burden of raising public awareness in trade and trade related issues.

The main private sector associations are generally quite active and involved, including SIWIBA as represented through SICCI and small businesses as represented by SMEC. The key women's group in Solomon Islands is the National Council of Women. Although its main focus is not on trade the Council has to be regularly consulted. Producers associations are scarce and most associations are formed by traders.

Apart from trade negotiations, little consultation on other trade and trade-related issues takes place. Due to resource constraints, the DET often has to rely on workshops and seminars organized by others e.g. PIFS to reach out to national stakeholders. This results in a lack of sense of ownership and continuity. The MDPAC, like other ministries, also faces substantial capacity constraints. There is a role for the IF-NSC, whose membership already includes many of the stakeholders at a technical level, to assist in co-ordinating trade and trade-related policy making. The IF-NSC can be utilised as a better-resourced and informed successor of the now inactive NTFC, with more inclusive membership, including non-state actors. There is also the possibility of either expanding the membership to include respected local academics and economists, or to invite them to sit in the advisory board.

5.6.3 Coordination issues in trade and trade-related policies

This subsection highlights the main areas where coordination is deemed to be lacking or nonexistent, where policy design does not support policy objectives, and where there is a pressing need to remedy the situation.

5.6.4 Linking policy objectives to trade negotiations

As highlighted earlier, Solomon Islands is taking a high risk approach to negotiations. There is insufficient awareness and understanding of trade negotiation issues and its relevance to the Government portfolio outside that of the DET, not just at departmental/ministerial but also at the political level. The absence of a national strategy that clearly identifies priority interests in negotiations, weak coordination among and participation from relevant stakeholders, and the absence of a formal consultation mechanism are all contributory factors.

There is an urgent need to address this as the negotiation timeline is often outside the country's control. There are ways to temporarily overcome this coordination issue. This can be done by forming a core national trade negotiation team, led by the MFAET and including relevant economic ministries e.g. MDPAC and MCILI. The main terms of reference of the team would be to formulate consensus on national negotiating positions on various issues and to identify the key defensive and offensive interests. National ownership is fundamental.

The IF-NSC can be used temporarily to solicit inputs into national negotiating positions. Specific technical working groups in key negotiation areas such as labour mobility, agriculture and agro-processing, fisheries, development co-operation can be formed based on the stakeholders' area of competence. In the medium term, the DTIS with necessary amendments can also be used to assist in formulating positions for trade negotiations. Budget resources will need to be allocated for preparations for negotiations as an indication of political will.

Ideally issues such as tariff liberalisation strategy, identification of sensitive or exempted goods, identification of services sectors and sub-sectors, current limitations on MFN and national treatment, and the quid pro quo must be thoroughly discussed before the trade delegation begin negotiation talks. The delegation can then be given the mandate with sufficient guidelines to negotiate in the best interests of the country. An inclusive national negotiation is likely to raise the public profile of trade issues, and the sense of ownership of other relevant authorities.

A lesson that Solomon Islands could learn from the recent EPA process is that no other structure can replace the importance of having an inclusive national consultation mechanism. The approach taken in the EPA negotiations has resulted in an eleventh hour region-country divide, as PNG and Fiji initialled the Interim EPA (IEPA) just weeks before the Cotonou preferences expired. An inclusive national consultation mechanism can avoid this.

5.6.5 Coherence between policy objectives and implementation

Both the current and previous Governments have shown commitment to productive sector development in a manner that is supportive of rural development. The need to develop alternative productive sectors to replace the declining forestry sector has also been highlighted.

Currently, the work program of productive sector ministries deals mainly with the production side, often heavy on projects with quantitative goals rather than addressing the institutional issues. Trade and commerce have been given minimal attention despite their critical importance in linking production to markets, and in promoting value adding in line with sector prioritisation.

Resource constraints hamper the implementation of a productive sector development strategy. Despite a large inflow of aid resources into Solomon Islands, only a small share is directed at productive sector development.[26] Even the EC, which has identified trade capacity building as one of its main focus[27] under the 10th EDF has no specific work plan dedicated to trade development, aside from resources to attend workshops or conferences.

5.6.6 Import duty reform

In January 2007, the Economic Reform Unit (ERU) within the Ministry of Finance undertook a four-part reform of import duties:

- The top rate was reduced from 20% to 10%;
- The number of exemptions was lowered significantly;
- The import tariff classification was replaced with the 2002 Harmonised Tariff classification;
- Export duties on plantation logs were removed.

According to the ERU, import duty reform was designed to reduce costs for local businesses and communities; create a more level playing field so that all businesses pay their fair share; ensure that Government collects enough revenue to fund its rural development policies.

Solomon Islands multilateral commitments did not require tariff reductions. As a WTO member, Solomon Islands is only required to keep its tariffs at or below its bound rates, which are well above the pre-reform applied tariffs. Prior to the reforms Solomon Islands had five tariff bands, the highest at 20%. Tariffs were based on revenue, welfare and equity considerations, and aimed to stimulate development and value addition in the priority productive sectors. The reform halved more than 50% of Solomon Islands' total tariff lines, including agricultural and agro-processed products, horticultural and fisheries products. It also removed many of the statutory exemptions including all those given to the productive sector.[28]

According to an internal policy brief[29] developed by an external advisor at the ERU, the impact on the real sector was not included in the list of criteria used for the reform.[30] Speed, ease, revenue impact and robustness were the primary considerations, showing a focus on administration and revenue rather than the impact on the real sector and the subsequent long-term effect on the country's tax base.

Arguably this one internal policy brief does not represent the overall position of the ERU, but it highlights a difference in perspective between some officials within the MFAET and MoFT. Officials within the MFAET argue that exemptions should be used to conduct strategic policy with a view to developing the productive capacity of the economy, which will improve the Government's ability to collect revenues in the long run. Maintaining some tariffs at higher levels will help stabilise Government revenues at a time of economic unpredictability. Some MoFT officials take the view that unilateral tariff reductions will lower costs for businesses, reduce distortions and lead to higher economic growth, while a reduction in exemptions will help Government to recoup revenue losses from lower duties.

In ERU (2006), one of the arguments given was that the reform is expected to be revenue neutral in the medium run and possibly positive in the long run.

[26] The IF is indeed a proactive effort by the Government to co-ordinate donors' support for trade and productive sector development program.

[27] Source: interview with the Program Manager of the PMU.

[28] Including full exemptions on raw material and inputs given to industries, packaging, and partial exemptions given to goods for agriculture, horticulture, aquaculture and fishery.

[29] The policy brief was also circulated between the ERU and the Customs and Excise Division, MFAET was able to access this only through persistent effort and through the good working relationship it has with the Customs and Excise Division.

[30] Source: ERU (2006).

A number of studies suggest that LDCs struggle to recoup revenues in the event of trade tax liberalisation. Baunsgaard and Keen (2005) have shown that on average LDCs can only recoup 30 cents out of every $1 tax revenue from alternative taxation. There was little discussion of the impact of the reform on the static and dynamic competitiveness of domestic productive sectors, aside from the blanket assumption of lowering the cost of production inputs.

The ERU reports that consultations over the 2007 duty reform were widespread and occurred over several months, but many stakeholders consulted for the DTIS, including those ministries whose portfolio was directly affected by the reform (primarily MCILI and MFAET), felt that pre-reform consultation was minimal and that insufficient discussions were held at a technical level. MFAET officials also feel that the 'trade' view was insufficiently reflected in the final outcome, despite efforts to make their views known.

The reform came at a difficult time, as Solomon Islands was developing offers on tariff liberalisation for EPA negotiations with the EU. The unilateral nature of the tariff reductions undermined the MFAET's negotiating position on EPA and future trade negotiations such as PACER Plus. Under the 2007 reform, if MFAET had been briefed and consulted earlier, it could have built in the reforms to its negotiating position and delivered a better outcome in international trade talks.

Whether the view of MFAET or MoFT is correct, it is clear that the debate has not been resolved, and that significant differences remain within Government. These differences can only be tackled through further consultation and better inter-Ministerial coordination. Discussions should not simply be a formality—the outcome should be reflected in any final decision.

Currently, under the Customs and Excise Act the responsibility for setting trade taxes lies solely with the Minister of Finance. The technical domain of the MoFT on tariffs is limited to ensuring the stability of Government finance. Trade taxes are key aspects of international trade policy and essential industrial policy instruments thus are also de facto within the portfolio of the MFAET and the MCILI. Any future tax reform also needs to be done in close consultation with the MDPAC. The lack of a legislative framework to reflect this significantly reduced the coordination of international trade policy.

The policy statements of the CNURA Government aim to improve revenue collection through tax reform, in a way that supports economic growth and is fairer and more efficient. Meeting this policy objective requires co-ordinated reform efforts across ministries. Any future tax reform plans need to be discussed at the technical level among relevant core ministries—MoFT, MCILI, MDPAC and MFAET—not just to foster national ownership but to deliver a coherent international trade policy.

5.7 TRADE AGREEMENTS AND NEGOTIATIONS

Solomon Islands is a party to the MSG-FTA and PICTA and is a signatory to the Pacific Agreement on Closer Economic Relations (PACER). Solomon Islands is also an LDC member of the WTO. Solomon Islands as part of the PACP is currently negotiating as a region for a comprehensive EPA with the EU. It is also preparing to enter into a negotiation with ANZ under PACER Plus in 2011 or earlier.

Solomon Islands enjoys non-reciprocal preferential access to some industrialised countries. Solomon Islands has duty free access to Australia and New Zealand markets under the South Pacific Trade and Economic Co-operation

Agreement (SPARTECA) and to the EU market under the Everything but Arms (EBA) initiative for LDCs. But without significant development co-operation, sectoral components and improvement in non-tariff market access, it is doubtful whether *ceteris paribus* more market access and liberalisation can meaningfully help to develop Solomon Islands trade.

Any trade liberalisation needs to be conducted in parallel with, if not be preceded by, the implementation of a comprehensive productive sector development strategy. For it to work as a development tool it must be sequenced strategically and accompanied by the necessary institutional and regulatory framework.

5.7.1 Economic Partnership Agreement (EPA) with the EU

As the ACP trade preferences in the EU market under the CA came to an end, on 23rd November 2007 two PACP non-LDCs (PNG and Fiji) initialled the Interim EPA (IEPA) to maintain their market access for tuna and sugar. Solomon Islands together with all other PACP LDCs opted instead to use the Everything But Arms (EBA) provision, which provide the same level of market access to CA although with more restrictive RoOs. The remaining non-LDC PACPs opted not to sign, and instead to export to the EU under the standard GSP preferences extended to all developing countries, since none of these countries exports significantly to Europe.

A number of provisions in PNG and Fiji's IEPA are seen as being contrary to development. In the case of any possible EPA which Solomon Islands may sign, such provisions include:

i *Third Party MFN*
This provision requires parties to the agreement to offer the same or better concessions to each other if an FTA is signed with a third developed or major trading partner. Third party MFN may result in a more uniform trade policy, although it has been subject to a number of criticisms. The obligation to extend the same concessions to the EU limits the scope and incentives for Solomon Islands to negotiate an FTA with others. It also sets a precedent for future FTA negotiations with other trading partners that have more substantial implications than the EU, such as ANZ under PACER Plus.

ii *Standstill*
This provision will significantly limit policy space to support the development of Solomon Islands industries and to effectively stabilise its balance of payments when needed. Solomon Islands recent unilateral import duty reform has yet to fully reveal its long-term impact on the productive sector and future tax base. To bindingly agree not to use its tariff policy space when required might have severe future consequences. The impact of this is further exacerbated by unsatisfactory safeguard provisions and the absence of an infant industry provision in the IEPA.

iii *Elimination of/restriction on export taxes*
As elaborated earlier, Solomon Islands cannot afford to eliminate export taxes under the EPA or in any future FTAs. Elimination of export taxes further limits the policy space available with significant risks of destabilising Government finance.

iv *Circulation of goods*
This provision demands guaranteed duty-free circulation of EU goods within the Pacific region once duty is paid upon entry in a signatory PACP. Having this as a binding provision is unnecessary as Solomon Islands already has an MFN provision for transhipment in its Customs and Excise Act.

v *Safeguard measures*
The safeguard provisions in the IEPA do not sufficiently cater for Solomon Islands' needs. The requirement for consultation, joint examination of the need for safeguards, or proof of injuries is costly and difficult to utilise. A simple and effective mechanism that allow for automatic price or volume-based trigger would be preferable. The current attempt to address the infant industry problem using a modified safeguard mechanism is insufficient. On the other hand, there are a number of key provisions which were omitted from PNG and Fiji's IEPA. If Solomon Islands is to sign an EPA goods agreement, it will be desirable to demand the inclusion of these provisions:

vi *Development*
There is no clear development co-operation commitment in the IEPA beyond best endeavour language. While PNG and Fiji have bindingly committed to liberalise trade with the EU, there is no reciprocally binding, let alone time-bound, commitment from the EU to provide technical and financial assistance. Admittedly, demand for binding assistance needs to be supported by a clear articulation of national needs. The PACP regional strategy to demand additional assistance without clearly articulating these needs at the national level has weakened the region's position. While additional assistance is always welcomed, it is the certainty of binding assistance (in terms of timing) and clear identification of country specific adjustment needs (which reflect the level of required assistance) that matter more.[32] It is crucial for Solomon Islands to remain involved in the work of the Trade and Development Committee.

[32] Demand for additional assistance at regional level may seem implausible, when much of the EU aid money remain unspent at the national level, and there is inadequate emphasis or importance given to trade and trade-related program in the NIP. This reinforces the need to start co-ordinating negotiation efforts at the national level first to strengthen the regional position in such key issues.

vii *Infant and new industry provision*
Safeguards are applicable only to existing industries. For the EPA to be a development instrument, it needs to cater for new industries that reflect the country's dynamic comparative advantage. A separate infant and new industry provision that allow for review of tariffs and temporary suspension of commitment will provide space for the development of infant and new industries. Such a provision needs to be time bound to avoid prolonged protection of inefficient industries, but must not expire (in other words, individual cases of protectionism must be of limited duration, but the country must be able to protect new industries for as long as it is developing). Previously, the EC has recommended eight years for non-LDCs and 13 years for LDCs, while PACPs have tried to extend these timelines.

viii *Conditional liberalisation/development-focused review provision*
A more development-sensitive review provision can be included. One option is to set up a monitoring mechanism on the developmental impact of EPA once implemented, which would allow for possible review

of tariff schedule commitments or suspension of liberalisation should detrimental impacts found.[33] Another is to allow for conditional sequencing of liberalisation, using a form of assessment before moving to the next phase of liberalisation, allowing for review or temporary suspension of liberalisation commitments where necessary.

In the trade in goods agreement, Solomon Islands should generally look at long transition periods, bearing in mind WTO compatibility,[34] a better definition of 'substantially all trade',[35] scope for liberalisation backloading and effective review provisions. The same are also applicable to other FTA negotiations.

The Government's decision on whether to be a part of the EPA will depend on the provisions in other components of the EPA. On services, labour mobility remains the priority area. Nevertheless, since the PACP countries decided in April 2008 to suspend EPA negotiation on services until the completion of PACER Plus, this reduces the priority for the moment. Without goods and services agreements, the 'comprehensive' EPA is expected to cover agreements on development, fisheries, competition policy and others.

5.7.2 The Melanesian Spearhead Group Free Trade Area (MSG-FTA)

The original MSG Trade Agreement was signed in 1993 as a trade treaty governing the three Melanesian States of Vanuatu, Papua New Guinea, Solomon Islands. Fiji signed the agreement in 1998 after joining the MSG the previous year. It used a positive list approach whereby 180 goods were traded duty free among members. The reviewed version of this agreement (2005) established an FTA among members, with the exception of individual members' negative lists.

While 9% of Solomon Islands imports came from MSG countries in 2007, only 2.3% of exports go to the MSG markets. This is partially due to bigger manufacturing bases in PNG and Fiji, and their more proactive utilisation of the trade agreement. Nevertheless, this also reflects general supply-side constraints in Solomon Islands, and the (indirect) relatively high cost of utilisation of the MSG FTA for its producers and exporters.

Information availability is scarce and understanding of the agreement is lacking even among Government ministries. Management of certification of origin is cumbersome. Exporters have to buy the certificates of origin in the Accor Bookshop,[36] where availability is inconsistent.[37] The certificates need to be stamped by both the Customs and Excise Division and the MCILI.[38] In practice, the MCILI does not have the capacity to inspect the origin of exported goods but it added time and administrative costs for the exporters. Many of the customs officials are also unaware of the key provisions in the agreement.

Currently there is also a move to expand the MSG FTA to cover services. There is a need to assess how feasible this is in terms of time, resources and capacity. With the current services negotiation taking place under PICTA, MSG Trade in Services negotiations may just duplicate the same efforts. Currently Solomon Islands trade with PICs is dominated by intra-MSG trade, so there is little possibility that Solomon Islands has different interests on trade in services with MSG and PICTA countries.[40]

There are lessons to be learnt from the MSG FTA. First, the current Solomon Islands MSG negative list does not show any long run strategy for the country to develop and upgrade its sensitive sectors. The list shows that the majority of items were included to protect the few import substituting manufacturers, who were

[33] On food security, small businesses, employment, prices, etc.

[34] Possibly looking at 20 years for LDC, and up to 25 years for sensitive products.

[35] Currently all IEPAs seem to adhere to the EU definition of substantially all trade as 90% of trade volume, whereby the EU liberalised 100% of its trade and ACP at 80%.

[38] In practice, exporters still get their forms stamped by the DET at the MFAET, whose officers are often overseas, or by the MCILI whose officials have limited understanding of the agreement.

[36] With the establishment of a proper MSG secretariat in Port Vila, there are easier ways to deal with this e.g. providing exporters with a downloadable certificate of origin from an official MSG website.

[37] The form was out of print during the DTIS mission.

[40] Source: Interview with trade officials.

more vocal during consultation and often directly participated in the negotiations.[41] Second is the shortfall and lack of national coordination in effective implementation of the agreement. With various negotiations underway or being prepared for, Solomon Islands authorities need to be more co-ordinated in ensuring effective and timely implementation of trade agreements. Exporters need to be able to utilise these agreement with ease, and at minimal cost.

[41] It was even possible to identify the private sector representatives involved in the development of Solomon Islands MSG negative list. Protection was given to the few import substituting manufacturers at the expense of more dynamic smaller industries e.g. agricultural and agro-processing products that are more embedded in the rural economy and have greater backward linkages.

5.7.3 The Pacific Island Countries Trade Agreement (PICTA)

The Pacific Island Countries Trade Agreement (PICTA) is a trade in goods agreement among the fourteen FICs excluding Australia and New Zealand. PICTA was endorsed in August 2001 and provides for the phased elimination of tariffs among members. Alcohol, tobacco and fuel are currently excluded from the agreement.

Tariff liberalisation i.e. *ad valorem*, specific and fixed duties for non-exempted goods will begin in 2009 for LDCs to be fully eliminated by 2017. For exempted goods, tariff liberalisation will start in 2012 for LDCs up to 2021. Solomon Islands is fortunate as 1 January 2007 is used as the date for base tariffs; this is a week before the unilateral duty reduction was gazetted. Due to the January 2007 reform, Solomon Islands is currently ahead of its PICTA liberalisation schedule.

Solomon Islands' exempted list in PICTA is a shorter version of its MSG negative list, implying some inconsistencies in its approach to regional integration. The list also fails to reflect a clear strategy for productive sector development. While swine feed is included under the exempted list, pig meat is not, possibly impeding the development of its pig farming industry. In the case of confectionery, wheat flour and finished confectionery products aside from biscuits were included in the exempted list, although biscuits are probably the only established confectionery manufacturing in Solomon Islands.

Although the absolute size of trade between Solomon Islands and PICs is small and the revenue impact unlikely to be substantial, PICTA has a logical significance to facilitate coherently sequenced regional economic integration prior to the possible opening up of Solomon Islands economy to bigger trading partners e.g. the EU under EPA and ANZ under PACER Plus.

As mentioned previously, Solomon Islands has the potential to diversify exports under PICTA by developing its markets in non-MSG PICs. Under the MSG FTA, competition with the more developed members (i.e. PNG and Fiji) makes it difficult for Solomon Islands producers to compete for market share, while PICTA membership includes smaller and less developed island countries. Soaring oil and commodity prices provide an opportunity for regional suppliers, who have had to compete with competitive major global producers in the past.

PICTA also faces the same weakness in its implementation as the MSG FTA. There is no internal coordination as to how implementing agencies should proceed. Interviews found that Customs officials are not clear about how to schedule PICTA liberalisation or administer ROOs provision. The current approach of having experts from PIFS to conduct regular workshops has limited effectiveness in the absence of national coordination to implement these trade agreements.

PICTA currently covers only trade in goods. In the Forum Leaders' Meeting in 2005, the leaders agreed on the need for "integration of trade in services, including temporary movement of labour". To an extent this is to synchronise regional integration with other negotiations, such as the EPA with the EU.

Three rounds of PICTA services negotiation were announced in March 2008 by Trade Ministers. The first took place in March 2008, the second was concluded in July, and the third expected to take place in early 2009. In the second round, PICTA members exchanged indicative requests and offers for services sector liberalization. Also included in the negotiation is Temporary Movement of Natural Persons (discussed in chapter five on human development).

5.7.4 Extension of the Pacific Agreement on Closer Economic Relations (PACER Plus)

The Pacific Agreement on Closer Economic Relations (PACER) sets out a broader umbrella agreement for economic co-operation among all Forum members including Australia and New Zealand. The main component of PACER is the Regional Trade Facilitation Program, which entails regional co-operation in the areas of customs, quarantine and standard and conformance. Under PACER, the PICs are to enter into negotiation with ANZ with a view to setting up an FTA, eight years after PICTA came into force i.e. 2011. Negotiation can also be triggered earlier should the PICs enter into formal negotiation with a developed non-Forum country. The framework in which the negotiation is to take place is known as 'PACER Plus'.

As decades of preferential market access into the ANZ markets under SPARTECA have failed to facilitate Solomon Islands export development, PACER Plus will need to be significantly more than a typical FTA. It needs to address the supply-side constraints faced by FIC producers.

On the proactive side, in the agreement on trade in goods under PACER Plus duty free market access needs to be supported by significant improvement in RoOs; possibly requiring product or sector-level assessment; binding assistance in strengthening Solomon Islands capacity to meet ANZ SPS and standards requirements.

Solomon Islands may want to consider having sector-specific chapters under PACER Plus, similar to fisheries under the EPA. This can help in dealing with more sector-specific behind and beyond the border constraints. Private sector development co-operation including trade finance mechanisms would be desirable, but must be tailored in a manner that is sensitive to the needs of smaller businesses. On services, labour mobility is an essential component. For it to be meaningful it needs to include low and semi-skilled sectors and a quota-based component,[42] possibly along the lines of the existing Recognised Seasonal Employer scheme.

On the defensive side, the priorities for PACER Plus echo that of the EPA, with even stronger tone as ANZ are much bigger trading partners for Solomon Islands than the EU. Long transitional periods, flexible definition of substantially all trade, a simple and effective infant/new industry provision, simple and effective safeguards, review provisions and conditional liberalisation are the priority concerns in the goods component. A development sensitive dispute settlement provision should to be considered, while provisions on MFN, standstill, elimination or restriction of export taxes avoided.

An opt-in opt-out provision for the different components of PACER Plus will give Solomon Islands the flexibility to prioritise issues and optimise the use of its constrained negotiating capacity. Flexibility over the components of PACER Plus will help to avoid the mistake in the EPA negotiations of trying to include too many issues, and struggling to find common denominations among too many countries.[43]

Co-operation among FICs with common priority areas e.g. LDCs on special and differential provisions, FICs with significant fish, agriculture, forestry or

[42] The region should realise the possible conflict of interest among FICs on the setting of quota for labour mobility. Bigger countries like PNG and Solomon Islands would prefer population-based quota, while the SIS will not.

[43] Source: PIPP (2008)

mining industries on sector-specific chapters, needs to be nurtured from the outset. Information sharing and exchange of ideas can help to inform formulation of, and find common grounds in, national and (sub) regional positions. Existing institutions such as the MSG Secretariat and FFA can be used to facilitate this process.

The engagement of local and regional academics, research institutions, the media and NGOs can help to shape the negotiation agenda and sensitise the public and leaders. Australia has announced the availability of a facility for the FICs to undertake national studies to inform their engagement in PACER Plus. Solomon Islands needs to strategically utilise these resources.

5.7.5 World Trade Organisation (WTO)

Current negotiations under the Doha Development Agenda (DDA) are unlikely to present significant difficulties for Solomon Islands as a WTO member. In NAMA negotiations, LDCs are not expected to make any tariff reduction commitments, although they are expected to substantially increase their bindings. Solomon Islands has already bound 100% of its tariff lines. The modalities also contain provision for enhanced market access for LDCs. The NAMA negotiations recognize that MFN liberalization will erode non-reciprocal preferences enjoyed by beneficiaries in some tariff lines. As a result, these beneficiaries will be given additional time for adjustment.[44]

In agriculture negotiations, LDCs are exempted from tariff reduction commitments. LDCs are being accorded special flexibilities in all three pillars: *(i)* Domestic Support; *(ii)* Market Access; *(iii)* Export Competition. If the modalities for agriculture negotiations are agreed upon by Members, LDCs will receive the following flexibilities: *(i)* Exemption from tariff reduction commitments which implies that Solomon Islands will not be required to reduce its bound rates; *(ii)* greater flexibility than other developing countries in the application of remedies in the case of a surge in imports (special safeguard mechanism); *(iii)* special dispensation in the disciplines on food aid; *(iv)* access to a longer repayment period for export financing support for the acquisition of basic foodstuffs.

LDCs are not expected to undertake new commitments in services negotiations. LDCs are also exempted from undertaking commitments in the area of domestic regulation. Modalities for special treatment for LDCs for the negotiations on trade in services were adopted in 2003, which form the basis for LDCs' participation in the negotiations. Members are working to develop a mechanism to grant special priority to LDCs in sectors and modes of supply of export interest to them.

Parallel to the DDA negotiations, WTO Members in November 2005 agreed to extend the transition period under Article 66.1 of the TRIPS Agreement for LDCs until 1 July 2013. The decision essentially allows LDCs more time to provide protection for trademarks, copyrights, and other intellectual property under the TRIPS Agreement. It should be noted that the transition period for LDCs for certain obligations with respect to pharmaceutical products was extended until 1 January 2016, following the Doha Ministerial Conference.

The exemptions for LDCs and for access fees on fisheries subsidies in the draft text have adequately reflected Solomon Islands interests to date. Nevertheless negotiations on rules can only be concluded after negotiations on NAMA and Agriculture. Solomon Islands should aim to maintain these outcomes when and if the Doha Round concludes.

Solomon Islands should and remain involved in the Group of Small and Vulnerable Economies. Recognition of the special circumstances faced by such

[44] Annex 2 of the NAMA modalities (TN/MA/W/103/Rev.3) contains some of the fish and fish products (such as tuna loins) for which MFN reduction will be made on a gradual basis to allow the preference beneficiaries for adjustment.

economies is only likely to occur in the context of co-ordinated action. Individually, these countries rarely possess the negotiating capacity to promote their interests satisfactorily.

5.8 CONCLUSIONS

Despite the active participation of Solomon Islands in global trade, trade policy is not used as a development tool. The country's policy objectives have recently moved in a more positive direction, but these objectives have not fully been translated into policy design and implementation. A nationally-owned and driven trade policy would place productive sector development at the forefront of the development agenda.

Coordination between the MDPAC and relevant productive sector ministries needs to improve. A national development plan and any future such documents, such as the MTDS, require technical-level inputs from relevant economic ministries (i.e. MCILI and MFAET, as well as MoFT) starting from the drafting phase. In the short to medium term, the DTIS can be used as a building block for the country's trade development strategy. Recognising the capacity constraints in the MDPAC, the IF-NSC can co-ordinate inter-ministerial work on productive sector development, and resources from development partners on trade and trade related assistance. This requires better collaboration between the IF-NIU, the membership of the IF-NSC and the MDPAC.

The current lack of legislative power for the MFAET to co-ordinate international trade policy can be addressed by the enactment of a Trade and Commerce Act. In the more immediate future, appropriate amendments to the Customs and Excise Act will help improve trade policy coordination. The main recommended amendments are to require consultation on setting trade taxes—including the MoFT, MFAET, and MCILI, and to review the current provision that allows the MoFT to set an arbitrary determined value on exports.

The structure of trade taxes needs to be reviewed to better reflect the country's policy objectives. Particularly on import duty, the January 2007 reform needs to be revisited. The review needs to be done in a timely manner, considering EPA and PACER Plus negotiations. The statutory exemption list for import duties should be reviewed to accurately reflect development-focused sector prioritisation and reduce prolonged protection given to inefficient import substituting manufacturers.

Resuming the process to enact a Fair Trading Act should be considered. An Act that includes competition policy and effective consumer protection provisions will help to fill the main gaps in Solomon Islands trade and trade related legislative framework. A development-focused national IP structure, focusing on traditional knowledge, biodiversity, trademarks and with special attention given to the entertainment industry can be considered in conjunction with any existing regional IP initiative.

More proactive trade development strategy needs to be led by the MCILI in close collaboration with productive sector ministries and other relevant economic ministries. Provision of a 'one-stop shop' service should be extended to domestic investors. A development-focused investment policy needs to be adopted, which include prioritisation of sectors with greater linkages to the rural economy. Investment incentives also need to be better targeted; sector-wise and scale-wise. A trade help-desk to provide market and product information including information on various trade agreements and preferential access can be established; a portfolio ideally undertaken by the Marketing and Export Division at the Ministry.

Forming a national negotiating task force consisting of core economic ministries can provide a platform for consultation. The IF-NIU, so long as it remains adequately resourced, can provide secretarial support, while membership of the IF-NSC with the possible inclusion of local economists and academics can also be utilised. This will ensure that FTA negotiations are nationally driven and owned to increase the possibility of beneficial and development-friendly agreements.

Solomon Islands should remain closely involved in the EPA negotiations, placing priorities on the fisheries and development component. Should a trade in goods agreement be signed under the EPA, recommendations on the unpopular and omitted provisions in the PNG and Fiji IEPA should be taken into account. On the sub-regional front, effective implementation of the revised MSG FTA and PICTA should be realised. Duplication of work on PICTA services in the MSG Trade in Services needs to be avoided. More strategic co-operation among MSG members in areas including information sharing on negotiations on other fronts (e.g. PACER Plus) can be beneficial.

For PACER Plus, Solomon Islands needs to start preparing for negotiations in advance. The public and political profile should be increased. The public, politicians and Government machineries must be aware that trade liberalisation alone will do little for Solomon Islands trade development. National positions need to be articulated before regional positions can be formulated. Focused studies need to be commissioned soon and consultation with national stakeholders started immediately. Early consultation will help in prioritising issues during the development of a negotiation agenda.

Due to time constraints, the IF-NSC membership can also serve as a technical task force on specific issues in PACER Plus.[45] Timely co-operation and information sharing within the region and sub-region e.g. MSG is recommended.

Funds directed through any regional institution must be accessible to strengthen the national negotiation structure and ownership of the process, rather than conducting studies after studies[46] or regionally administered workshops with little national follow up. Trade officials should be able to spend more time in country and given more support and co-operation in compiling and articulating national positions.

Finally, it is worth noting that no recommendations are made on Intellectual Property (IP). IP legislation runs the risk of undermining human development goals by raising the costs of generic medicine and educational materials. IP can be a drain on administrative capacity and resources, with few clear development benefits and heightened risks of litigation from foreign companies. Even the potential benefits of protecting traditional knowledge can be problematic. While it may be useful to support the inclusion of IP in international trade agreements for the sake of raising its prominence in international trade discussions, at the national level it may open up unproductive, resource-draining disputes over ownership similar to the situation with land disputes. It may be possible to support the entertainment industry by exploiting foreign legislation to protect their products abroad—but the costs of achieving useful domestic legislation may be higher than the benefits.

[45] Labour mobility, RoOs, development co-operation, services, fisheries, agriculture and agro-processing, etc.

[46] In the EPA, most of the studies commissioned by PIFS were a little too late and in some cases not sufficiently reflective of the member countries' needs.

CHAPTER SIX

Trade, poverty and human development

6.1 Introduction

A review of human development and trade in Solomon Islands presents a picture of both opportunities and challenges. Rapid economic growth during the last five years has recently been accompanied by Government efforts to reduce poverty in the rural areas, while progress is being made in the provision of primary education. Yet inequality and poverty persist. This is of particular concern when economic activity is becoming increasingly concentrated around natural resources such logging and minerals. A lack of appropriate mechanisms to manage and govern the usage of natural resources accentuates these concerns.

Acute gender inequalities across Solomon Islands stand not only to undermine recent developments but also future advances. In the context of gender inequality, the rapid emergence of HIV/AIDS is particularly worrying. Women are also likely be disadvantaged by the environmental degradation resulting from natural resource exploitation. Dealing with the problems of gender inequalities requires a nuanced, subtle and sensitive approach.

Numerous opportunities exist—many trade-related—to address these challenges, some of which are themselves the product of trade. This chapter analyses the challenges, documents some opportunities and puts forward a set of policy recommendations aimed at ensuring that human development is achieved across the country and ensuring resources are used in a sustainable and equitable manner.

6.2 Poverty and human development

The concept of human development is influenced by the literature on inequality and poverty (Desai 1991) as well as Nobel Laureate Amartya Sen's understanding of development. These authors suggest that other dimensions of development must complement income. As such human development has been variously defined as 'human flourishing in its fullest sense—in matters public and private, economic and social, and political and spiritual' (Alkire 2002) and more poignantly as 'a process of enlarging people's choices and freedom' (Sen 2000). Joseph Stiglitz (1998), former World Bank Chief Economist and economics Nobel laureate, argues that development should aim at the transformation of society. This approach is compatible with Sen's vision of development as freedom: developing countries should consider expansion of freedom as an end in itself rather than simple GDP growth. But despite its conservationist credentials and desire to protect indigenous ways of live, the concept of human development is not conservative. It is about changing people's lives for the better rather than maintenance of the status quo.

The United Nations Development Program (UNDP) has translated the concept into a composite measure known as the Human Development Index (HDI), published annually since 1990. The three primary indicators that form the HDI—education, longevity and income—are used as proxies for knowledge, a long and healthy life and standard of living. The processes of improving these proxies are viewed as 'enlarging people's choices' (UNDP 1990: 10).

The HDI has attracted a wide-ranging commentary. Critics posit that the HDI is not a well developed measurement tool of development as it fails to encapsulate the multidimensionality of human development (Neumayer 2001). The weightings given to each indicator in the index may be considered arbitrary, and a slight alteration in one can have a significant impact on a country's HDI ranking. The HDI has also been criticised for lacking the ability to provide a single alternative to income as an indicator for the measurement of development (Kelley 1991, Lind 1992, Nubler 1991, Rao 1991, Sagar and Najam 1998, Srinivasan 1994). Proponents of the traditional, monetary-based view of development argue that economic growth increases income (purchasing power) which is essential for making choices related to human wellbeing and welfare (Srinivasan, 1994), such as better health care and education. They prefer the standards indicators—Gross Domestic Product (GDP), Gross National Product (GNP) and Per Capita Income.

Mounting evidence, however, suggests that economic growth by itself is not enough. Inequality can persist despite the existence of high economic growth. Riches do not inevitably lead to improved social indicators. Indeed health and education may be prerequisites for wealth creation. Sen (2000) argues that while economic growth is essential, social arrangements such as facilities for education and health care should remain paramount. Whether or not one is an advocate of the HDI, and despite its unavoidable shortcomings, it broadens the scope of development and gives due recognition to non-monetary indicators (Anand and Sen 2000, Desai 1991, Streeten 1994). The HDI has been widely acclaimed as a welcome addition to a debate under which conventional understandings and measurements placed economic growth as the sole manifestation of development.

The concept of human development has particular relevance in a largely subsistence society such as Solomon Islands, where people can be cash-poor but lead relatively fulfilling lives. Indirect evidence[1] suggests that people often do not want to accumulate significant material riches—although a basic standard of cash income is seen as desirable. The World Bank's dollar-a-day concept (or PPP USD2.15 a day) is less applicable, since large numbers of people do not regularly use cash.

Trade, poverty and human development relate to each other in a number of ways. They depend on the nature of poverty and how it manifests itself, as well as the type of trade reform the country is undergoing and natural endowments. The Asia-Pacific Human Development Report 'Trade in Human Terms' eloquently articulates and discusses the relationship between trade and human development, particularly in the regional context. The report argues that human development and international trade have multiple links; in some sense a two way street; in others a multi-lane intersection (UNDP 2006). The relationship between trade and human development can be conceptualized in two ways that have particular relevance to Solomon Islands: *(1)* trade-induced economic growth which in turn has an interlocking relationship with human development; *(2)* trade-induced increases

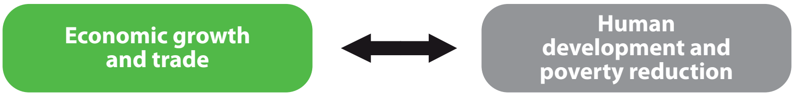
[1] Such as the prevalence of a high discount rate on cash—see the section below on inequality and conflict. Anecdotal evidence suggests that Solomon Islands is not as materialistic as many 'Western' societies.

in income which in turn empowers people to access health and education.

Reducing barriers to trade can facilitate the functioning of the market (domestic and international) and foster the efficient allocation of resources (Krueger 1998). The efficient allocation of resources resulting from trade can in turn have a positive impact on agriculture and production of primary commodities, which make up a significant proportion of developing countries' economies (ibid.). Since labour constitutes one of the most abundant factors of production in developing economies, this process can also have a positive impact on employment and income (Bhagwati and Srinivasan 2002). A reduction in barriers to trade can be positive for economic growth, which in turn generates resources for investment in human development.

Importantly, the direction of causality (economic growth leads to human development) can run the other way—from human development to economic growth.

FIGURE 6.1 **Human development and economic growth**



The work of Ranis, Stewart and Ramirez (2000: 197) postulates a "strong connection between economic growth and human development". The authors develop two causal chains, stressing that while both economic growth and human development should be promoted jointly, human development should be prioritised. The first causal relationship (how economic growth supports human development) is that economic growth generates resources (national income), which in turn can be employed for human development purposes such as greater investment in health and education. The second causal relationship (how human development fosters economic growth) shows that education and health can enhance labour productivity and ultimately economic growth. Ranis and Stewart point out that many successful developing countries, such as Singapore and Hong Kong, invested in health and education at an early stage in their development processes, inferring that a healthy and educated workforce is a precondition for economic growth.

This said, it is clear that income is one of the primary components of human development. Trade-induced increases in income come not only from a reduction in trade barriers (such as an increase in income from tariff reduction on goods imported), but also from liberalization of trade in services (such as education and health). A more open services sector can produce a greater number of service providers, more options for consumers, and sometimes a reduction in the cost of these services. Moreover, a reduction in tariffs and services liberalization has the potential to increase consumer welfare.

6.3 HUMAN DEVELOPMENT AND MDGS

A growing population and pervasive inequalities continue to counteract the achievements associated with high rates of economic growth, and recent economic growth has not been inclusive. Given the relatively undeveloped state of some Government services and the current willingness of donors and Government to make progress in this area, significant potential exists to build a quality human development infrastructure.

Solomon Islands ranks 128th out of the 177 countries on the latest HDI, classifying the country as having 'medium' human development. The table below provides a comparison of the human development performance of Solomon Islands with neighbouring Melanesian states. Solomon Islands ranks above Papua New Guinea (which is in 139th place) but below Vanuatu (119th) and Fiji (90th). Solomon Islands also enjoys a higher average life expectancy (62.6 years) than Papua New Guinea (55.7), but lower than Vanuatu (68.9) and Fiji (68). 76.6% of adult Solomon Islanders are literate, slightly more than Vanuatu (74%) and considerably higher than Papua New Guinea (57.3%). The combined primary, secondary and tertiary enrolment ratio in Solomon Islands is only 47.6%, almost as low as Papua New Guinea's 41%. Progress has been made in improving access to primary education and the Government is committed to making basic primary education free. With a per capita income of USD1,814 based on purchasing power parity, Solomon Islands ranks below all of its neighbours, Papua New Guinea (USD2,543); Fiji (USD6,066); Vanuatu (USD3,051). In sum, the HDI picture is mixed, with generally better human development indicators—particularly in health and education—than Papua New Guinea, but worse than Vanuatu and Fiji.

TABLE 6.1 **2006 HDI values for selected Pacific island countries**

Source: (UNDP, 2006)

Country	Solomon Islands	PNG	Fiji	Vanuatu
HDI Rank	**128**	139	90	119
HDI Value	**0.592**	0.523	0.758	0.670
Life Expectancy at Birth (years)	**62.6**	55.7	68.0	68.9
Adult literacy rate (% >15 years)	**76.6**	57.3	–	74.0
Combined gross enrolment ratio for primary, secondary and tertiary schools (%)	**47**	41	75	64
GDP per capita (PPP$)	**1,814**	2,543	6,066	3,051
Life Expectancy Index	**0.63**	0.51	0.72	0.73
Education Index	**0.67**	0.52	0.87	0.71
GDP Index	**0.48**	0.54	0.69	0.57
GDP Per Capita (PPP$) rank minus HDI rank	**18**	-15	-2	-1

At the United Nations Millennium Summit in September 2000, world leaders adopted the Millennium Declaration, setting out a global agenda for the first 15 years of the 21st Century to promote human development and reduce inequalities. The goals include 18 targets and 48 monitoring indicators. The eight Millennium Development Goals (MDGs) are:

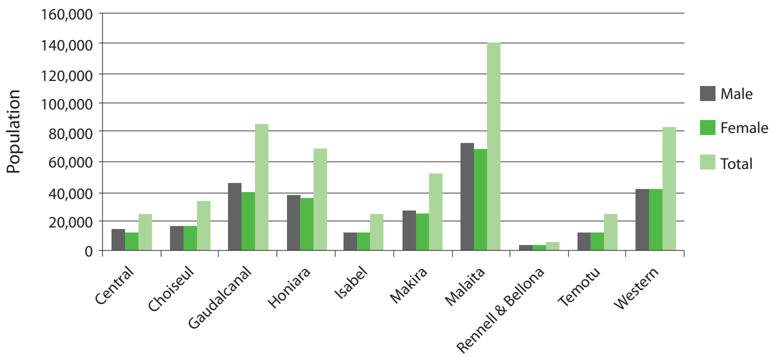
1. Eradicate extreme poverty and hunger;
2. Achieve universal primary education;
3. Promote gender equality and empower women;
4. Reduce child mortality;
5. Improve maternal health;
6. Combat HIV/AIDS, malaria and other diseases;
7. Ensure environmental sustainability;
8. Develop a global partnership for development.

The MDG Report, titled 'Scoring Fundamental Goals 2004', further provides an extensive discussion on human development, its challenges and opportunities in

Solomon Islands. Solomon Islands is likely to achieve only Goal 2 (Achieve universal primary education) and Goal 5 (Improve maternal health). Limited data exists on Goal 1 (Eradicate extreme poverty and hunger and halve, between 1990 and 2015, the proportion of people who suffer from hunger), Goal 4 (Reduce by two-thirds between 1990 and 2015, under-five mortality rate) and Goal 6 (combat HIV/AIDS). The report goes on to state the country is unlikely to meet Goal 3: Promote gender equality and empower women.

One of the most important reasons for the shortfall in human development and the achievement of the MDGs, widely acknowledged, is the pressure from a rapidly growing population on the provision of basic social services. This is particularly worrying because sources of fiscal income in the next few years are predicted to contract as the logging industry declines. The population is distributed unevenly throughout the country, with the result that some areas, such as Malaita, Honiara and parts of Guadalcanal are highly populated, while others, including Choiseul and Isabel, are relatively sparsely inhabited. Most new jobs are created in Honiara, resulting in urban drift. A lack of economic diversification and development in the fragmented rural areas has contributed to this trend.

FIGURE 6.2 **Population distribution by provinces, 2005–06**

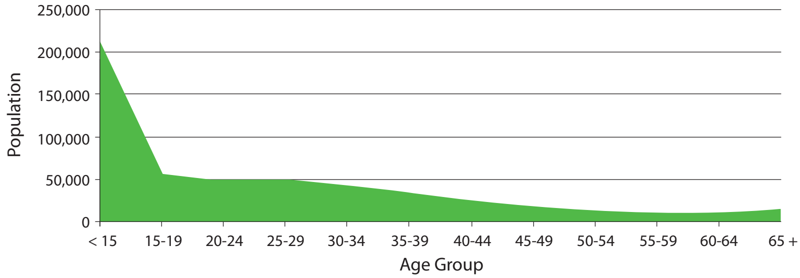


Source: Household Income Expenditure Survey 2005/06

The problem of rapid population growth and concentration of the population in a small number of areas is compounded by the fact that around half of the population is below 25 years old, as shown below. The combination of these pressures presents a pressing human development challenge. A considerable proportion of urban youth are detached from traditional rural communities and lack access to quality education or jobs. Crime rates have risen.[2] As will be discussed below, part of the explanation for the Tensions from 1999–2002 is the competing access to economic activities and social services on the two main islands of Malaita and Guadalcanal. In the light of this recognition, addressing human development concerns plays an essential role in ensuring that the conditions underlying social conflict are overcome, and in ensuring a social solid foundation for future economic growth.

[2] Fleming, F.W. and S. Mathison (2007)

FIGURE 6.3 **Population distribution by age group, 2005–06**



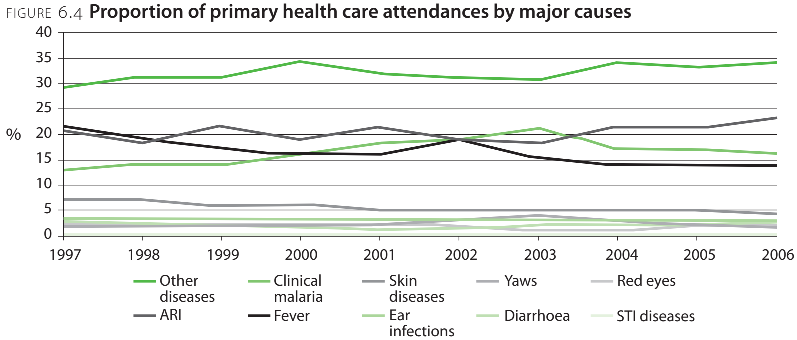
Source: Household Income Expenditure Survey 2005/06

Performance in health is falling short of the MDGs. Health facilities remain generally poor and the availability of skilled health workers is low. In the main Western Province hospital on Gizo island, there are only two permanent doctors, one of whom is the manager (see the following case study). Even excluding budgetary difficulties and other obstacles common to developing countries, recurring challenges remain. For instance the tsunami of 2007 swept away the residential quarters of the Gizo hospital staff as well as other facilities, putting noticeable pressure on the already limited hospital space. A Japanese project aims to rebuild the facilities.

Performance in the area of HIV/AIDS is particularly alarming. Interviews with officials at both national and provincial level revealed that the incidence of HIV/AIDS is increasing rapidly (an observation which is necessarily based largely on anecdote or observed experience). For instance a Solomon Islands nurse who spent 10 years working in Honiara hospital and now works in a regional AIDS testing facility based in Fiji says that the increased international movement of people, particularly students, threatens to result in similar trends of HIV/AIDS infection as Papua New Guinea, which has one of the highest rates of infection in the world. Future growth industries in Solomon Islands, such as mining, may bring greater internal and external migration. Interviews for the DTIS also suggested that HIV/AIDS is highly stigmatised, inhibiting infected people from accessing medical services. This stigmatisation masks the true magnitude of HIV/AIDS.

There seems to be little formal acknowledgement and minimal preparedness on either the national and provincial level to address this rapidly emerging challenge. The Ministry of Health's National Annual Report suggests that there has been no incidence of HIV/AIDS, as depicted in the figure below. This is not true and needs to be corrected. In June 2008, a National Committee with wide participation

FIGURE 6.4 **Proportion of primary health care attendances by major causes**



Source: (National Health Annual Report, 2006) was formed to address the issue of HIV/AIDS. The Government has also prepared projects to access the Global Fund on HIV/AIDS, Malaria and Tuberculosis. These efforts urgently need to be complemented with accurate information. Commercial sex work and HIV/AIDS in a context of gender inequality is particularly worrying.

Source: Interview with Dr. Gregory Jilini, 23rd July 2008

BOX 6.1 **Case study—Doctor's diagnosis**

During an interview, Doctor Gregory Jilini described some of the trade-related impacts of human development. Jilini, hospital manager of Gizo hospital in Western Province, identified three trade-related human development issues: (1) malnutrition, (2) HIV/AIDS and (3) import tariffs on medicine.

Apart from copra, people in the province sell food such as taro and other vegetables in the Gizo market to earn income. The doctor argued that this phenomenon is leading to malnutrition. Firstly, people are selling nutritious food in the market mostly in order to earn money to buy white rice. The income earned from selling local produce is not sufficient to compensate in nutritional terms for the purchase of rice and other imported food. This has led to a reduction in consumption of nutritious food among households. Malnutrition, including protein deficiency, is more prevalent in areas from which people come to sell local produce in the Gizo market.

The westernmost parts of Western Province closely border Papua New Guinea. The border is largely unregulated, and people on both sides have traditionally moved freely to trade. Lately, the doctor suggested, the border has become a corridor for HIV/AIDs transmission. The doctor further added that due to stigma it was difficult to determine the extent of HIV/AIDs infection in the province. Nonetheless, he contended that the problem was prevalent and would soon stretch his limited resources.

Finally, Doctor Jilini discussed medicine imports. Given that most of the medicine in Solomon Islands was imported, lower tariffs under the various trade agreements would be likely to make medicines cheaper, as would improved trade facilitation. Other commentators suggested, however, that regular medicine shortages are not due to high prices but to poor management at Honiara central hospital, which frequently allows inventories to run out and fails to distribute drugs and other medical materials efficiently to the provinces.

6.4 GENDER AND ENVIRONMENT

A number of forms of gender inequality have held back the country's economic and human development performance. The gender-related human development indicators show that women lag behind men. Women's participation in mainstream politics is extremely low, and there are currently no female members of parliament. Women's average incomes based on purchasing power parity in 2005 were estimated at only half those of men.[3] These large disparities reduce women's opportunities to participate in economic growth and to define its future development. The gender indices also suggest small gender disparities in primary and secondary education, with a combined gross enrolment ratio of 46% for women compared with 50% for men.

Integrating women into the development process improves efficiency and promotes economic growth. In the words of David Landes: "in general, the best

[3] Source: UN Human Development Report 2007/8

clue to a nation's growth and development potential is the status and role of women" (Landes 1999: 413). If more women participate in the workforce, the pool of available labour is bigger. Improved female literacy can increase knowledge and productivity among women; reduce population growth (and raise GDP per capita, as long as economic growth remains constant, higher, or falls by a smaller proportion); lower infant mortality; lower school dropout rates; improve nutrition. A study in Burkina Faso showed that shifting existing resources between men's and women's plots within the same household could increase agricultural output by 10 to 20%.[4] A study in Kenya concluded that giving women farmers the same level of agricultural inputs and education as men could increase their yields by more than 20%.[5]

[4] Udry, Hoddinott, Alderman and Haddad (1995)

[5] Saito, Mekonnen, and Spurling (1994)

Gender inequalities in Solomon Islands are rooted in tradition and culture, maintained through everyday relations between men and women at the household level. For instance one of the primary reasons for women's lack of participation in mainstream politics is the view of decision-making as a male arena. Similarly, there is some evidence that parents prefer to invest in male children as opposed to females, which may help explain the small gender disparities in gross enrolment ratios.

Land is the most valuable resource for individuals and communities in the country. As the noted feminist economist Bina Agrawal has argued, access to and ownership of land in predominantly agrarian societies determines men and women's intra-household position and women's access to other economic and political resources. In Solomon Islands, access to land is strongly defined by kinship systems. In patrilineal communities, land is passed through the male line with women merely having de-facto access. However, women's greater rights to land in matrilineal communities are eroding in the face of the changing political economy of rural areas. Male dominated historical patterns of rural to urban migration, gender biases in labour markets, and gender disparities in educational levels have left women unable to negotiate effectively with outsiders, especially representatives of foreign logging companies. Subsequently, many of these negotiations are made by men but leave women to bear the negative effects of logging such as alienation and erosion of land and commercial sex.

Domestic violence, in its many manifestations, is an everyday reality for women. A plethora of unreported cases of marital rape occur every year. At the same time, gender inequalities at the household level are not simply a case of women against men. Women themselves participate in the perpetuation of gender inequalities. On the one hand, women's positions in the household and community are contingent on supporting gender unequal norms and practices (such as preferring to educate male children as opposed to female ones). On the other hand differences among women by age, clan and tribe fragment 'women's interests'.

An absence of gender sensitive policies has reduced the abilities of the Government and its development partners to successfully address these societal imbalances. To give a few examples, the contribution of women to the formal economy is poor partly because there is limited positive discrimination to secure women's participation. Land-related policy and debate rarely touch on the gender-specific alienation of land, and in some cases the inheritance of land has become seen as patrilineal when traditionally it was matrilineal. There is a dearth of counselling services for women who have experienced domestic violence and other sexual abuses. Commercial sex is a rising problem. The incidence of schoolgirls participating in sex work is increasing rapidly. Commercial sex is illegal, although prosecutions are rare. New mining operations, unless carefully monitored and controlled, risk bringing about similar social problems.

In logging areas, there are cases of parents selling their female children to foreigners working for logging companies, and a recent report (Herbert 2007) focusing on one geographical area suggested that the problem might be systemic. In the Arosi region of the province of Makira it was found that at least 73 youths were victims of commercial sexual exploitation and abuse in exchange for money and goods. The research found that child prostitution was the most common type of exploitation, involving 36 children from the ages of 11 to 19. There were nine cases of girls with ages ranging from 12 to 17 becoming pregnant, with two babies dying. Some parents condoned and perpetuated the exploitation of their own children. It was found that 12 children were forcefully 'sold' by parents into early marriage, mostly to foreign loggers. Six of the children were under 15, the legal age of marriage in Solomon Islands, but in contravention of the Convention on the Rights of the Child. The parents received money in exchange but the girls later escaped. Nine underage girls were reported to have become pregnant, some children shown pornography, and still others used to produce pornographic films (Herbert, 2007).

As the philosopher Martha Nussbaum has argued, rights to opportunities such as education and health must be considered universal human rights guaranteed equally to both men and women. However, in Solomon Islands, political discourse often relegates gender-related rights as foreign concepts imposed by outsiders. Gender-related advances cannot be achieved without a fundamental rethinking of what it means to have equal rights for all citizens irrespective of gender differences. Furthermore, more effort needs to be made to formulate and promote gender-aware programs and policies that are tailored to the particular circumstances of the country. Overall, the issue of women and environment is not just a moral concern based on Western ideals about equality. While gender equity should be considered as an end in itself, it can also contribute to development.

6.5 MINING AND HUMAN DEVELOPMENT

Mining has potentially serious environmental and social implications. The Sumitomo development concerns low-grade nickel ore, which will require excavations in a very large area of the islands of Choiseul and Isabel, areas of intrinsic natural beauty. Environmental concerns surrounding Gold Ridge are perhaps less serious, since the mine operated successfully in the 1990s and the company's international management have taken measures to mitigate environmental risks, including an earthquake-proof dam to contain tailings. Sumitomo has indicated that it will exceed national environmental requirements.

Yet mining operations in the region do not have a good environmental record, and environmental and social concerns cannot be ignored. In 1999 BHP, the owner of Ok Tedi mine in PNG, admitted that the mine caused 'major environmental damage'. Up to 80M tons of contaminated tailings, overburden and mine-induced erosion were discharged into the river each year, displacing the 50,000 people who live in the 120 villages downstream of the mine and killing or poisoning fish. Flooding caused by the raising of the riverbed left a layer of contaminated mud on the flood plain, damaging local staples such as plantations of taro, bananas and sago palm. Tailings from the Freeport Grasberg mine in West Papua, the largest gold mine and the third-largest copper mine in the world, flow directly into the Aikwa river. The river is filled with copper-laden sediment, and few fish remain. The mine is near rare equatorial mountain glaciers that serve as indicators of climate change in the region. The steepening of slopes caused by mining activities, combined with earthquakes and heavy rainfall, have resulted in deadly landslides. Lessons must be drawn from these environmental disasters, and measures will need to be taken to avoid similar mistakes.

In addition work will need to be done to ensure that, beyond the direct aggregate economic impact, the developmental benefits of mining are maximised. Many people on Choiseul and Isabel live traditional subsistence lifestyles, and as has been shown in the case of logging (and Gold Ridge), people who are unfamiliar with regular cash transactions can be prone to misusing the income from land. Unsightly mining operations and infrastructure may deter tourists. The instability of international commodity prices and the short-term nature of some mining operations are a further concern.

Mining is a potentially new source of corruption, a problem which has become ingrained in the logging industry. The rent from resources is generally easier to appropriate than for agriculture, services or manufacturing. Mining operations can be more concentrated in terms of ownership and geography, making them vulnerable to requests for illicit payments.

These challenges do not mean that mining should be avoided, but that development of the industry should be approached very carefully, using international best practice and in an atmosphere of full transparency. As suggested in chapter one, an international team of negotiators should be engaged to ensure the country gains maximum fiscal benefits from existing and future investments, and to ensure social responsibility. Sumitomo is a member of the International Council on Mining and Metals (ICMM). By committing to the sustainability principles of ICMM, Sumitomo is required to undertake due diligence in regard to social and environmental issues, particularly issues of economic development and benefits. Involvement of the World Bank, particularly the IFC, would also require following strict environmental and social guidelines.

In addition to ICMM (www.icmm.com), further information on international standards for responsible mining can be found at www.frameworkforresponsiblemining.org, an initiative outlining best practice in mining and mine development, supported by Earthworks and others. The Initiative for Responsible Mining Assurance (www.responsiblemining.net) involves an initiative to create standards and verification of good practice in mining. Sumitomo is not involved directly, but ICMM is. A further resource is Resolve, www.resolv.org.

6.6 INCOME AND EXPENDITURE

The table below shows the average annual household and per capita expenditure by urban and rural areas. An urban household on average spends three times that of a rural household. This difference in expenditure not only reflects the higher cost of living in urban areas but also the higher purchasing power in urban areas, as opposed to the predominantly subsistence-based rural areas. Moreover, non-food consumption such as electricity, water, housing and telecommunications are significantly lower in rural areas than in towns.

TABLE 6.2 **Average annual household and per capita expenditure and household size by area**

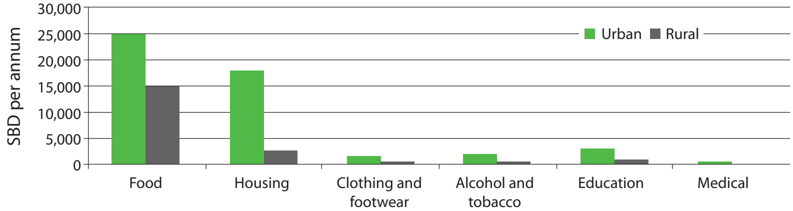
Source: Household Income Expenditure Survey 2005/06

Area	Household expenditure (p/a)		Mean	Expenditure per capita (p/a)	
	Mean	Median	household size	Mean	Median
Urban	69,935	52,726	6.9	10,215	7,701
Rural	23,366	17,668	6.0	4,871	2,927
Solomon Islands	30,069	20,035	6.2	4,887	3,256

The difference in non-food consumption between urban and rural areas is further shown in the figure below, which outlines average household expenditures by major categories. The figure below further confirms that urban households enjoy higher consumption than rural areas.

FIGURE 6.5 **Household expenditure by major categories**

Source: Household Income Expenditure Survey 2005/06



Food accounts as the single highest annual household expenditure. On average households spend 54% of their income on food. While urban households spend 35%, rural households spend more than 62% of their income on food. Nationwide, expenditure on cereal and cereal products (mostly rice) constitutes 41% of total annual household expenditure on food. In urban areas, 26% goes on cereal and cereal products and in rural areas, 50%. The prospect that half of food spending in the rural areas may be on rice renders households somewhat vulnerable.

While traditional root crops are quickly perishable, cereal and cereal products can be both cheaper and stored for longer. However, since cereal and cereal products are imported, changes in global food prices will severely impact rural household's food security. (The case study below discusses some of these issues, while the chapter on agriculture discusses rice production further).

The World Health Organisation has established 2,100kcal as the basic energy needs of an average adult. This minimum nutritional level for good health is also used as the benchmark to estimate the Food Poverty Line (FPL). In Solomon Islands, individuals in Honiara acquire on average 1,625kcal; in the provinces 2,194kcal; in rural areas 1,923kcal. While on average provincial urban households are able to meet basic energy needs of 2,100kcal, households in Honiara and rural households cannot (SIG and UNDP 2008). Furthermore, most of the households below the FPL are in rural areas. While only 0.6% of provincial urban households are below the FPL, 6.3% of rural households are unable to meet basic nutritional needs. Rather than pure hunger, rural households mostly suffer from substandard and poor nutrition. It is also argued that poor nutritional intake may be further aggravating the poverty cycle. So, while there is plenty to eat, rural households are experiencing health-related problems from poor nutrition (SIG and UNDP 2008).

BOX 6.2 **Case study—Rice bowl development**

With green fields irrigated by the river and tucked into lush green vegetation, Fiu village is a typical Melanesian village. Subsistence is the main source of livelihood.

The village chief, John Gerea, is involved in a Japanese-funded sustainable agriculture project titled 'Asia Pacific Sustainable Development'. The project aims to help the local community adopt sustainable agriculture technologies using permaculture. Rice farming was introduced in 2006 in response to the widespread change in diets witnessed throughout the country.

The long-term increase in demand for rice coupled with increasing world food prices has made rice production more lucrative—and in effect Fiu village is engaging in import substitution. The locals have already harvested a few batches of rice, believing it to be of good quality. The genetically modified Japanese IR64 seeds have a higher yield, can be harvested twice a year and are considered to taste better than other varieties. The chief said that the rice was easier to store than traditional root crops, which perished easily.

Gerea explained that the village allocates one daye per week for rice plantation, when the entire village is expected to contribute. The work is not based on a division of labour or specialisation. Every individual performs much the same task. Mechanisation is limited to one rice paddy machine provided by the project, and no savings have been put aside for its replacement. In contrast, in the traditional rice-growing regions of Asia the different jobs are clearly demarcated, allowing for greater labour productivity. In some countries, mechanisation is highly advanced.

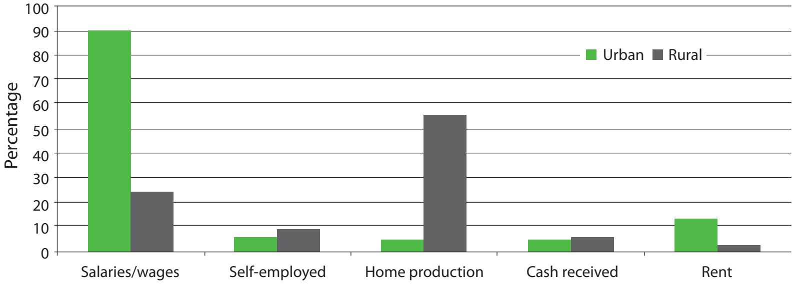
The chief said that previously most subsistence agriculture could be performed individually or by several members of the same household. Apart from cultural activities, traditional livelihoods (except for clearing of bush) rarely required group work. It is too early to tell, but the large-scale village-based production required to grow rice may eventually result in the specialisation of labour, which would raise labour productivity and make production at the village level more competitive.

Over-dependence on rice production could make households vulnerable to food insecurity if the harvest was bad or the price of rice falls. Gerea said that at first there was a trade-off, with many people focusing on producing rice at the expense of root crops. He is now trying to make people aware that rice production should be perceived as a complement to root crops, rather than a substitute.

It is too soon to know whether the project has been a success. While world rice prices are high, village-based rice production might seem lucrative. But if world food prices drop or if there is an import surge, people may find it more worthwhile growing traditional crops, earning some cash and spending part of their earnings on imported rice.

Rice production in Solomon Islands is more likely to be beneficial on the aggregate if it is successfully mass-produced and marketed—an outcome that may be unlikely given past experience. Higher labour and fuel costs, weak infrastructure and poor economies of scale will make it difficult to grow rice competitively. If rice-growing remains another form of subsistence, its benefits will prove limited. Highly competitive rice-growing regions elsewhere have a comparative advantage in this area, and for Solomon Islanders it may be best to specialise in other areas and trade, as would be suggested by economic theory. What is certain is that international trade is having a major impact on people's lives, even though they appear far removed from world markets.

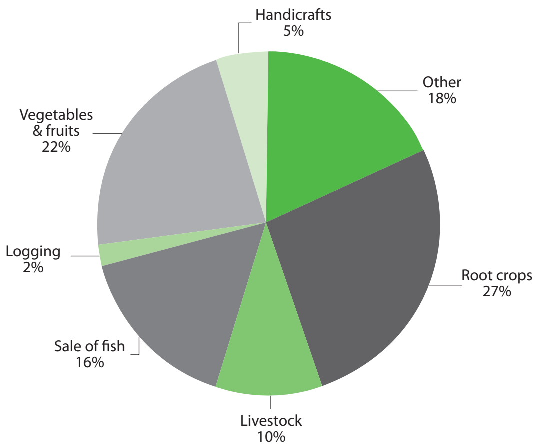
FIGURE 6.6 **Annual Income by major source and area**



Source: Household Income Expenditure Survey 2005/06

The figure above shows that sources of income in rural and urban areas are different, reflecting the different economic composition in the two areas. For instance, while salaries and wages account for 90% of annual urban household income, only 24% of the annual rural household income comes from this source. Home production constitutes 60% of rural household annual income, in comparison with 5% amongst urban households. Similarly, income from rent constitutes 12% of annual urban income compared with 1.45% amongst rural households. The figure below shows that self-employment predominates in the rural areas. Production of root crops (27%) and vegetables (22%) constitute the largest sectors of self-employment. This data confirms that people in rural areas may be cash-poor, but their prioritisation of traditional production provides an essential safety net. Urban cash poverty can be much more serious.

FIGURE 6.7 **Distribution of households in self-employed and related business**



Source: Household Income Expenditure Survey 2005/06

6.7 INEQUALITY

Economic inequality can be defined as "the fundamental disparity that permits one individual certain material choices, while denying another individual those very same choices" (Ray 1998). Numerous methods of measuring material inequalities exist, the most widely-used of which is the Gini coefficient. The Gini coefficient is zero if income is distributed equitably and one if only one person owns all the resources, signifying extreme inequality. The table below compares Solomon Island's Gini coefficient with other Pacific island countries. The Gini coefficient for Solomon Islands is 0.361; for urban areas 0.286; for rural areas 0.316 (UNDP, 2004b). The fact that the coefficient for the whole country is higher than for either rural or urban areas indicates that there is relatively little disparity within urban and rural areas, but that a larger disparity exists *between* urban and rural areas. Of the nine regional countries in the table below, Solomon Islands ranks fifth, higher than Vanuatu, Papua New Guinea, Marshall Islands and Fiji, but lower than the four Polynesian and Micronesian countries shown. Compared with countries worldwide, the Gini coefficient of Solomon Islands is roughly at a median level.

TABLE 6.3 **Gini coefficient of income inequality for the Pacific island countries**

Source: (WB, 2004)

Country	Gini coefficient
Samoa	0.19
Tonga	0.26
FSM	0.34
Kiribati	0.36
Solomon Islands	**0.361**
Fiji	0.38
Marshall Islands	0.42
Papua New Guinea	0.51
Vanuatu	0.58

The Household Income and Expenditure Survey 2005/6 reveals a more severe picture of inequality than that shown by the Gini coefficient data. More than 80% of the people earn less than half of the total national income of the country. Wealth is concentrated in a few hands. Yet as the human development approach shows, the sole focus on income can mask other forms of inequality, such as that between men and women and between the powerful and the powerless. It may not matter how much money people have if they cannot influence the way they live through democratic mechanisms. Widely-reported failures of democracy such as vote-buying and coercion may even worsen the picture presented by income-based measures of inequality. As shown above, the urban/rural divide permits individuals in urban areas more material choices, denying those in rural areas the same choices. While the predominance of traditional subsistence farming in Solomon Islands means that people rarely go hungry, disparities of income, gender, geography and power mean that society remains highly unequal.

6.8 INEQUALITY AND CONFLICT

The Tensions led some commentators to refer to Solomon Islands as a 'failed state'. The inability of the Government to respond effectively or authoritatively had a serious human development impact. Government insolvency meant that a number of obligations were not paid, including civil service pay, debt obligations and provincial grants. This reduced or removed the incomes of the large sections of the population which relied directly or indirectly on Government salaries and services. Provincial government superannuation obligations for 1999 to 2003 were not paid until 2005, and members lost out on interest for those years. The cutback in provincial grants particularly affected the delivery of rural health and education services. The force relocation of large numbers of people and the climate of fear and instability were themselves detrimental to human development.

A number of complex causes underlay the conflict—and understanding these causes is important for future security and stability. Growing inequality and rapid urbanization was leading to a two-tier economy. The economy has been long been characterised by investments in a few selected sectors, which led to low economic diversification and a concentration of wealth in Honiara (and to a certain extent selected provincial urban areas[6]). The rapidly growing population and slow employment growth rate meant that competition for resources was increasing, while economic growth was too low to provide broad-based and stable income levels for all. The availability of land for development was limited due to ill-defined land rights and overlapping traditional ownership claims.

Compounding these problems, nation-building was weak. After independence the country did not, like some other newly-created nations, develop a strong sense of national identity. Many people felt no few links to those from other areas, declaring loyalty to their region or island rather than to the nation. Wantokism—the granting of special favours to members of the extended family group—remains strong. The presence of natural resources such as timber and minerals contributed to a process of individual enrichment among tribal leaders and administrators, and corruption remains a serious problem. Wealth, which was concentrated in a number of geographic areas and among a privileged few, was something to be appropriated rather than the cumulative product of collaborative social enterprise. Prosperity came to be seen as a zero-sum game rather than a process under which all could benefit. UNDP (2004c) rightly points out that the "conflict in Solomon Islands cannot, and should not, be labelled 'an ethnic conflict or 'an ethnic crisis'" because the underlying causes were not ethnic. People from the islands of Guadalcanal and Malaita are ethnically similar and have lived in close proximity for decades. Malaitans and people from Guadalcanal today appear to live together in Honiara reasonably harmoniously. Ethnicity was, as in many other countries, simply a convenient label which obscured deeper problems.[7]

During a series of amnesties the mission successfully removed numbers of weapons from members of the public, and the country is now largely arms-free. RAMSI's remit extended beyond the re-establishment of security and into a number of other areas related to human development.

Despite RAMSI's achievement of the all-important goal of stability, its approach has been subject to criticism. The intervention was not, unlike in East Timor, a UN multilateral peacekeeping operation. This sometimes created the perception of the imposition of a bilateral agenda. It has even been argued that RAMSI has created an inflationary "enclave bubble economy, failures in human and institutional capacity-building and relative deprivation" (Anderson 2008). Aid is now the biggest single source of national income, a situation which creates a number of economic distortions and leaves the economy vulnerable to decline when donor revenues inevitably subside in the future.

The increased donor spending and high international fuel and commodity prices have contributed to inflationary pressures. Anecdotal evidence suggests that for the first time pockets of under-nourishment are being seen in urban areas. Housing has become prohibitively expensive for many ordinary Solomon Islanders as a result of the increased demand for expatriate accommodation. In Honiara, there is a noticeable divide between expatriates and locals, with foreigners eating at higher class restaurants and inhabiting luxury accommodation in guarded compounds. Such segregation will do little to build a picture of a unified and har-

[6] It is worth pointing out, however, that the experience of urban poverty can be more harrowing than in rural areas because people have largely lost access to the gardens that traditionally served as a source of food.

[7] Note that this analysis of the conflict is in opposition to the picture recently painted by conservative US political thinker Francis Fukuyama (2008), who sees Wantokism and tribal loyalty as an ingrained problems which can only be overcome by 'shared sovereignty'—or the permanent ceding of certain Government powers to foreign governments.

monious Solomon Islands, an achievement which is important if the causes of the Tensions are to be overcome. Furthermore, the presence of donors in such large numbers undermines the ability of weak and fragile institutions to devise, own and implement policies across a variety of sectors. Development is partly about making mistakes and learning from them. If donors run important Government institutions, local policy makers have little opportunity to commit errors and improve the process of decision-making in the future.

Some of the root causes of the Tensions remain. While Solomon Islands was never a 'failed state', Government financial management and the formulation and enactment of economic policy remain limited. Some of these limitations stem from the dependence of Government ministries on technical assistance from donors. Recent economic growth can be attributed partly to a rapid expansion in logging (which reached 16% of real gross domestic product in 2007) and palm oil (21% of real GDP in 2007). Approximately 70% of the estimated SBD4.57B investment in Solomon Islands during 2007 was in logging, fisheries, wholesale and retail, each of which was concentrated in a few geographical areas. Growth in these industries came about largely despite, rather than because of intentional Government policies. About 21% was invested in the province of Guadalcanal, 13% in Honiara, and 9% in each of the other eight provinces (CBSI 2007). In future, considerable income and investment is likely to come from gold and nickel mining, each of which will be concentrated in select areas such as Guadalcanal, Choiseul and Isabel. Revenues appear likely to be channelled through Honiara. Little progress has been made on the issues surrounding land ownership, and the amount of land available for development remains limited.

Notwithstanding the social and environmental impacts of logging, palm oil and mineral extraction, their role in fostering inclusive and pro-poor growth is questionable. According to several reports, the logging industry has exacerbated the rural-urban dichotomy. In spite of claims that the sale of natural resources occurs through the participation and decision of local communities, local level decision-making processes over management, usage and sale of natural resources are neither sustainable nor efficient (UN 2002).[8] Certain politicians are alleged to have enriched themselves through membership of the boards of logging companies and through the sale of plots of land. A number of prominent local people are said to have become extremely wealthy from logging.

Employment generation remains weak. The 2007 Central Bank Annual Report argues that, "despite… positive developments, the unemployment level in the country is worsening each year as more youths are entering the labour market from the education system, and the inflow of job seekers from the rural areas continues" (CBSI 2007: 15). The report also argues that the labour market in Solomon Islands suffers from low skills and unskilled labour, and vocational training remains vital.

Power and Government expenditure remains poorly distributed between the centre and the provinces, and an AusAID program currently provides technical assistance for decentralising power to the provinces. The Government professes a desire to expand economic opportunities to the rural areas, although progress and hard policy commitments remain minimal. The rural infrastructure development program planned in the MTDS may be the catalyst for much-needed development. The following case study shows that provincial politicians feel sidelined by central Government. This has prevented provincial government from carrying out policies and inhibited the expansion of economic opportunities.

[8] What is being observed is the prevalence of a high discount rate. In other words, local communities value present income from sale of natural resources over the more long-term and sustainable benefits.

While the redistribution of certain powers and some wealth to the provinces would appear desirable, the economy and population are so small that it will remain important to promote clusters of development. Tackling over-centralisation in Honiara should not mean that the Government attempts to shift priorities entirely to agriculture or to smallholders, or to achieve an entirely equal geographic income spread. In particular the benefits of infrastructural enhancements can best be maximised by prioritising existing hubs (although the most needy areas should continue to receive attention) such as Noro, Auki and Gizo. Development expenditure in these areas is likely to have a bigger knock-on effect than spending in undeveloped rural areas. For instance any planned new fisheries processing plants should take advantage of existing infrastructure, shipping routes, and human resource pools in Noro, rather than establishing greenfield sites (see the chapter on fisheries).

The country has come a long way from the instability and conflict that characterised 1999–2003. International intervention prevented the crisis from deteriorating. Yet economic development remains spread across a few sectors, and wealth held in a few hands. Many of the underlying causes of the original conflict remain. These include centralisation of the economy and state; inequality along a number of dimensions; urban drift; conflict over land; a fast-growing, youthful population and weak employment generation. Tackling these problems is imperative for future stability, economic growth and human development. Government and donor attempts to deal with these challenges will need to go beyond verbal statements and must extend into the active promotion of specific economic activities which have the potential to create jobs, reduce inequality and spread wealth beyond Honiara. Several such economic activities, and some policies to promote them, are discussed elsewhere in the DTIS. As suggested at the beginning of this chapter, there is a two-way link between trade and human development. Trade, in its broadest sense, has a crucial role to play in alleviating existing human development problems and ensuring future security. Better human development policies, particularly in health and education, can help contribute to economic stability and growth.

6.9 REVISITING THE SOLOMON ISLANDS HUMAN DEVELOPMENT REPORT

The most recent Solomon Islands Human Development Report (SIHDR), published in 2002, confirms that the country was lagging behind its regional neighbours in terms of human development indicators and calls for renewed focus on national development prioritises along human development objectives. The SIHDR further argues that there are many "inconsistencies and internal contradictions in the dominant development models that have been used over the past decades in the country". It states that the SIHDR "constitutes a clear statement that we have reached a development crisis which, if not addressed now, could be irreversible nationally and locally".

The report identifies six areas of concern. First, "the persistence of poverty, which is a factor in all other aspects of human development" (UNDP 2004b: 6). Notwithstanding the importance of poverty reduction in achieving human development, Solomon Islands continues to lack a contextualised definition of 'poverty'. There is no 'national poverty line' or qualitative understanding of what constitutes 'poverty' in Solomon Islands.[9] In the absence of a widely accepted definition of poverty, development policies aimed at poverty reduction often have to rely on vague and subjective definitions.

[9] The UNDP report (2004a) presents a useful discussion of the Food Poverty Line and Basic Needs Poverty Line. In this regard, the report fills an important gap in poverty related analysis. The report also presents an important platform for further analysis.

BOX 6.3 **Competing claims, common demands**

GIZO "Many policies are dictated to us from Honiara. We want to control the collection and investment of our resources to ensure socioeconomic development of the province as per its aspirations". The Premier of the Western Province, accompanied by his Provincial Secretary, put forth an eloquent argument as to how lack of sufficient decentralisation had curtailed socioeconomic development in the province. He argued that most of the technical posts in the provincial levels were still vacant, severely undermining the services of important departments like health and education, while skills to fill these posts were lacking. As a result, national projects were not being implemented. Furthermore, the Premier argued, "development in Solomon Islands has been politicised…and people have become used to hand-outs… if the politician did not fulfil handout demands of the constituency he would jeopardise being re-elected…"

MALAITA "The province of Malaita receives little of the national wealth from the central Government", according to the Provincial Secretary of Malaita Province. He argued that the growing population was putting pressure on limited resources. The national Government neither has the resources to address these challenges nor does it provide the funding for provincial governments to address them. Moreover, despite the existence of a number of promising initiatives such as "developing tourism", "re-investing of resources from logging in education, health and infrastructure"; "palm oil plantation and a fisheries centre"; "diversifying the province's narrow economic base", "these aspirations are difficult to realise as they need approval from the centre, which has different priorities".

The Provincial Government Act of 1998 stipulates the relationship of the provincial government with the national Government in addition to the roles and responsibilities of the provincial government. However, the discussion above clearly outlines growing grievances with the central Government and rising demand for greater policy autonomy. While it is common for local politicians in all countries to seek more power and resources, in Solomon Islands the divide between centre and periphery appears particularly acute. It can be seen that, perhaps contrary to expectations, centralisation is the cause of fragmentation rather than the source of cohesion. The more that people and politicians in the rural areas feel sidelined, the less they will see the centre as legitimate. Decentralisation does not necessarily have to be a trade-off with stronger centre. If conducted correctly, decentralisation can reinforce the centre.

Sources: Interview with Premier, Gizo, Western Province, 22nd July 2008; Interview with Provincial Secretary, Malaita Province, 24th July 2008.

Second, "Solomon Islands needs to take care of its 'subsistence sector' in order to maintain livelihoods in rural areas" (ibid.: 6). The SIHDR states that the erosion and neglect of the subsistence sector is a threat to sustainable human development. While acknowledging the indispensable role played by subsistence as safety nets, subsistence is not the same as human development. Human Development means the expansion of people's capabilities and opportunities. Subsistence, beyond the provision of safety nets, does neither. As emphasised by Stiglitz and Sen, the socioeconomic development of rural communities must entail transformation out of subsistence to achieve expansion of human capabilities and opportunities. Subsistence can play a vital role in insuring against uncertainty, but by the same token it does not lead to new opportunities.

Third, "corrupt government and political instability is a strong threat to sustainable human development" (ibid.: 6). The SIHDR rightly argues that there "cannot be development without good governance and clear clean leadership and vision by Government". 'Good governance' is important for development, but the discussion should not be restricted to the national Government. A significant proportion of aid in Solomon Islands is bilateral, which enables particular donors to influence national development policies and results in contradictions between and amongst donors. In line with the Paris Principles on Aid Co-ordination, an overtly multilateral approach would bring greater cohesion and co-ordination to aid governance. Fourth,

> inappropriate education is a threat to sustainable human development. Some models of education often alienate the young from the traditional human development wisdom of the past, only to replace it with imported, often ecologically and culturally insensitive education models (ibid.: 6).

The data show that Solomon Islands has been making substantial progress on education (even in comparison to regional neighbours). However, practical education and vocational training are still missing.

Fifth, "male domination in the leadership and administrative areas of the Government, political parties, religious bodies and planning agencies must be checked" (ibid.: 7). Gender imbalances in Solomon Islands are deeply rooted in culture, tradition and history. The language of a policy recommendation that male domination needs to be 'checked' is perhaps inappropriate. Mitigating gender disparities needs a nuanced and subtle approach in order to avoid creating entrenched contradictions and oppositions. Globally, deep gender disparities have often been assuaged when individuals (female and/or male) or groups of individuals that command respect and authority become the interlocutors for change. In the case of Solomon Islands, a select few individuals, such as the Permanent Secretary of the Ministry of Women, Youth and Children's Affairs, have the potential to act as indigenous interlocutors of change. Confrontation or excessive outside intervention may only make things worse. Finally,

> demographic problems such as high population growth rates, increasingly unfavourable age structures, increasing urbanization in Solomon Islands and limited land availability in some areas of the country are all very serious and will limit human development (ibid.: 7).

These issues remain very important. High population growth, unemployment and rapid urbanization, for instance, can be addressed by creating opportunities for labour mobility. Solomon Islands is already benefiting from the Recognised Seasonal Employer Scheme in New Zealand and it is likely to benefit from the establishment of a similar scheme in Australia if pilot programs are successful. Expanding such opportunities beyond these two countries may also prove valuable.

6.10 LABOUR MOBILITY

The temporary movement—or export—of labour across borders is a fast-emerging issue in Solomon Islands, as in other Pacific Island Countries, and a growing body of research and debate now exists on labour mobility in the region. As developed countries face shortages of labour in key sectors of the economy, they are increasingly turning to developing countries to fill them. However skilled labour requires different issues and policy considerations to unskilled labour.

6.10.1 Unskilled labour

The groundbreaking 2006 World Bank study 'At Home and Away' looked specifically at the potential for increasing opportunities for unskilled agricultural workers from the Pacific in Australia and New Zealand. This followed similar work, in particular Maclellan and Mares (2005) which outlined a proposal for a pilot scheme for the Australian agricultural sector. Over the years Pacific leaders have also called on Australia and New Zealand to consider temporary labour mobility schemes as an addition to their existing development assistance policies. It has also been noted in the Pacific that much agricultural fruit-picking in Australia is currently performed by European backpackers under a working holiday scheme.

In response to these efforts, in 2006 Australian Senate inquiry recommended that their Government set up a pilot project for unskilled Pacific workers—though the Government rejected the proposal in favour of more aid for technical training. At the same time however the New Zealand (NZ) Government announced that it would create a new Recognised Seasonal Employment (RSE) scheme, under which up to 5,000 Pacific islanders could gain temporary employment for up to seven months in a year. Under the proposal five countries received priority assistance to help them put measures in place to facilitate the flow of workers. Initially Solomon Islands was not amongst these 'kick-start' countries but nevertheless over 200 Solomon Islanders were employed under RSE in the first season. In August 2008 New Zealand announced that Solomon Islands would be added to the list of kick-start countries.

In August 2008 the Australian Government signalled their intention to begin a pilot scheme in 2009 very similar to the RSE, with four countries: Kiribati, Papua New Guinea, Tonga and Vanuatu. Although this initially excludes Solomon Islands, a strong showing in the NZ scheme, together with proactive lobbying and supporting national policies should enable Solomon Islands to qualify in coming years.

Although it has only been in operation for just over one full season, New Zealand's RSE has the potential to become an example of best practice as a development-friendly seasonal labour scheme. The scheme works as follows:

- Upon satisfying authorities that no New Zealanders are available to fill positions and being certified by the NZ Department of Labour, employing companies are able to recruit from any eligible Pacific Island Country (PIC) (Fiji is currently excluded);
- Recruitment is largely carried out within the Pacific Island Countries with varying levels of involvement by national authorities. A checklist of common requirements covers medical checks, police clearances and visa processes;
- Employers contribute 50% of workers' airfares, and undertake to provide accommodation and a minimum of 30 hours' work per week. Should workers prefer to arrange their own accommodation off-site, they also are also guaranteed this option;
- Employers also undertake to provide basic pastoral care such as helping

workers settle into local communities;
- Within New Zealand, the Department of Labour is responsible for certifying employers and monitoring potential abuses of workers' rights, including low pay, breaches of safety, holiday entitlements and substandard accommodation;
- In addition, PIC Departments of Labour are invited to participate in the monitoring process, especially when complaints are received. Workers also provide reports on their return home;
- The NZ Department of Labour also works with employers to get their workers insured under an affordable medical and health insurance scheme;
- Various channels of communication are open for workers to express concerns, including to Departments of Labour or New Zealand High Commission in the workers' home country, Pacific Island Country representatives in New Zealand, or unions;
- New Zealand has provided kick-start countries (and expects to do likewise in Solomon Islands) with some assistance in marketing and educational activities around the RSE, in particular to expose potential participants in the scheme, training and provision of a database;
- Some New Zealand employers are encouraging workers to transfer their knowledge to their own agricultural work once their contracts end, and look at potential opportunities to develop exports and/or invest in the PICs.

A number of different approaches have been taken to answer some of the remaining questions, such as how the recruitment processed would be handled in each country. For the New Zealand scheme, Solomon Islands has expressed a preference for the 'Vanuatu model' (see Box 6.1 below).

A crucial point is that countries that have taken a pro–active stance on labour mobility have been the most successful in reaping the benefits on offer. This entails more than just government-to-government lobbying for inclusion—it means putting in place domestic policies and a framework to support and facilitate the participation of Solomon Islanders. This is one area where Solomon Islands has lagged. In April a paper was presented to cabinet assigning responsibility for labour mobility matters primarily to the Department of Foreign Affairs and Trade, which will establish a steering committee comprised of key stakeholders from other departments. While the composition of this steering committee is being finalised, certain departments, such as education, immigration and particularly labour will need to become engaged and play key roles. Interviews with officials from the Department of Labour suggest that thus far they have not been very proactive in developing responses to some of the key questions—such as how to avoid the practice of *wantokism* in recruitment selection procedures.

Lessons here from how other countries prepared are instructive. In the run-up to the start of the NZ scheme, the World Bank supported Vanuatu's Department of Labour for handling the demands of the NZ scheme, starting with convening a meeting of the most senior Government officials to ensure that all stakeholders (including heads of ministries of trade, education, immigration and labour) were aware of what was being proposed and were able to go forward with common positions on the key issues and responsibilities. Once this was done, responsible departments could forge ahead with developing necessary processes, guidelines and regulations (particularly in the areas of recruitment and worker welfare) and increase their capacity. A similar set of activities should be carried out at the ear-

BOX 6.4 **The 'Vanuatu model' in the NZ Recognised Seasonal Employer Scheme**

In Vanuatu a number of proactive initiatives were taken—in addition to New Zealand's own guidelines. Chief among them was that following internal consultations over the best way to manage recruitment issues, the Government agreed in 2006 to a framework in which only approved and licensed private recruitment agencies would be permitted to recruit and supply workers overseas. In 2007 legislation was adopted to that effect covering all aspects of the licensing, regulation, and disciplinary procedures of approved seasonal worker recruitment agencies. In this respect, Vanuatu had a history of bad experiences in relation to labour mobility schemes, particularly one which involved millions of dollars of 'lost' wages for workers recruited onto commercial fishing boats during the 1980s, as well as several cases of con-men within Vanuatu who are able to exploit people's desire to seek employment opportunities overseas.

Currently around 1500 ni-Vanuatu are employed in New Zealand—largely as a result of a pro-active approach to responding to the opportunities of the RSE scheme, they are the most represented PIC in terms of workers. Recruitment agencies play an important role in the scheme, and are envisaged to provide individual services in a number of areas:

- Designing application and selection procedures. One method currently being used is to combine an initial screening of application forms with an interview as well as a nomination submitted by, for example, a chief or pastor;
- Arranging medical tests, police clearances and visa applications for successful applicants;
- Contacting or receiving requests from employers, and fixing contracts;
- Giving workers a pre-departure briefing on what to expect on arrival in New Zealand and their rights and duties;
- Being involved with authorities in monitoring workers' welfare, and also liaising with employers to monitor performance;
- Doing this at competitive and minimal cost and without charge to workers, if the scheme is to be successful.

liest opportunity in Solomon Islands. A project proposal to this end has already been developed by DFAT—including a potential request for the secondment of a Vanuatu labour official to assist Solomon Islands—although this proposal needs further work. The PIFS is understood to have just won support from the World Bank to continue such work in the Pacific Island Countries and could be a potential donor.

Beyond organisation, it is worth noting is that the design of the recruitment process is very important. It may be possible to find ways of assessing applicants' potential to save and invest earnings, rather then spend them while abroad. Similarly existing social structures may be used to mitigate the risks of overstaying if others in the community—perhaps a chief or pastor[10]—are asked to vouch for a person's character, giving both parties an additional stake in ensuring good behaviour. On the negative side, any recruitment process which is seen to result in discriminatory *wantok* or ethnic island preferences is likely to stoke existing tensions between different communities.

[10] In Vanuatu, local chiefs are also playing roles as guarantors, risk assessors and enforcers within Vanuatu's proposed Secured Transactions Framework. A similar secured transactions framework is being considered for Solomon Islands.

There are still other areas where challenges remain. A major problem is the current high cost of remitting through established money transfer systems.[11] However, this appears to be primarily a problem of a lack of awareness amongst remitters about alternative ways of sending money—such as through banks—with a potential solution being to provide advice and information prior to departure. Remittance costs are beginning to fall in New Zealand and are likely to fall further as workers and migrants become better informed about potential competitors to their services. A regulatory change in New Zealand in September 2008 has resulted in a new lower-cost remittance product being launched.[12]

[11] See Gibson, McKenzie and Rohorua (2006).

[12] In December 2008 Westpac launched a new '2-card' remittance product utilising ATM and EFTPOS networks, with a fee structure considerably cheaper than other products.

Another question raised by some is whether forced remittances are advisable. A degree of 'forced saving' (25% of total earnings) is a feature of the successful Caribbean-Canadian Seasonal Workers Scheme, with research here suggesting that a majority finds the requirement to be beneficial in disciplining their spending and ensuring a pool of capital is available at home at the end of the season. Forced remittance is not being incorporated into the RSE scheme however, primarily because New Zealand tax and labour legislation stipulates that wages must be paid into a bank. Again there may be a role here for greater information, given that workers may be able to make voluntary arrangements with the bank to remit funds on a regular basis.

On tax itself, another problem is that claiming tax back is often complicated and left to the responsibility of workers. Few are likely to have seen a tax form before, let alone one in a developed country like New Zealand. Indeed, some may not be aware that they can claim back tax on their earnings up to a certain level. Again, awareness is clearly important, although New Zealand is simplifying the tax rate and procedures for RSE workers to avoid the need to claim tax back.

6.10.2 Skilled and semi-skilled labour

While greater access to other countries' labour markets is important, the clear lesson from labour-exporting countries is that the benefits may be more limited—and the costs much greater—unless incentive structures are appropriate and the potential negative impact of the semi-skilled and skilled emigration managed correctly. One major benefit of increased temporary access is that it can promote learning and technological transfer—but only if managed properly. Similarly, requiring workers to possess educational qualifications creates a strong incentive for people to invest in skills and education, and for the Government to provide training.

The best way of ensuring the importance of qualifications would be to build them into any future agreements on movement of skilled and semi-skilled labour. This approach has already been suggested for the EPAs, and PICTA countries have also been considering opening labour markets for skilled workers in a similar way to the Caribbean countries' 'Skilled National' scheme, with a common regional list of mutually recognised qualifications that provide an automatic right to work across all participating countries.

In a number of countries donors, most notably Australia, have been assisting with the upgrade the Technical and Vocational Education and Training (TVET) qualification frameworks. Projects have been established to map out and develop accreditation systems for existing qualifications. There would be major benefit in broadening the scope of this work to look at potential overseas markets and develop linkages between institutions and qualification systems abroad—as well as exploring the possibility of having arrangements for mutual recognition of qualifications—which would greatly facilitate the flow of temporary labour. This work would also help develop more of a regional approach to vocational training beyond the existing regional University structure: for example Solomon Islanders might be admitted to Vanuatu's newly built Tourism and Hospitality Training Institute and Kiribati's successful Maritime Training College, while Solomon Islands itself became a regional centre for the training of nurses or teachers.

TABLE 6.4 **Potential costs and benefits of greater skilled and semi-skilled labour mobility**

Benefits	Costs
• Additional income for Solomon Islands through savings and remittances • Increased training and skills transfer, for example through valuable experience of different approaches by working abroad • If linked to qualifications, provides an incentive for people to invest in education, and for Government to provide it • Reduction in illegal migration and improved regional security • If part of a regional scheme, potential to develop regional training institutes and centres of excellence (e.g. in tourism) • Creates greater competition for staff within home country, leading to better pay and conditions • Reduction in social pressures occurring as a result of population growth	• Risk of legal extensions or illegal overstaying in host countries • Potential for "brain drain" of skilled and semi-skilled personnel out of Solomon Islands • Social pressures if families remain in home country • Skills shortages may raise wages, and therefore employment costs, while lowering productivity in home-country firms

The most noted negative impact of increased labour mobility is in losing skilled and semi-skilled workers overseas for long periods or permanently. Skilled workers are usually allowed to enter for longer periods than seasonal workers, and in certain occupations the distinction between temporary movement and longer-term migration is increasingly blurred, since many countries offer attractive residency and citizenship benefits in order to attract skills in short supply.

While the main consequence of this is 'brain drain', other implications exist. Research suggests that longer term migrants remit less than those who go away temporarily, resulting in a loss of foreign income as well as skills. There can also be negative social implications—one particular example being security guards from Fiji working in Iraq. The impact on the domestic labour market is uncertain: while shortages of skills may push up demand and wages in sought-after jobs, unless authorities can replace lost workers by training new and equally-skilled recruits, the net long-term result is likely to be a drop in productivity and standards.

Ultimately, preventing skilled and semi-skilled workers who may be overqualified and underpaid in their own country from going to developed countries where their skill is in demand is extremely difficult. At a minimum, it requires the both the host and sending countries to impose constraints designed to restrict and regulate the flow of workers. This may work better for some occupations where supply gaps are small, than others where skills are more sought after. The best approach therefore could be to agree enforced limits or quotas in the context of bilateral trade or labour agreements.

Additional measures could include those aimed at making return more attractive, such as a favourable personal taxation system. In light of research showing that levels of remittances decrease for longer term economic migrants, one approach espoused by the EU in their recent 'Blue Card' proposal on permanent skilled migration was to encourage migrants to maintain links with their home countries with frequent visits (although it is unclear how such a policy would be implemented). In Solomon Islands, one solution would be to use the loss of traditional entitlements as an incentive to ensure return.

6.10.3 Labour mobility and trade negotiations

It is worth noting that Solomon Islands currently has few overseas skilled or semi-skilled workers. This situation stands in notable contrast to other PICs, which either have long-standing residency or work visa agreements with New Zealand—such as Tonga, Cook Islands, Samoa—or access to the US through Compact of Free Association agreements in the case of the Federated States of Micronesia, Palau, and Marshall Islands. While access for semi-skilled and skilled Solomon Islanders is currently limited, it is possible that access will increase as a result of trade negotiations and if developed countries autonomously open their labour markets further.

The recent focus for Solomon Islands in terms of semi-skilled and skilled labour has been in negotiating access to the EU market in trade in services negotiations as part of an EPA. During negotiations the Pacific Island Countries identified four areas—nursing, construction, tourism and hospitality, and seafarers—and are seeking access to the EU market at appropriate levels of qualification that would go beyond the EU's existing commitments at the WTO.

Although agreement on a comprehensive EPA covering services and labour mobility is still possible, it is at this stage unlikely. Sensitivities in many EU countries have made it difficult for them to meet Pacific Island Country demands. Given the distance and the complexity of the EU market, Australia and New Zealand are in the long run the more likely target markets for skilled and semi-skilled labour. In this regard, the guiding regional framework for development—the Pacific Plan—includes provisions for negotiating temporary movement of labour with Australia and New Zealand under a PACER arrangement.

At this stage PACER negotiations appear to be entering an introductory phase. Given that Solomon Islands already has duty-free access to Australian and New Zealand, with few problems with respect of rules of origin, Solomon Islands might make liberalisation of goods markets (lowering tariffs) conditional on a certain amount of market access in occupational sectors of interest, such as nursing. It will be important over the near-term to identify those sectors of interest, ideally as part of a broader labour mobility strategy.

Within the Pacific Island Countries themselves, moves are afoot to include movement of skilled labour within new services chapters of the PICTA and MSG trade agreements. Negotiations on a PICTA Trade in Services Agreement began in March 2008 and were likely to be completed in mid-2009. Here, Solomon Islands has a first chance to secure opportunities for skilled and semi-skilled workers in markets such as Fiji (which is in particular need of construction and hospitality workers), Papua New Guinea (a growing economy with shortages in highly skilled occupations) and Vanuatu (which has a financial centre that could potentially draw talent from other Pacific Island Countries in future). However, perhaps more importantly than new market access will be the chance to gain valuable experience in negotiations and establish a precedent (both in key areas of interest and in sensitive areas for liberalisation) for future agreements.

It is worth noting that Solomon Islands also envisages a bilateral free trade agreement with Republic of China (ROC) and has raised the issue of labour mobility bilaterally. The principles already mentioned—principally to define areas of interest as part of a labour mobility strategy and put supporting measures in place in a proactive way—would apply equally to any agreement with ROC and any other trading partner.

6.10.4 Policy implications

As with exported goods, a strategic and thought-out approach to labour mobility is required, and a detailed supply chain exists. The steps might include:

- Identifying what the country can sell, comparative advantages and potential markets, perhaps within a wider export development strategy;
- Establishing contact with potential buyers and marketing of the product;
- Selection, quality control and traceability, and certification of standards;
- Documentation and tax issues;
- Transport and storage (or in this case housing);
- Incentives for beneficial use of profits (or remittances).

Some of the most successful labour exporting countries, such as the Philippines, have achieved their advantage through developing and refining just such a targeted strategy. As opportunities increase for international movement of labour due to global demographic trends, the competition in this sector is likely to increase, and countries with a good track record of success are likely to reap greater opportunities, if they want them.

Exports of unskilled and skilled labour create carry very different sets of problems and challenges. For unskilled labourers the focus is very much on the design of quite heavily monitored and regulated schemes, to ensure that workers are not exploited or do not overstay. Building on the example of the recently introduced RSE scheme, a strategy for unskilled workers schemes might include:

- Clear understanding and dialogue between host and sending governments as to their respective roles and responsibilities, and those of companies involved in the scheme;
- A fair, transparent and cost-effective application and selection process;
- Proper legislative framework for effective regulation of schemes and recruitment agencies, particularly where there are potential areas of abuse;
- Adequate pre-departure training, awareness and sensitisation;
- Agreement over responsibilities for monitoring employers and employees, in particular to ensure the rights of workers abroad;
- Ways of ensuring that remittances can be easily and cheaply transferred from host to sending countries;
- Additional development-focused measures to improve the flow of benefits back to sending countries.

By contrast, a different approach is required in trying to facilitate greater numbers of semi-skilled labour overseas. Here, the main concern for semi-skilled labour is preventing too much 'brain drain' and ensuring that skills are transferred back to the home economy, the focus should therefore be on:

- Consultation and coherence between education authorities and trade negotiators to ensure that the right occupational groups are targeted, and that there is planning for the provision of adequate levels of training;
- A clear approach to negotiating agreements which are designed to balance the desire to benefit from increased labour mobility the against the need to retain an amount of skilled in key sectors (e.g. tourism);
- Upgrading the TVET qualifications framework and improving the quality

of training, but with greater emphasis on linkages to potential markets, and through fostering linkages (for example shared curriculum) with overseas training institutes;
- Additional measures to minimise 'brain drain' and ensure that skilled workers are encouraged to return home.

The biggest needs in Solomon Islands are to agree and put in place a regulatory process that works in the case of the new RSE scheme, developing a broader strategy for increasing opportunities for the temporary movement of labour under forthcoming trade agreements, and addressing how to take account of increasing opportunities for overseas employment within current education planning and thinking.

6.11 CONCLUSIONS

Solomon Islands is fortunate to be endowed with abundant natural resources and a fertile environment. Subsistence agriculture and traditional lifestyles created a valuable safety net during the crisis. Some social indicators are better than the regional average, the economy is growing fast, and the Government appears committed to reducing poverty in the rural areas. But emerging human development challenges stand to stretch resources at a time when sources of fiscal income are by no means guaranteed to remain stable. HIV/AIDS is a particular challenge, and swift action may be needed to avert a future epidemic. Given that the country is beginning from a low starting point and that memories of the conflict remain fresh, now is a good time to improve the provision of social services such as health and education.

Trade, through various channels, can both improve and undermine human development. The increased movement of workers may increase the spread of HIV/AIDS. Internally, changing patterns of trade-related behaviour such as rice production and trading in local markets present development challenges which require Government and donor vigilance. A number of gender inequalities exist. Many of these inequalities are rooted in tradition and culture, and maintained through everyday relations between men and women at the household level, but they can be exacerbated by unplanned resource extraction. Reducing gender inequalities will help raise productivity. The trade-related impact of environmental degradation may affect rural households the most, while logging has led to commercial sexual exploitation. Environmental and social lessons from logging need to be learnt in the case of the new mining developments. The existence of these risks is not an argument against trade in these areas, but it does imply that trade-related policies should improve.

Trade can also more directly contribute to human development. Aggregate economic growth can itself help maintain social cohesion and stability. Export promotion, properly managed, can spread wealth throughout the country and contribute to Government finances, which can be spent on social services. A more efficient allocation of resources will contribute to increased welfare. Services liberalization and reduced import taxes can potentially help increase people's access to human development-related items like medicines and health products.

Either way, Solomon Islands operates in a more globalised world, one in which addressing human development concerns requires active trade policy. Aggregate economic growth alone is not enough to achieve long-term sustainability, and social policies must improve. While income inequality measured using the

Gini coefficient suggests that Solomon Islands is not the most unequal society in the region, other manifestations of inequality exist. The section on inequality and conflict discussed how competing access to resources, a growing, youthful population and state centralization played a role in the Tensions.

Solomon Islands must address not only issues of inequality and centralisation, but Government and donors must also ensure that development policies are aligned with peace-building aspirations. Labour mobility has the potential to alleviate some of the difficulties associated with unemployment and a fast-growing population. It will be important for the Government and stakeholders to develop as coherent a labour mobility strategy and policy as possible, since the export of labour is fraught with potential problems. The country stands at an important juncture. How national and international stakeholders approach trade policy in the next few years will determine the country's long-term human development path.

CHAPTER SEVEN

Forestry and logging

7.1 INTRODUCTION

The decline in the logging industry is the most pressing macroeconomic and environmental challenge facing Solomon Islands. Logging currently contributes a significant proportion of exports and Government revenues—although logging still proceeds at an unsustainable rate. Forest resource governance is inadequate, both economically and environmentally, while girls and women tend to suffer social problems and receive the smallest benefits. Using participatory methods, including a workshop conducted on New Georgia in Western Province, the chapter shows how the state's actions and inaction have contributed to resource exploitation. On a more positive note, it is shown that existing opportunities in plantation forestry and downstream processing could lead to sustainable growth. The chapter also discusses the obstacles and opportunities for future sources of income from the trade of environmental services like carbon credits, forestry plantations, especially sustainable logging; value-addition and linkages; land ownership as it pertains to forestry and logging.

7.2 OVERVIEW

The tropical climate of Solomon Islands is conducive to the growth of natural vegetation and plantation forestry. Hill forests cover most of the islands, especially in Guadalcanal, Malaita, Western, Isabel, Choiseul and Makira. Table 7.1 shows the summary of forest areas by province in 2006. It shows that non-commercial forest and cleared land comprise 77%, 12% is unlogged commercial forest and 10% logged over natural forest. Plantation forest is only 1%.

Because of the prevailing natural conditions and abundance of forest resources the Government has historically relied heavily on forestry. Within this sector, logging became the major economic activity. Logging can be defined as the cutting and selling of large quantities of trees, either as round logs or timber. Logging in Solomon Islands mostly involves the ground harvesting (fell and skid) method. Logging is conducted by the logging industry, including companies that harvest trees and are involved in the various aspects of operations including milling, sales from timber yards and log exports. Most logs are exported while timber is both exported and sold locally. Logging varies from very small scale locally-owned operations using chainsaws and portable sawmills to large-scale operations, dominated by foreign—owned companies. The scale of operation is usually measured in terms of the nature of machinery used, the size of concession (area where a company is permitted to conduct logging) as well as monthly production.

TABLE 7.1 **Summary of forest areas (in hectares), 2006**

Source: URS Sustainable Development 2006

Province	Non-commercial forest and cleared land	Unlogged commercial natural forest	Conservation areas	Logged-over commercial natural forest	Plantations	Total area
Guadalcanal	460,600	40,200	0	37,600	300	538,700
Western	359,500	49,500	0	120,700	21,800	551,500
Isabel	297,000	56,700	0	68,800	300	422,800
Malaita	373,200	28,900	0	18,600	1,300	422,000
Choiseul	228,300	82,900	0	18,600	400	330,200
Makira	295,400	17,400	0	9,000	100	321,900
Temotu	63,100	19,900	0	1,500	3,200	87,700
Rennell	41,900	24,000	0	0	0	65,900
Central	55,100	5,700	0	3,600	100	64,500
Total (ha)	**2,174,000**	**325,200**	**0**	**278,400**	**27,600**	**2,805,200**
Total (%)	**77%**	**12%**	**0%**	**10%**	**1%**	**100%**

7.2.1 The economic impact of forestry and logging

The forestry and logging sector has long played a significant role in rural livelihoods and the broader economy. As shown in chapter one on the macroeconomic environment, logging comprises the biggest single industry in the country. Over the past several years the economy became even more dependent on log exports, as major sources like mining and palm oil exports were devastated by the Tensions. The first decade of the new millennium saw record numbers of new companies beginning operations, and the awarding of numerous new concessions. In 2003, the forest industry alone contributed approximately 67% of foreign exchange receipts. This amount was almost triple the foreign exchange earnings recorded in 1992. The forest industry also contributes to the economy in the form of employment (an estimated 1 in 6 people are formally employed in the sector), income tax, indirect Government revenue and spin-off effect into the provinces and communities (SFIA 2004: 7). Indirectly, the industry supports a number of services, such as stevedores.

The harvested volume comprises mainly logs from the natural forests (93%) while the remaining 7% were from plantations. Significant volumes were exported in all quarters of 2007 except for the second quarter when international log prices were at their lowest. The bulk of the logs came from Western province, although production activities in Choiseul, Malaita, Guadalcanal, Isabel, and Makira provinces also increased during the year. As shown in chapter one, the major export destinations for logs were China and Korea, while sawn timber is generally sent to Australia, New Zealand and China.

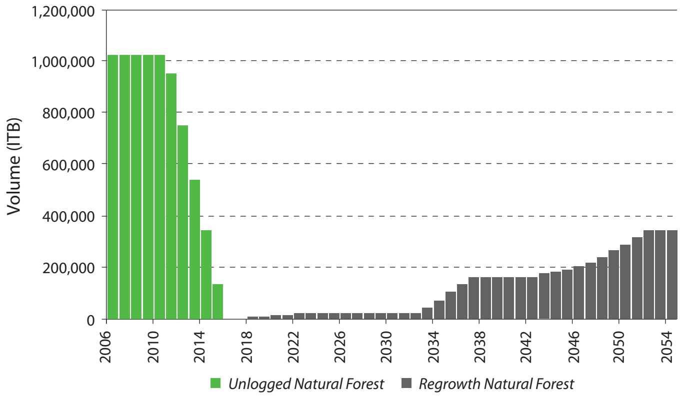
The increase in log production in the past few years resulted from: *(i)* the issuance of new logging licenses amidst the absence of a legal Government mandate to impose moratoriums; *(ii)* a doubling of logging activities in Isabel, Makira and Choiseul provinces with no offsetting fall elsewhere; *(iii)* strong international demand. International prices rose to USD239 per m^3, although Solomon Island average export prices were about USD66 per m^3 as a result of transfer pricing (addressed below).

Given that logging operations are primarily in the provinces, the industry also contributes in other ways. In 2002 logging and sawmilling involved 131 of 4,174 villages, while 1,239 households were involved in chainsaw operations. Small-scale village-based forestry activities are common in most major islands, especially in Guadalcanal, Malaita, Western, Makira and Choiseul (UNDP 2002: 62). The sector now employs about 5,000 people, mostly outside of the Honiara (MFT 2008: 1, 3). This is a marked increase from the 1991 figure of 2,356.

The contribution of logging to the economy is predicted to begin eroding by 2012, as modelled in Figure 7.1, so that by 2013 the industry's contribution to the economy is likely to be negligible, resulting in a loss of rural employment, foreign exchange earnings and Government revenues via export and import duties, as well as income and consumption taxes on companies and individuals (CBSI 2007: 8; MDPAC, 2008).

FIGURE 7.1 **Projected national wood flow from natural forests, 2006–2055**

Source: URS 2006



The contribution of forest resources to the economy is not limited to cash generation and spending. Non-consumptive forest contributions to the economy include maintaining biodiversity conservation, watershed protection, carbon sequestration and protection of air quality, control of land degradation and desertification and protection of landscape and scenic values. Low-impact consumptive forest uses include small scale logging, hunting and gathering, and extraction of commercial quantities of non-wood forest products. The use of non-wood products is noteworthy. Current data on the contribution of forestry to the economy does not include data on the processing and trade of non-wood products, such as the Canarium indicum nut and others derived from purely forestry activities, or agro-forestry initiatives. Here an increasing number of women are involved, usually processing and selling from their homes, as well as to the urban and export markets.

7.3 INSTITUTIONAL FRAMEWORK

7.3.1 The Ministry of Forestry

Formally known as the Ministry of Forestry, Environment and Conservation, the Ministry of Forestry was created by the Coalition for National Unity and Rural Advancement (CNURA) Government in January 2008. The functions of environment and conservation were removed from the Ministry with the stated object of giving recognition to forestry as a leading economic sector. The CNURA Administration noted its intention to increase the human resource capacity of the Ministry to ensure that the Ministry is able in the long-term to address the requirements of the sector. Government notes that the past difficulties in achieving the Ministry's policy objectives are the result of limited human and financial resources.

The Ministry currently has 93 established staff with 45 positions still vacant. The Ministry acknowledges that human resources are still insufficient. Only 82 personnel are involved in policy implementation, and even fewer work on the ground, especially in the provincial wards. The Ministry of Forestry has decentralized its divisional functions with offices based in the provinces particularly for monitoring logging and undertaking reforestation activities. In 2005 the number of forestry personnel was 74.

The Department of Public Service has approved 35 new posts for 2008 but the Ministry of Forestry considers that it would still lack the capacity to monitor logging activities and shipments effectively. The Ministry of Forestry has long been subjected to insufficient budget allocation. The budget baseline has been quite small (approximately USD393,000–USD524,000) annually (Ministry of Forestry 2008).

Extension services comprise the major means of service delivery, especially to forestry farmers within the framework of sustainable forestry management. The Ministry has extension centres in seven provinces, namely Central, Isabel, Malaita, Makira, Western, Choiseul and Temotu. There are five stations in Western province and two in Choiseul. Reforestation and plantation establishment are considered priorities for developing the supply side of forestry and logging.

Officers observe that the USD1M intended for reforestation does not go to those who need it. The Ministry reports that its officers are well trained but they encounter logistical challenges. Administrative holdups and resource shortages create particular challenges. In New Georgia, Western province, Munda-based officers reported that their mobility has been restricted because of a lack of fuel for outboard motors. Farmers also need simple tools but the Department is not able to cater for this demand. The limited calls to farmers and lack of tools are considered to be some reasons why farmers often lose interest in reforestation activities.

7.3.2 The Solomon Islands Forest Management Project II

AusAID has been supporting forestry work in Solomon Islands for over 20 years. The Solomon Islands Forest Management Project (SIFMP) II has provided much needed support, although it was projected to end in September 2008. It is expected that a new AusAID project is likely to commence in the second half of 2009 but will have a broader rural development and livelihoods approach (MDPAC 2008). The possible new AusAID program will have similarities with the European Union (EU) Stabex 98 Forestry and Kolombangara Forest Products Ltd. (KFPL) support program, which addresses a diverse range of issues.

The EU program, which will end in 2010, aimed to provide some USD3.4M of support beginning in 2008. Unlike in the past, Government has begun showing its commitment by providing an annual USD1M for the plantation program. In 2008 USD524,246 in development budget was allocated to start a downstream processing program (MDPAC 2008), but funds are yet to be used. The SIFMP II has been instrumental in the family based reforestation program through coordination, monitoring and provision of advice. A number of workshops were held purposely to strengthen manpower capacity in support of these programs.

A number of other stakeholders are also active in forestry, logging, environment and dealing with local communities. These include development partners, international organizations like the United Nations (UN) Food and Agriculture Organization (FAO), the South Pacific Community (SPC), through its Land Resources Division and a number of NGOs including the Development Services Exchange and World Wildlife Fund (WWF). Other agencies include Canadian Universities Service Overseas Pacific and numerous international and local organizations. The National Council of Women (NCW) is also becoming increasingly involved.

7.4 POLICY

Over the years numerous policy directions have been articulated. Policy is modified regularly along with changes in Government, reflecting the varying priorities of political parties.

In line with the National Coalition Government (NCG) 2002 Policy Statement and the National Economic Recovery, Reform, and Development Plan (NERRDP) 2003–2006, the Ministry of Forestry was required to perform the following:

- Monitor, audit and inspect logging operations and shipments;
- Improve coordination and information sharing with the Customs and Central Bank of Solomon Islands;
- Enforce the COLP;
- Draft, enact and implement a new forestry legislation and a new policy;
- Support family-based reforestation initiatives;
- Encourage community portable and small-scale saw milling and eco-timber production;
- Reform and build the capacity of the Ministry of Forestry.

7.4.1 National Forest Policy Statement

In August 2003 the Cabinet approved the National Forest Policy Statement (NFPS). The Policy purports to set priority forest uses. The first priority for forest use was to ensure economic security by:

- Protecting the contribution of forests to rural communities, recognizing that the loss of these benefits will lead to poverty, social disruption and public health problems;
- Managing the harvesting of natural forests towards a more sustainable level of cut to ensure a long-term sufficiency in wood.

The second priority was to facilitate commercial use of natural forests to generate sustainable employment, cash income at the community level, Government revenue and foreign exchange earnings. Contained within the two broad priorities of forest use are the five policy areas noted below:

1. Government will adopt a long-term view of the forestry sector. Key implementation strategies include protecting the ecological function of forests by excluding high-impact uses and enforcing standards conducive to sustainable logging operations;
2. Government will support options in forestry as basis for future sustainable economic growth. Strategies include enforcing ecologically sustainable

logging standards; ensuring log harvesting does not exceed 550,000m^3 per annum, and encouraging tree planting;

3 Government will increase local participation in forestry administration, harvesting and resource replenishment. Government will devolve some forestry responsibilities to the provinces, tasking the extension division with the responsibility of supporting family based tree planting and provide a legislative framework for eco-forestry programs;

4 Government will strongly support for the protection of the environment and ecological sustainability, including observing obligations under international, multilateral and bilateral treaties signed by Government;

5 Government will leave commercial plantation development and sawn timber production to the private sector. Government will remove the 20% domestic timber processing requirement from licenses.

7.4.2 CNURA Forestry Policy

The CNURA 2008 vision highlights the harvesting of forest resources at a sustainable rate with fair returns to landowners and the Government. This is to ensure a fair return on the export of round logs, reflecting their true international market value. The vision also calls for replanting of trees and care for the environment, including promoting the establishment of protected areas. The priority issues include the following:

- Natural forest logging has a significant direct and indirect impact on the economy but it is not being conducted in an environmentally, socially and economically sustainable way;
- Unless there are changes to practices and the rate of logging, it will no longer be a significant source of Government revenue within five years. The remaining forests should therefore only be harvested in a sustainable manner where a wood-flow prediction model would be used to assess harvests, and forest information system is regularly updated;
- Re-entry logging—where logging is undertaken within previously logged areas that have not yet recovered—further threatens the environment and sustainability. It was noted that re-entry logging should be banned.

The Ministry notes it would address the above priorities through the following:

- A reforestation program which will result in increased establishment and improved maintenance of small-scale, family owned, timber plantations;
- Enhanced operational capacity for monitoring of compliance with environmental practices as stipulated in the COLP, license conditions, as well as the Forest Resources and Timber Utilization Act;
- A program to encourage downstream processing of timber which aims to help locals through extension and training activities facilitated through selected rural training centres or appropriate community based organizations. Training would be conducted in areas like sawmilling, seasoning, and grading and conducted by the Value-added Timber Association (VATA). Market information for timber producers would be provided.

Four development strategies were elaborated for the forestry sector under the

CNURA Government policy statement. The strategies are: *(i)* sustainable forestry development; *(ii)* sustainable forest utilization and downstream processing; *(iii)* institutional strengthening and capacity-building: and *(iv)* forest conservation integration management. So far, only the program on plantation development is reported to have received funding (USD1M).

7.4.3 The Medium-Term Development Strategy

The Medium-Term Development Strategy (MTDS) 2008–2010 Policy Statement on forestry and logging prioritises the following activities in this sector:

- Re-forestation of logged areas and smallholder plantations;
- Smallholder sawmilling projects for downstream processing of timber.

Government also seeks to review relevant Acts/Legislation to better support and facilitate the protection and development of this sector, with maximum benefits to Solomon Islands.

7.5 LEGISLATION AND LOGGING STANDARDS

Government has over the years put in place legislation governing operations in the forestry and logging sector. The major legislation governing the exploitation of forest resources is the Forest Resources and Timber Utilization Act 1969. This Act was amended various times, most notably in 1990. The Act among other things sets out the processes required to acquire a license for logging in tribal lands and has requirements for sustainable forest management. Another significant piece of legislation that contributed to the shaping of the industry was the North New Georgia Timber Corporation Act 1979, amended in 1984, which transferred power to issue harvesting licenses from Government to corporations, thereby setting an important precedent for the opening up of the country to extensive commercial harvesting. In 1999 Parliament passed the Forests Act. This legislation was repealed in 2000 because it was not gazetted.[1] The legislation reverted to the Forest Resource and Timber Utilization Act 1969. The repealed legislation has been reviewed and is now the Forestry Bill 2004. Important details of the Forestry Bill 2004 are noted below.

Apart from the Forest Resources and Timber Utilization Act 1969 a series of regulations were gazetted purposely to revise some of the requirements related to license fee, performance bond, application forms and clauses under licenses to enable a better implementation of the legislation.

[1] www.fao.org/forestry/30816/en/slb/ 2008-08-04

7.5.1 Forestry Bill 2004

The CNURA Government prioritises the review and finalization of the Forestry Bill 2004. The Bill has received strong criticisms from the forest industry and is yet to be endorsed by Cabinet. Industry concerns are that under the current Act, there are instances of considerable delay between obtaining a logging agreement with landowners and the issuance of license by the Ministry of Forestry. The industry does not consider that the Bill would make things easier. The Bill should also place emphases on improving accountability and transparency in the control over receipts and distribution of royalties (SFIA 2004: 6). According to the SFIA, weakness in this area has been a major cause of disputes. Part 6 on Commercial Harvesting Licenses is the lengthiest in the Bill, and despite good intentions, the industry considers it problematic.

Another major disincentive, according to the SFIA, is the mandatory requirement for companies to convert 20% of their log production quota into sawn timber domestically. According to the industry this is considered irrational due to problems like market demand, transportation and economies of scale. Industry is not necessarily against value addition, they consider the mandatory requirement and inadequate consultations on the matter to be problematic. The SFIA requested that this provision be removed from the Forestry Bill 2004. Industry also suggests that from the foreign company perspective there are a number of serious disincentives to investment. These include the nature of customary land ownership and timber rights, high taxes on imported supplies and the ad hoc granting of exemptions (SFIA 2004: 7)

It is worth highlighting some of the provisions of the Forestry Bill 2004, especially those that are more likely to receive the support of decision makers and stakeholders. The provisions noted below are considered pertinent to any effort to achieve sustainable forestry and logging.

Part 3. Planning for use of forestry resources

This part provides for a national forest policy statement. The national forest policy made on 13 March 2003 was specifically noted as the policy statement. The Bill notes that before a commercial harvesting license may be granted in respect of a forested land, there shall be a determination of permitted forest uses in respect to the said area. This section also caters for the COLP, which the Minister may prescribe by regulation. The revised COLP of May 2002 is taken to be the prescribed code.

Part 5. Local harvesting licenses

This part provides for local harvesting licenses. Solomon Islanders, as individuals or groups like co-operatives, that own land with natural forests could apply for 5-year licenses to harvest not more than 1,000m^3 of logs. The licensee is not permitted to export logs, only sawn timber.

Part 8. Reforestation and timber plantations

The legislation should promote reforestation and timber plantations including natural regeneration. It would recognize the importance of timber plantations in the economy. It outlines strategies that would be followed in reforestation and plantation establishment, taking into account the need to train and advice landowners on reforestation, processing and marketing.

Part 9. Timber processing

The purpose of this part is to provide for the processing in Solomon Islands of timber harvested under commercial licenses. It requires at least 20% of the volume of logs exported per year by a licensee to be processed by either by the licensee, or another person or company that buys the logs from the licensee.

Part 10. Export

Noteworthy in this part is the power of the Minister responsible for Customs and Excise Act to determine the value of each grade and size of timber exported from the natural forest. The value is to be determined based on the international market prices. This part also specifies a schedule of tree species that are protected and those that may only be exported as timber.

Part 11. National forests

The Minister may declare land to be national forest. Such a land would have restrictions on clearing, felling, removal or selling of trees, cultivation, human settlement, livestock grazing, and so forth.

Part 12. Forest reserves

The minister can declare a forest to be a reserve. Again there would be restrictions on the use or alteration of the forest environment.

7.5.2 The Code of Logging Practice

The COLP gazetted in 2002 is being implemented by the Ministry of Forestry to monitor logging operations with the aim of ensuring compliance and environmental sustainability. The COLP contains a practical approach to monitoring. Its requirements are to be observed by companies. The COLP is aimed at ensuring that where logging takes place, the ecological and cultural functions of the forest and its productivity in terms of wood and water protection are protected.

The Code is not implemented alone, but is part of the policy and regulative system used to manage logging. There are 13 important key standards that form the basis for field monitoring by forestry officers. Among these are protected and exclusion areas, location of roads and landings, landing size and number, the importance of drainage to roads, no felling or skidding within buffer zones, maximized log value and avoid wastage of timber, decommissioning skid tracks and decommissioning landings and log ponds.

Monitoring of logging operations is carried out based on these standards. The intention is that when logging companies achieve these key standards, additional conditions will be added to further improve the quality of logging operations. To date, companies have breached most if not all the conditions noted above.

7.5.3 Determined Value Schedule

A significant proportion of Government revenues comes from log exports. Since 1998, Government has put in place a system called Determined Value Schedule, based on the USD export value of logs. The schedule is calculated based on a number of factors aimed at reaching a fair market price for all major species exported. One of these is the price paid for logs of similar species in the major markets of the Asia Pacific region. Also utilized are Free on Board (FOB) prices declared by those exporting from Solomon Islands, and the Cost Insurance and Freight (CIF) prices as declared in receiving countries. Every quarter, the Ministry of Forestry is supposed to undertake a price review. Based on this the Commissioner of Forestry should make recommendations to the Comptroller of Customs, who sets and gazettes the Determined Value Schedule. The Commissioner's recommendation would be either to increase, reduce or leave the Schedule as it is. In practice, this requires that the altered schedule be endorsed by Cabinet before it is gazetted.

The Determined Value Schedule was set at a determined value of USD72 per m^3 in 1998 (SFIA 2004: 10). The rate of export duty was revised in April 2002 in three categories based on total FOB price, as follows:

- **<USD550/m^3:** 25% determined value;
- **Between USD550 and USD850/m^3:** USD137.50/m^3 plus 40% of determined value above USD850/m^3;
- **>USD850/m^3:** USD275.50/m^3 plus 60% of determined value >USD850/m^3.

The second time the Determined Value Schedule was set was in 2003. This price was reduced by the Minister of Forestry later that year. Since 2003 the CIF less the cost of freight from importing countries has improved markedly, to at least USD1,00m^3 in early 2006. However, the FOB price of Solomon Islands Regular Grade Group 1 logs has remained around USD90 per m^3 for *Pometia, Calophyllum* and *Palaquim*. The Determined Value Schedule price for Group 2 species is USD88/m^3. Prices have very much been restricted to the level set in the Determined Value Schedule. The third review was effective as of May 1 2008. There has now been an increase to USD98.50/m^3, which should increase to USD107/m^3. The SFIA has not welcomed the increase, arguing that the new prices are too high, and there was no adequate consultation. Government therefore agreed to defer the full implementation till after September 2008. So far the SFIA has not been able to justify why they insisted on maintaining the price at USD90/m^3 for group 1 species, when international prices have increased.

7.5.4 Department of Environment and Conservation

Other agencies have important roles in forest management, conservation and land use. The principal Government agency responsible for environmental management and monitoring is the Department of Environment and Conservation (DEC), until early 2008 part of the Ministry of Forestry. The Department has only five staff and a budget of USD52,425 and USD65,531 in 2006 and 2007 respectively. There is limited funding to support the important functions of data gathering, compliance monitoring, and other field-based activities that the department is mandated to perform. According to the Asian Development Bank (ADB, 2005), compounding the problem is lack of clarity, even within the Division itself, about the limits and extent of its responsibilities. The principal environmental legislation is the Environment Act of 1998. The Act defines the responsibilities of the DEC, and establishes a framework for an environmental impact assessment process. Among other things it requires that an Environmental Impact Assessment (EIA) be undertaken for all major operations, including logging. This requirement has never been implemented.

Other legislation includes the Wild Life Protection and Management Act 1998 and Protected Species Regulations 1990. Provincial governments also exert limited authority over forest resources through local ordinances. Further, Solomon Islands is signatory to international and regional environmental conventions, including the United Nations Framework Convention on Climate Change (UNFCCC), the Convention on Biological Diversity (CBD) and the UN Convention to Combat Desertification (CCD). It is not yet a party to the Ramsar Convention for the protection of globally-important wetlands.

There are also objectives under the Millennium Development Goals (MDG) to be addressed. There is no Government policy on sustainable development, including in forestry at the national level. The Solomon Islands National Environment Management Strategy (NEMS), prepared in 1993, has not been implemented, nor has a National Biodiversity Strategy and Action Plan (NBSAP) been prepared (UNDP 2002). The absence of a well-articulated statement regarding environmental mainstreaming also reflects the weakness and inadequate coordination of institutions. The involvement of prominent Solomon Islands leaders in logging contributes to the weakness in governance.

7.6 LOGGING OF NATURAL FORESTS

The experience of Solomon Islands is acute but by no means unique. Demand for hardwood increased in the international markets, including Asia where most of the country's logs are exported. In the late 1990s, following the depletion of timber stocks in Asia, and regional governments' moves to minimize logging, Asian companies began entering into rainforest areas, including Solomon Islands and Papua New Guinea.[2] Loggers generally extract as much as possible from a concession and move to the next, often leaving the environment in conditions beyond repair.

Governments in most producer countries have encountered great difficulties in managing logging, even where good management measures are in place. Corruption is rife in many poor timber-producing countries, making existing forestry laws nearly unenforceable, while a lack of transparency in commercial transactions means that corrupt officials can grant concessions to cronies without regard for the environment or consideration of local people.[3] This, as will be detailed in this chapter, is essentially the story of forestry and logging in Solomon Islands. Since this is an international problem, it follows that part of the solution may well be found through enhanced international collaboration.

[2] www.rainforests.mongabay.com/0807.htm

[3] Ibid.

7.6.1 Structure of the forestry industry

The SFIA (2004: 5) observes that the forestry industry comprises three major components. The first is foreign-owned logging companies, operating largely under their own licenses to fell and remove timber and to some extent work as contractors to local license holders. The foreign companies are almost entirely export-oriented, although some have attempted to establish sawmills. Second, some foreign logging companies operate as contractors to indigenous license holders. The third category includes locally owned companies, locally incorporated groups and individuals with licenses to fell and remove timber, and usually supplying timber to the local market, and some are exporting. To this should also be added the companies operating commercial plantations and exporting and those that buy timber and export, many with timber yards in Honiara.

Loggers usually enter customary land beginning with the resource owners obtaining licenses from the Ministry of Forestry. Landowners then negotiate with loggers and enter into business arrangements, requiring that loggers extract and market the logs on their behalf (SFIA 2004: 5). Under this arrangement the logger usually receives a share of 60% and landowners 40%. This arrangement works predominantly in favour of the logger. It is from the local company's share of 40% that the 25% duties (based on the Determined Value Schedule) on all export are paid. What is left (15% of the FOB price) to the licensee are considered royalties and supposed to be distributed to resource owners. Prior to 1990 logging only occurred on alienated land.

Logging companies argue that because of the high risk involved in the sector and license-based security, they expect to make only a 20–25% return on their investment in 4–5 years of operations. There are also expectations that companies will provide services and infrastructure in addition to royalty payments. The industry is of the view that these are usually unplanned and constitute a disincentive to companies (SFIA 2004: 5–7). Even Government duties and levies are considered excessive by industry.

Despite these industry claims, it has been argued by many that profits are easily enough to compensate for the perceived risks and disincentives, with some companies operating for 15 or more years, often using subsidiaries. Rates of return are probably severely understated. Furthermore, most of the long established foreign companies contract services to local license holders; harvesting, extracting and exporting timber under an arrangement that sees them benefit from 60% of log export volumes. Risks are well incorporated into business planning and operations.

7.6.2 Natural stock and licences

Planted and re-growth forests are unlikely to make a significant contribution until 2025. The estimate of the potential non-declining annual level of cut was revised to 255,000m³ per year for the period 2004 to 2049, followed by 398,000m³ per year in perpetuity (URS 2003). In 2006, it was estimated that the natural forest has a remaining standing volume of 7.8M m³ as shown in Table 7.2 (URS 2006: 10). This was a decline of about 2.6M m³ in 2003. Western, Choiseul and Isabel provinces have the highest volume of merchantable forests. In 2003 these provinces had a combined merchantable volume of about 8.1M m³, decreasing to 5.8M m³ in 2006.

The URS (2006: 10) assessment noted that, based on the standing stock and the rate at which logging is occurring, that the sustainable harvest yield was predicted to be around 300,000m³ per year.[4] It appears, however, that even at that volume the rate of harvest and replanting cannot possibly guarantee sustainable forestry. The reforestation rate was estimated to be approximately 500ha per annum, mainly by family out-growers, meaning that replanting cannot possibly match the harvesting rate, especially by the time the natural forest is fully harvested.

[4] The sustainable cut volume refers to the figure at which extraction can be done every year at a rate that the forest is being replaced.

TABLE 7.2 **Merchantable volumes for unlogged natural forests with export potential**

Province	2003 assessment		2006 assessment	
	m³/ha	m³	m³/ha	m³
Guadalcanal	14	623,000	12	481,200
Western	41	2,632,200	42	2,079,000
Isabel	23	1,796,300	21	1,190,700
Choiseul	41	3,653,100	31	2,573,000
Makira	35	735,000	28	487,200
Malaita	22	655,600	26	751,400
Central	43	288,100	49	279,300
Total		**10,383,300**		**7,841,800**

Sources: URS 2003, 2006

The 2006 harvest was already too high and the current rate of harvesting is likely to drop significantly before 2010. Many licenses have already been issued. Coupled with the strong international demand for round logs, this could allow companies to harvest at significantly more than the current harvest rate. Log export data from the Customs Division suggests continued growth in early 2008. Research for the DTIS found no concrete commitment by Government or the logging industry to reduce the rate of harvest.

Licenses are valid for a period of five years. As of July 2008, a total of 333 licenses were issued, 150 of which were milling while 183 felling licenses. The highest numbers of milling licenses were issued for Malaita (47), Western (29), Guadalcanal (19) and Isabel (16). Of the 183 felling licenses, 130 were issued to local and the remaining 53 to foreign companies. Most of the felling licenses are for operation in the Western, Malaita and Choiseul provinces with a total of 123.

Western province has both the largest area of commercial forest and the highest number of logging operations in the country with a total of 91 licenses. Logging in the Western province occurs on both alienated and customary land.

TABLE 7.3 **Felling and milling licenses, July 2008**

Province	Felling licenses		Milling licenses[5]	Total
	Foreign	Local		
Western	19	43	29	91
Malaita	2	31	47	80
Choiseul	18	10	9	37
Isabel	8	13	16	37
Guadalcanal	4	13	19	36
Makira	0	14	11	25
Temotu	0	2	7	9
Renbel	0	2	1	3
Central	2	2	11	15
Total	**53**	**130**	**150**	**333**

Source: Compiled from Ministry of Forestry data. Note: Some licenses are for plantation operations.

[5] Figures from Ministry of Forestry as compiled by FAO (2008).

The Ministry of Forestry acknowledges that one of the major constraints is the high number of logging licenses. There are inherent weaknesses in current legislation, making it difficult for the Commissioner of Forestry to reject applications. The Forestry Bill 2004, if passed, should assist in limiting licenses because it would require that the proposed areas be first assessed for other forest uses before a decision is made on the application.

TABLE 7.4 **Annual cut quota by local and foreign license holders, July 2008**

Province	Local Annual quota m^3	% total quota	Foreign annual quota m^3	% total quota	Total quota m^3
Western	1,943,000	24	960,000	11.8	2,903,000
Malaita	1,140,001	14	75,000	1	1,215,001
Makira	594,000	7.3	135,000	1.7	729,000
Guadalcanal	520,000	6.4	146,000	1.8	666,000
Choiseul	398,000	4.9	1,065,000	13.1	1,463,000
Isabel	430,000	5.3	406,000	5	836,000
Central	80,000	1	155,000	1.9	235,000
Temotu	50,000	100	0	0	50,000
Renbel	40,000	100	0	0	40,000
Total	**5,195,001**		**2,942,000**		**8,137,001**

Source: Compiled from Ministry of Forestry data. Note: Some licenses are for plantation operations.

When one considers the annual quota (Table 7.4) associated with the current licenses, the non-sustainability of forest governance becomes clearer. The table shows that current local license holders alone have a total quota of more than 5M m^3. This suggests that at the latest rate of 1.4M m^3 of export, it would take at least five years to deplete the standing stock. The table also shows that the locals who hold most of the felling licenses also have the highest allocated annual quota, concentrated in the major provinces of Western, Malaita, Makira and Guadalcanal. For foreign license holders the province with the highest quota is Choiseul with more than 1M m^3 annually.

Re-entry logging—in an already-logged area—is a particular threat. The Ministry of Forestry has received applications for this type of operation in areas that were logged 5–10 years ago (URS 2006: 8) and legislation does not allow the Department to refuse or prevent it. The achievement of sustainable forestry management will be considerably delayed if re-entry logging is not prohibited. When the trees harvested have not reached commercial size and the surrounding environment has not yet recovered from ecological stress following previous logging, such practices can cause significant ecological harm.

7.6.3 Transfer pricing

Transfer pricing occurs when foreign logging companies sell to their parent companies at prices significantly lower than those paid domestically. Perhaps up to half of foreign loggers use such business arrangements. A parent company may appoint a buying house in Asia, often in Singapore or Malaysia, buying logs from Solomon Islands which it then exports to China. The buyer in China sends a letter of credit to the agent in Singapore with a price of, say, USD140 per m^3. The agent then sends another 'back to back' letter of credit (where two transactions are involved) to the company in Solomon Islands with a price of USD80 per m^3, the figure declared to the Solomon Islands Government. Supporting documentation is designed in such a way that it cannot be cleared in Solomon Islands before Singapore. In most cases over half of the price is transferred, and some companies can capture a margin of up to 80%.

Government has done little to address the practice. The implementation of Determined Value Schedule seems to be the only major effort so far—and as noted above, it is not implemented adequately. Observers with experience in the industry suggest that inaction may be due to strong networks between politicians, administrators and the industry. A number of politicians are said to have links to Rimbunan Hijau, a Malaysian parent company. The company operates subsidiaries around the world, seven of which operate in Solomon Islands. Rimbunan Hijau has been the subject of criticism in a number of countries, including neighbouring Papua New Guinea, by governments and leading environmental organizations such as Greenpeace.

7.6.4 Illegal logging

A proportion of logging operations in Solomon Islands can be considered illegal. Illegal logging takes place when timber is harvested, transported, bought or sold in violation of national and or international laws (MAF 2006). This practice undermines authorities' efforts to manage forests in a sustainable manner. Examples of illegal practices are:

- Logging protected species;
- Duplication of felling licenses;
- Logging in protected areas;
- Logging outside concession boundaries;
- Logging in prohibited areas such as steep slopes, riverbanks and water catchments;
- Logging without authorization;
- Obtaining logging concessions through bribes;
- Transporting illegally harvested timber;
- Exporting timber in contravention of national bans;
- Declaring lower values and volumes than actually exported;
- Ignoring environmental, social and labour laws and regulation.

7.6.5 Breaches of logging agreements

Many features of standard logging agreements are breached and there are no provisions to hold companies accountable. First, companies have a tendency to delay payments to landowners. Delays can be as long as two to three months, even though the legal requirement is that royalties should be paid 14 days after shipment. Company trustees and landowners often seek a series of advance payments that are later deducted from royalties, and the incremental nature of these funds means that they are often spent on consumption rather than investment.

Secondly, there is a high possibility of royalties being underpaid. Payments are often not accompanied by full records of proceeds. Some Solomon Islanders argue that any perceived irregularities should be subject to auditing, which would benefit both the Government and landowners.

Third, company promises like building schools, paying school fees, clinics and roads, and milling rarely eventuate in full. Part of the problem is that most promises are verbal, a cultural norm which unscrupulous foreign logging personnel exploit. Landowners also have limited negotiating experience.

Landowners often spend on immediate gratification. It is common to hear of landowners and trustees indulging themselves with hotel life and having the costs met by loggers through deductions from royalties. Even if royalty payments received from logging are at acceptable levels, their distributions remains a cause of disharmony among customary land owning groups. The geographical and tribal distribution of royalties is rarely without controversy (AusAID 2005: 38). On the island of Rendova in Western province, following the payment of royalties, only the chief and his supporters used the bulk of the monies, so that when the balance was divided among family heads they received about USD3 each. This case has been further confirmed by research conducted for the DTIS in Western province.

An emerging issue is the role of provincial executives in determining who obtains timber rights. Under the existing Act this is determined by provincial authorities, who many now consider to be compromised by the financial power of logging companies. During hearings, provincial executives receive sitting allowances paid by loggers. Timber rights are also expensive, so tribal members with connections to loggers are most likely to win the votes. Under the Forestry Bill 2004, this decision would be made by chiefs.

7.6.6 Under-reporting

The Customs Department suggests that there is a high likelihood of under-reporting of export quantity and misleading declaration on species because the contents of exports are not usually thoroughly checked. Forestry personnel are required to countercheck details of the goods before shipment. While this is done there are loopholes that increase the chance of malpractices in terms of reporting and correct documentation. It is estimated that millions of US dollars have been foregone in this way. The Customs Department is seeking greater involvement to ensure transparency in documentation at the port of loading, and have been allocated USD26,000 to help fund a Pre-load Dispatch Group, a group of personnel that are flown to port locations to check and verify the contents of goods before shipment. It is acknowledged that the Department of Customs needs more staff to improve its service delivery in this regard. More collaboration with the Ministry of Forestry is also required.

7.6.7 Sexual exploitation of youth

The sexual exploitation of children by those involved in logging operations, both foreigners and Solomon Islanders, is discussed in chapter on human development. This form of exploitation is not restricted to the province of Makira. Field consultations conducted for this chapter suggested that girls have been exploited in other provinces, including Malaita and Western, where girls not only go to logging camps but boats as well. A number of them have given birth to Asian-looking children, who were usually abandoned when pregnant. The prevalence of pregnancies suggests the lack of use of condoms, exposing the youths to the threat of sexually transmitted infections.

The major issue seems to be lack of socioeconomic opportunities available to rural communities. This is a view also shared by officials of the Ministry of Women, Youth and Children. It is observed that a leading cause of child prostitution in Makira province is poverty of opportunity, causing some parents to even give their daughters to loggers. The need for money is a major contributing factor, with girls or their parents acknowledging that the sex trade has its financial rewards. Parents see their daughters as links to accessing money and material goods (Herbert 2007). It is apparent that the affected communities at large do not consider the commercial use of girls by those involved in logging as exploitation.

7.6.8 Local perceptions of forestry and natural logging

In discussing issues of human development and equity, it is imperative that the views and expectations of those who actually live in logging areas are taken into account. Below is a presentation of the findings of a case study conducted for the DTIS on the views of village people. Consultations were undertaken in Munda and Bulelavata, New Georgia, Western province. Munda is a small provincial centre while Bulelavata is a remote village community with an encouraging history of involvement in forestry activities. At a workshop in Bulelavata, respondents (landowners, farmers, sawmill operators and women and youth) were requested to answer a set of questions broadly addressing the constraints and opportunities in the sector, and identifying their needs. A total of 44 persons were consulted, 19 of whom were women from Bulelavata. Box 7.1 identifies the challenges, opportunities and needs.

The workshop generated much useful first hand information, which has been reflected throughout this chapter and the DTIS. Many people are aware of the constraints and opportunities. They want to be involved in national decision making about forestry and logging but for long have not been heard. In both Munda and Bulelavata those consulted expressed great appreciation, as this has been the first time that their views were sought on forestry and logging at the national level.

Many of the stakeholders express the same views. For instance most feel that Government services are limited and in short supply; several groups express the need for more information, in particular price information. They also say that access to markets could be improved, beginning with skills development in timber and end use processing, establishment of necessary infrastructure like storage facilities, assistance with inputs like sawmills, and greater Government involvement in linking producers to more lucrative markets. Everyone agrees that plantation forestry, in village setting has big potential, and is an area that Government and others could do more. Women and young people of working age are eager to participate. Despite not benefiting much from logging, they are now extensively involved in tree planting. The Bulelavata people have demonstrated that traditional land ownership is not necessarily an obstacle to plantation forestry development.

BOX 7.1 **Forestry and logging: challenges, opportunities and needs**

Challenges

Landowners

- No consultation between authorities and landowners. Government does not consult grass-root people on policy formulation;
- There is unequal distribution of royalties and benefits;
- Logging causes environmental concerns. A certain big bird and wild pigs are now eating from gardens due to the destruction of their habitats;
- Difficulty in accessing good markets;
- Land disputes due to jealousy and differences in genealogies restrict forestry work in New Georgia;
- Only few people benefit from the use of the communal land for logging, but royalty is wasted.

Forestry Farmers

- Government policy is too loose. There are no restrictions and that landowners are free to enter into logging agreements;
- Landowners have short-term needs for cash. The poor education of landowners also leads to lack of control;
- Lack of funds to begin clearing land and maintain plantations, and Government is not providing tools, materials for reforestation;
- Need surveys and land use plans, testing of soils to identify appropriate areas for crops and trees;
- There is need for productive resources like land, labor, capital and management skills;
- Out migration and employment in logging camps restricts reforestation. At the moment Bulelavata has inadequate manpower as young people also tend to have different priorities, and are less interested in physical labor;
- Government fails to understand the structure of the communities, especially those under the Christian Fellowship Church (CFC);
- Assistance from Government and other agencies at times do not reach the communities.

Sawmill Operators

- Tax from logging is spent on salaries, not on tree planting;
- Forestry earning is not getting back to the Western Province. We "open up to development but it is very unfair to us";
- Lack of funds to invest. Labor, transportation, spare parts and fuel are expensive;
- Timber shipment is difficult where there are no wharfs;
- Shipping is a problem because boats want to come for big quantities of timber;
- Eventually, sawmill profit margin drops, so millers do not make enough money to invest in new mills;
- Some overseas buyers take too long to make payments, crippling work morale and business viability. Where buyers use letter of credit payment is received with departure of shipment, but where no letter of credit is used there are delays in payment because buyers want to inspect timber first, many times

making excuses that timber is of poor quality;
- Overseas buyers try to pay the minimum prices, at times offering price that are the same as locally, even like New Georgia prices. Fumigation is a big cost problem;
- Buyers in Honiara are also exploiting the suppliers because they buy in m^3 but sell in linear metres;
- Sawmill operators are cheated, they do not know the actual value of their timber (especially overseas);
- Transportation is a problem for marketing from remote areas because ships are delayed affecting payments for timber too;
- Important to have tools like chainsaws and if possible, sawmills to harvest some trees and make way for reforestation.

Women and Youth
- It is no longer easy to collect fuel wood, garden areas and cultural sites are destroyed by machines, water is polluted and some streams are dry;
- Women are neglected in decision making, women have matrilineal rights but property rights are not respected, they have little say. Youths, especially males have some rights;
- Women do not benefit from logging royalties;
- Increased social and health problems, like alcoholism among girls, girls going to logging camps and sexual exploitation, 'false marriages', pregnancies, '02' (meaning second wife/girlfriend) and STI problems.

Opportunities

Landowners
- Employment opportunities exist;
- The Ministry of Forestry provides advice and undertakes consultations;
- Landowners can be involved in reforestation;
- Development of infrastructure like roads and bridges (benefits);
- Logging is a source of income (benefits);
- Provision of school fees (benefits);
- Provision of timber for local use (benefits);
- Extraction of Gmelina for canoes (benefits);
- Free use of company machines, chainsaws etc. (benefits).

Forestry Farmers
- Small scale tree planting is big opportunity. The CFC farmers are leaders in village plantation establishment in Solomon Islands;
- The number of those planting trees is bigger than those currently benefiting from logging;
- A lot of logged over areas that can be planted and land is plentiful;
- The Ministry of Forestry encourages communities to plant teak, mahogany and eucalyptus;
- The Western province is said to have best tree growing conditions.

Sawmill operators
- Sawmilling helps communities with needs like schools, water supply.

Women and Youth

- Women are very good with reforestation work;
- Women want to take care of forests;
- Women benefit from timber and school fees through the use of sawmills (benefits);

Needs

- Important to have tools like chainsaws and if possible, sawmills to harvest some trees and make way for reforestation;
- Farmers need free planting materials (seeds, seedlings, poly bags, ladders for pruning etc). They also need training in farming techniques and tree improvement;
- Ministry of Forestry to conduct more frequent visits and provide advice;
- Millers need sheds to keep timber until they are shipped;
- Assistance to reduce the cost of shipping;
- Better value for timber;
- Stop logging altogether. There is no more timber in the lagoon area because of too much logging
- Genealogies must be properly recorded and kept;
- Population control;
- Wide consultations between Government and landowners in any economic activity;
- Women and youth need help to also plant trees;
- Women need information from the Ministry of Forestry;
- Ministry of Forestry to assist by training village people to do extension work;
- Need training to produce high value timber and other products for export;
- VATA should provide more training in rural areas;
- In Munda farmers and former sawmillers need to be assisted to acquire sawmills;
- Sawmillers need reliable market information and want to know the requirements of buyers and end uses; VATA should help sawmillers by identifying credible buyers and making their market requirements known;
- Now Government should have a Unit that looks after exports and protect suppliers. Also need to reestablish the Ministry of Forestry utilization section. There is need for a set up in Munda where the Department will set a minimum price. The Unit should also be a store place for tools like chainsaws for hiring;
- The Ministry of Forestry in Munda needs a vehicle and a lot of fuel;
- Land needs to be surveyed and registered to facilitate plantation forestry.

7.7 PLANTATION FORESTRY

In contrast to natural forest logging, plantation forestry offers a 'sunrise' scenario, one which carries hope for sustainable forestry and logging into the future. This scenario refers to opportunities that exist in large-scale and smallholder plantations to meet the country's log and timber needs. It presents an opportunity for the management of the decline in logging as well as future sources of revenue and livelihood advancement.

Government has been instrumental in the growth of plantation forestry.

On Santa Cruz, the Government owns 12,000ha of land. The Allardyce Lumber Company logged 3,000ha between 1975 and 1979. A Government reforestation program followed, establishing about 2,900ha, of which 1,260ha was planted with *Swetenia macrophylla* and the remaining, with a mixture of other species including *Agathis*. The plantation was funded through Stabex funds from the EU. The Ministry of Forestry also established plantations in Shortland Islands, Gizo and Isabel. The total area planted as reported in 2003 was 35,000ha. However large areas have failed or have been harvested so that by 2005 the commercial area was about 22,200ha. Available data suggests the figure for 2007 was 22,600ha.

The value of timber in the plantations is higher than natural forests due to the variety of trees planted, such as *Tectona grandis*. This may provide some mitigation for the loss of natural logging revenues and it may also be possible to secure some livelihoods and growth from value-added products. These are opportunities to be pursued, but cannot offset the loss of incomes from natural forests in the near term (MDPAC, 2008). At present the industrial sub-sector, consisting of Eagon Pacific Plantations Ltd. (EPPL) in New Georgia and Kolombangara Forests Products Ltd. (KFPL) in Ringi, Kolombangara constitute the critical mass and capable substantial of exports. Table 12 provides information about industrial scale plantations established to date.

TABLE 7.5 **Industrial scale plantations, 2008**

Source: URS 2006 and updates.

Province	Location	Owner	Planted area (ha)	Commercial area 2005 (ha)	Commercial area 2008 (ha)
Western	Kolombangara	KFPL	14,500	7,600	8,000
	Arara	Eagon (EPPL)	13,000	10,600	10,600
	Shortland	DF	2,100	800	800
	Gizo	DF	600	0	n/a
Choiseul	Choiseul Bay/Moli	Eagon (ERC)	3,200[6]	300	300
Isabel	Allardyce	DF	2,300	0	n/a
Temotu	Santa Cruz	DF	2,900	2,900	2,900
Total			**35,400**	**22,200**	**22,600**

[6] Figure for 2006.

KFPL and EPPL are expanding their plantations and have maturing trees but they are limited in their expansion opportunities due to their finite land-base. The smallholder sub-sector has the potential to make a positive contribution to Solomon Islands via an increased plantation estate, direct rural income and employment in growing, harvesting and processing of plantation timbers (URS 2006: 11). The benefits of plantation forestry are expected to include:

- Increased tree-cover and subsequent wood volumes on previously degraded sites (i.e. old garden sites, logged-over forests returned to productive use);
- Direct revenue to the actual tree-growers and rural communities;
- High returns for owners of well-managed high-value species (i.e. teak and mahogany) plantations;
- Purposeful rural employment, especially for the growing and relatively unskilled youth population (ibid).

7.7.1 Kolombangara Forest Products Ltd.

KFPL is a hardwood plantation-based operation that began in 1989 as a joint venture reforestation program between the Investment Corporation of Solomon

Islands (ICSI) (20%), a Government entity, and Commonwealth Development Corporation (80%). The plantation was established on forested lands, already publicly owned and comprises mainly exotic species such as *Eucalyptus deglupta* (KFPL 1999a). It is a 39,402ha estate, including reserved and protected areas with conservation objectives (KFPL 1999b). In December 2006 the Tropical Timber Fund of USA took over from the Commonwealth Development Corporation. Under the current arrangement the Tropical Timber Fund owns 60% and the ICSI 40%. The company holds a 75 year lease, with 57 years remaining. Of the 39,402ha acquired, the company managed to increase its plantation from 8,000 in 1989 to 14,500ha in 1999 (KFPL 1999b). The remaining 24,902ha remains natural protected forest. Among other things, a favourable climate and highly productive lands for plantations and a cheap land lease provided by the Government in 1992 (USD233,813 for 33 years) are the main initial drivers attracting private investments. The legality of the land lease over much of the island has been contested in court by landowners.

KFPL's main exports are peelers and sawn logs to the Asian markets, which averaged about 45,000 to 60,000m^3 per year between 1997 and 2002. The company exports to Japan, Vietnam, Philippines and Malaysia. In 2006 and 2007 the company's log production was 41,000m^3 and 70,000m^3 respectively, of which only 3% of logs were extracted from the natural forest each year.

KFPL employs 250 full-time workers and a further 400 contractors from the local community for specific tasks. As part of its operations KFPL, being the main employer on the island, provides housing and schools, builds churches, provides water tanks and funds scholarships for students to pursue secondary education and study for the certificate in tropical forestry at the Solomon Islands College of Higher Education. Currently six students are pursuing the forestry certificate program and three are in secondary school. The company contracts its harvesting and is now considering also contracting its sawmilling requirements.

In June 1998 KFPL obtained certification from the Forest Stewardship Council (FSC), the most internationally recognized form of recognition for sustainable forestry. Producers can label their products as such through the whole supply chain.

KFPL obtained forest certification to gain stakeholders' recognition of its forestry management practices and to exploit commercial opportunities from certified timber. KFPL, following certification, was able capture niche markets requiring forest certification . The demand for certified logs came particularly from Vietnamese furniture manufacturers exporting to Europe. In 2002, KFPL's General Manager noted that 'forest certification has given to KFPL a competitive edge which allowed it to overcome the market difficulties from the political instability in 2000 and the aftermath of the 1997 Asian market downturn' (Pesce and Lal 2004: 8).

In the early 2000s, KFPL was selling its certified logs at an average premium price of 36% more than the prices exhibited for the same products in markets that did not require forest certification. In 2008 the company confirmed it is still reaping the benefits of certification. Logs are sold to niche markets at prices that doubled or tripled what is offered in the non-certification markets. The company noted for example that *Eucalyptus deglupta* logs were sold by EPPL in 2007 for USD60–70 per m^3 while KFPL fetched USD120 per m^3 for the same product. The price for *Tectona grandis* was USD450 per m^3.

Among the constraints faced, marketing is considered the most pressing. The island is not located at the major shipping route. Shipping services are not frequent enough, especially vessels with larger capacity. At present there can be 2–3 calls per month but the problem is that these ships could only carry as much as 6,000m^3 at a time.

In terms of opportunities the company is now considering acquiring its own vessel that will sail to and from Asia once a month. The company contends it may be possible for this vessel to ship forest products from Papua New Guinea, Solomon Islands, and Vanuatu and even facilitate the flow of timber and other products within these countries and Asia, thereby cutting out some of the costs associated with products going and coming through Australia. The company also has a potential log storage area that could serve the Pacific region. A feasibility study conducted by the PFP provided strong indication that the loading port of KFPL could be expanded to accommodate vessels that are up to 200 metres in length, and which could carry as much as 28,000m^3 of logs in one shipment. The company has also considered ecotourism using areas of sustainable forestry management, and the potential export of bottled water.

7.7.2 Natural forest management

KFPL in promoting the natural forest management model pioneered by the Pacific German Technical Corporation (GTZ) Forestry Program and the South Pacific Community (SPC). Sunvanga, which is an area of 2,000ha belonging to landowners, is trialling natural forest management with the assistance of KFPL. KFPL also has 409ha in Poetete trialled under the same initiative. The expected outcome is to see if landowners can demonstrate the ability to manage and harvest natural forests on a certifiable and sustainable basis. The initial indication is that the EU would be willing to put more funding to the natural forest management initiative, and in fact it is an initiative that could be implemented without spending too much on goods such as those provided for the Sunvanga natural forest management .

The initiative has received €600,000 funding for a period of five years. Already landowners of an adjacent area that is 4,600ha have expressed interest in this initiative and the KFPL is eager to duplicate it elsewhere, even in other islands. Women and youths have been involved in inventories. The community natural forest management areas would be harvested at 100ha every year. At an estimated 42m^3 per hectare this would mean that 4,200m^3 would be extracted and exported annually. Communities will use KFPL machinery and export from its facilities. Logging at this pace would take at least 20 years to complete an area of 2,000ha, during which time natural regeneration forests would reach maturity.

Natural regeneration involves the practice under which trees found growing naturally, such as in logged over areas are allowed to grow and treated through practices like vine releasing and thinning. These treatments are important to ensure that competing species and undesirable trees are removed to allow the most promising trees to grow. Using natural regeneration techniques the company has for example logged some areas twice already for *Pometia*, while others are being logged for the third time, harvesting trees that are 50cm in diameter. This model, according to the KFPL is economically, environmentally and socially viable and the company considers it an opportunity that can be adopted by other communities.

7.7.3 Eagon Pacific Plantations Company Ltd.

EPPCL occupies 25,000ha that was also alienated by Government. The plantation was acquired in 1997. The company has the second largest establishment in Solomon Islands. EPPL identifies marketing of its logs in 2008 as problematic. During the fieldwork piles of logs were seen awaiting exports, as no buyer has yet indicated interest in them. Another constraint faced by the company is that some 5,000ha is swamp area. EPPL has also shown its interest in forest certification, and to this extent it is being supported through an EU program. The company acknowledges however that actual certification would take some time, possibly five years. The company is required to make significant investments to comply with FSC requirements. The company employs some 450 people with 250 involved in plantation establishment and 200 in production. Twenty women are employed, 10 of whom work at the nurseries. Of this figure only 70 are permanent employees. Over 10,000ha have already been planted by Government and since 1997 an additional 5,500ha were planted by the company. The company's target is to establish 12,000ha of plantation, the supply figure that it believes is the minimum for it to practice sustainable forestry management. To this end it is seeking to plant at least 700ha annually. In the case of *Eucalyptus deglupta* this would mean a sustainable harvest on a 15-year cycle.

Full commercial production is expected to begin in 2020, when the company would have an output of 140,000m^3 per year, or 10,000m^3 per month. The company maintains strong links with the neighbouring communities supplying them with cheap seedlings and providing transportation. It sells *Eucalyptus deglupta* and *Tectona grandis* seedlings to landowners at US 10 and 20 cents respectively and the company actively supports communities to establish woodlots and agro-forestry plantations. The company also employs 300 landowners, who are employed as production and plantation contractors. To cater for community medical needs the company also funds the operation of clinics. EPPL exports to Japan, South Korea and Vietnam. The buyer in Japan processes logs into plywood while the EPPL parent company in South Korea also processes plywood. In Vietnam, EPPL logs are processed into furniture, most of which are exported to Europe.

Apart from increasing investment in plantation and the planed investment in downstream processing, another important EPPL initiative is natural regeneration, for which the company has made 2,500ha available, using *Terminalia brassii,* a local species. The forest area currently under natural regeneration is about 570ha, equivalent to 10% of the plantation to date. According to the company, without natural regeneration the area can produce 20 stems per hectare and yield 80m^3 per hectare. With natural regeneration the area would accumulate about 100 stems per hectare and produce 400m^3 per hectare. This increases the volume of natural regeneration forests per hectare by five times, ensures stable ecosystems and supports constant harvest and productivity.

7.8 SMALLHOLDER AND VILLAGE PLANTATIONS

The smallholder sector ranges from individual and family woodlots to those that are hundreds of hectares, often owned by communities. The first village-scale plantation was recorded in 1985, covering about 200ha, and by 2005 a combined total area of 9,000ha was planted (URS 2006). The opportunity for plantation expansion at the village level remains significant. Traditional approaches to subsistence agriculture can be equally applied to small, family-based forestry developments. The infrastructure required is minimal, and if no roads exist, small portable mills can be used to cut the timber on-site (URS 2006).

FIGURE 7.2 **Estimated plantation forest areas by year of planting, 1973–2005**

Source: URS 2006

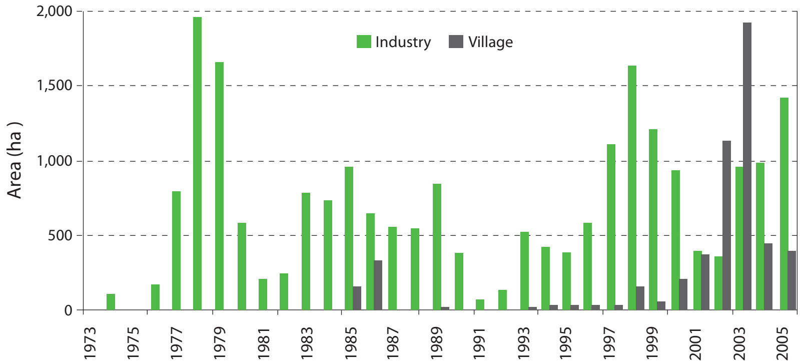


Figure 7.2 above shows the establishment of plantation forests at the village and industrial plantation levels. It shows that the village sector was not active in plantation forestry during the later part of the 1980s through the late 1990s. In the early 2000s activities begun to increase so that by 2003 about 1,900ha were established, but the next two years recorded decline in village farms. In 2003 it was estimated that if supported by NGOs the Forestry Department's extension service could help farmers establish at least 1,000ha per year, but following the moderate performance in 2004 and 2005 a conservative figure of 500ha per year was considered more feasible. Wood flow from village plantations was calculated based on this lower figure (URS 2006: 19).

TABLE 7.6 **Estimated landowner revenues after costs for the main plantation species**

Source: URS (2006)

Trade/botanical name	Operation	FOB SBD/m³	Harvest cost SBD/m³	Revenue SBD/m³
Teak	1st thinning	1,179	432	747
	2nd thinning	1,729	409	1,320
	Clearfall	2,986	393	2,593
Mahogany	1st thinning	1,729	409	1,320
	Clearfall	2,357	377	1,980
Eucalyptus deglupta	Clearfall	589	369	220
Gmelina	Clearfall	471	393	79
Campnosperma	Clearfall	432	393	39
Other	Clearfall	432	393	39

As of 2006, available figures suggest that over 12,500 individual plantings have occurred, involving some 9,000 households across the country (URS 2006: 17). The three leading provinces by 2006 were Western (3,134ha), Malaita (1,479ha) and Guadalcanal (411ha). When involved in reforestation, it is observed that farmers prefer to replace *Campnosperma brevipetiolatum* with *Gmelina arborea*, while *Eucalyptus deglupta* and *Acacia spp*. and 'other' species are replaced with a mix of *Tectona grandis, Swetenia macrophylla* and *Gmelina arborea*.

The increase in private smallholder and community based plantation can be attributed to the extension services of the Ministry of Forestry and the support of development partners like AusAID and NGOs over the years. Table 7.6 above shows plantation establishment is a worthwhile investment. *Tectona grandis* for instance would generate about USD95 per m^3 during the first thinning to USD330 per m^3 when harvested. The figures for *Swetenia macrophylla* are also encouraging, with USD252 per m^3. Also noteworthy is the involvement of the industrial plantations, KFPL and EPPL and Eagon Resources Ltd. They have assisted villages in Kolombangara, Choiseul and New Georgia to plant species like *Tectona grandis* and *Swetenia macrophylla.* As noted above these companies have strong links to their surrounding land-owning communities, suggesting that there is further growth potential.

7.8.1 Portable sawmilling and marketing

Significant opportunities exist for sawmilling and marketing, although data on the operation of portable sawmills, especially their timber production, is scarce and it is unclear how many mills are in operation. Perhaps only about half of sawmills currently in operation are registered and licensed. There is also inadequate information on the number of local and foreign owned businesses that operate timber yards or distribution facilities in the country, many of which are already exporting. Some companies owned by Solomon Islanders have begun exporting, mostly to Australia, New Zealand and Vanuatu. Few village and locally owned companies

BOX 7.2 **Timol Enterprises Ltd.**

The company operates a timber yard in Honiara and is the national agent of Lucas sawmills. A sister company of the Timol Enterprises Ltd operates 10 Lucas mills. Along with other operators they sell timber to Timol Enterprises Ltd. The 10 Lucas mills, not operating at full capacity, supply about 400m^3 of timber a month, while other suppliers sell about 300m^3 per month.

Constraints

Small sawmill operators are faced with several difficulties:

1. Difficulty in logistics, especially with shipping. Boats servicing some of the areas supplying timber to Honiara are either too few, or their services inconsistent.
2. High freight costs. For example, while the company buys a particular grade of timber at USD197 per m^3, some boats charge between USD79 and USD105 per m^3—around 40-50% of the cost.
3. It is becoming difficult for some millers to find trees to harvest in islands where logging has been intensive, especially where trees have been removed indiscriminately. Many trees that were not to have been felled for the log export market have been wasted, and either burnt or left to rot, as loggers later considered them unfit for export. Sawmills have to be taken deeper inland to cut timber, and operators confront the difficulty of moving their timber to access roads and then to the coast for shipment.

Opportunities

1. Sawmilling is a lucrative business, one with much potential for expansion. The Timol Enterprise Ltd is one company that sells all its timber locally, and empties its yard in a matter of days after purchasing from suppliers. The company is unable to fully cater for the increasing demand in Honiara.
2. If operated at high production capacity and well maintained, in five years Lucas sawmills can recover the cost of capital investment and enable expansion.

are exporting under the 'eco' label, having gained certification. This is an opportunity backed by NGOs, with some development partners expressing interest in supporting certification initiatives. There is also a strong domestic demand for timber and other end use products.

Timber buyers with small storage spaces in Honiara are becoming and increasingly important players in the growth of timber processing, distribution and marketing, including internationally. Basic profiles and perspectives from five companies, all with varying levels of operations, are summarized below. Top Timbers, which is the biggest buyer and exporter of timber milled by local sawmill operators is not profiled.

7.8.2 Local downstream processing

Over the years many Solomon Islanders have ventured into portable sawmill operations. Most have ceased commercial operations, with no ability to invest in new machinery. In Guadalcanal it was noted that by the mid 1990s there were 28 sawmills or chainsaw operations but only six were active in 2000 (AusAID 2005). There are similar accounts for all the provinces. Sawmill operators have for a long time been criticized by loggers and marginalised by Government. The SFIA (1993) has cited, among other things, the low quality of logs, poor conversion obtained, and low productivity, leading to low profitability. They point to failures in Fiji and PNG and suggest that portable sawmills are unviable in the region. There are grounds for this argument, since fuel costs are high, forest stocks are declining and there is still need for timber processing and business skills.

A leading cause of failure in timber processing and marketing businesses appear to be a lack of vision and strategic approach, problems which require coordinated Government and donor intervention. The development of more widespread downstream processing will spread the benefits of forestry and logging and assist with poverty reduction.

Operations may start small but they can expand. UNDP (2002: 62) shares this view, arguing that to empower ordinary Solomon Islanders to be more in control of the industry there needs to be improvements in access to credit for the purchase of chainsaws, business training and better access to market outlets. Already some local companies in Honiara have made significant capital investments, enabling them to conduct further processing of timber for both the local and export markets, and still others are venturing into value addition like furniture making and related end-use activities. This suggests that expanding into small stationary mills would be the sensible next step.

7.8.3 Value-Added Timber Association (VATA)

VATA, a charitable body, was established in February 2005, when 133 members were given one year's free membership. Membership increased steadily to 514 by May 2008, a significant proportion of whom are concentrated in Honiara. Its mission is to develop a strong sector in value-added products based on high quality natural and plantation species. It seeks to help landowners and traders maximize the benefits derived from forests by value addition. VATA's objectives are as follows:

- Organize those who are currently traders or intending to be involved in the value-added timber industry, covering products from rough sawn timber to high value end use goods;
- Facilitate the development of the value-added timber industry in Solomon Islands;

BOX 7.3 **Lagoon Eco Supply Ltd.**

Lagoon Eco Supply Ltd is a certified eco company. It begun in 2005 and has four Lucas mills operating at Marovo, Western province, two at Isabel and another at Russell Island, Central province. The company also buys timber from companies operating in other provinces. It receives 450–600m^3 of timber per month.

Constraints

1. The major difficulty the company confronts is the high cost of internal shipping. The boats regularly used are MV Eleina and MV Diana, belonging to the RTC Company. The boats backload timber from Western province, and are charging as much as USD5,898 per trip.
2. The company also has a problem handling large quantities of timber in its small yard. The limited storage capacity means that timber destined for the local market is at times left exposed to rain and sun.

Opportunities

3. Products are sold in Honiara and exported to Australia, New Zealand and Vanuatu. Their biggest market is Honiara. The company exports regularly with demand from Vanuatu for example rising from two to five containers a month. One container carries 17–18m^3 of timber.
4. Buyers in Australian and New Zealand now frequently request that their shipments be bundled timber instead of just full container load (FCL). This suggests that because of consumer demand for eco timber, and confidence in the quality, the dealers have their consignments sold before the goods even leave Honiara. The major species exported are *Vitex cofassus, Intsia bijuga*, Rosewood, *Pometia*, *Terminalia* spp. and *Calophylum*.

- Represent the interests of the value-added timber industry both locally and internationally.

The current executive has been active, meeting 10 times since 2007. It has had discussions twice with the Undersecretary and Permanent Secretary of the Ministry of Forestry in efforts to secure funding. VATA has submitted a proposal to Government to assist with a budget of USD183,486 for six months beginning in July 2008. The Government was supportive of the proposal given that the proposal is in line with forestry policy, and that there is now some budgetary support for the sector. Government is of the view that VATA will be the focal point for capacity-building in all aspects of portable sawmill operations and trade.

Financially assisted by the SIFMP II, VATA conducted nine portable sawmilling workshops since 2007. Training also covered areas like timber grading, volume calculation and export procedures. Both members and non-members were trained. The workshops were conducted in Guadalcanal (3), Western (4), Central (1) and Malaita (1) provinces. The association also conducted a workshop on timber grading and timber seasoning in Honiara. Three members are currently receiving technical assistance in the setting up of their timber yards in Honiara, with two already exporting sawn timber to Australia and Vanuatu.

VATA has requested Government to provide duty exemption on Lucas mills imported for its members and two have already been exempted. Given the rising

BOX 7.4 **John Wesley**

Launched in 1997, the company is beginning to recover after being defrauded by an Australian buyer of 116 containers of timber worth an estimated USD851,900. The company buys from sawmill operators mostly from Guadalcanal but also from the provinces of Malaita and Isabel. They also have mills operating in Guadalcanal, Choiseul and Isabel provinces, buying trees from locals and milling them. The company buys all timber sizes and usually further processes them into the requirements of customers. It spends around USD19,659–23,591 per month buying timber.

Constraints

1. The biggest obstacle faced by the company is irregular shipping and the limited capacity of shipping. Boats are often reluctant to take timber because of the arduous work involved in loading in some locations where there is poor or no support infrastructure like wharves. Also boats tend to prioritize the shipment of agricultural and other cargo because of their limited tonnage capacity, and small volumes of logs are not considered cost-effective.
2. The cost of shipment ranges from USD98–105 per m^3. Because the company was recently defrauded it needs adequate working capital to purchase timber in volumes that match the demand from its customers. It currently has an overdraft facility with the ANZ Bank at the rate of 15%.
3. The company has also attempted to buy and mill logs considered as waste by loggers but this has not been possible.
4. The Ministry of Forestry currently has no utilization section so is unable to adequately help sawmill and timber yard companies.

Opportunities

1. Their market is mostly Honiara but they also export *Pometia* to Vanuatu, *Vitex cofassus* to Australia and *Intsia bijuga* to New Zealand, with export demand rising. The company has plans to expand to furniture making. The company, like others consulted, sees no problem of competition from other dealers, observing that the Honiara and export markets are expanding. Also, an increasing number of Solomon Islanders are now buying timber only from companies they know to be 100% locally owned.
2. The company intends to acquire its own boat to accommodate its expansion needs. The company boasts one of three experienced saw doctors in Solomon Islands.

demand from Vanuatu VATA has also informed the Ministry of Forestry that if assisted, its members could easily supply the demand. The association has also gone to great length to propose a regulation on the trade of timber and logs, beginning with the registration of sawmill operators, VATA organizing letters of credit with buyers, export shipment requirements, and all procedures until payments are made for exports. Though still a draft, it is a proposal worth considering, with some necessary amendments, especially the sections stating that VATA will be the association responsible for exporting small consignments of logs or sawn timber. The export option has to be open to all VATA members. Though the Association may export, it should not limit the potential of its members.

The immediate future plan of the association is to continue with sawmilling courses, arrange more seminars on specific subjects in Honiara and the provinces, continually promote the work of VATA, continue to seek duty exemptions on Lucas mill imports for members, and finally, to acquire land for an office and timber yard for export purposes. It is anticipated that the land, when acquired, will host the VATA timber yard, where members who may not have their own facilities can store their timber in preparation for export.

At the moment VATA is in the best position to assume the role of producer's organization. The program should involve the following:

- Setting up a producers' organization that will co-ordinate the efforts of portable sawmill operators and dealers, including exporters;
- Training in all aspects of sawmill operation and maintenance. This will enable insight into such areas as machine care and maintenance, occupational health and safety (OHS), operation skills and efficiency, product quality maintenance and sawmill business management;
- Training in timber grading and basic timber technology. This will also involve species identification for better end use applications and for quality control purposes;
- Establishing a national industry safety code;
- Instilling in operators high ethical standards for work productivity, the respect for environmental sustainability, sensitivity to gender equity, values and cultural sites;
- Establishing and implementing environmental policies in accordance with the COLP;
- Establishing related marketing and processing infrastructure. This should ideally involve setting up at least two kiln driers, one on Guadalcanal and the other in the Western province to service operators who seek to export. Along with these should be timber storage facilities, especially for timber destined for export.
- Co-ordinate efforts to address the high unit cost of shipping timber from the islands to Honiara, possibly through bulk shipments.

7.9 CARBON FINANCE

Solomon Islands has potential to benefit from current developments in the trade of environmental services such as carbon credits in the voluntary carbon market and payment for ecosystem services, and climate-related grant finance. However discussions on carbon credit remain limited to date, and conducted mostly under donor-funded environmental programs.

Internationally, discussions about the economic significance of environmental services of forests have intensified in recent years. Some estimates value the global carbon market at USD40B by 2010 (Bayon 2006). The United Nations Framework Convention on Climate Change is in the process of developing a compliance mechanism for reducing emissions from deforestation in developing countries. The Kyoto Protocol excluded avoided deforestation from the Clean Development Mechanism, thereby preventing emissions trading from being used as a funding mechanism for the protecting and sustainable management of forests.

In the meantime, voluntary carbon markets present an opportunity to undertake emissions trading. International grant finance is becoming increasingly available to assist countries to build capacity for managing forests for climate change mitigation and adaptation, and to develop the necessary institutional infrastructures for future carbon trading. The World Bank has developed the Forest Carbon Partnership Facility and is inviting developing nations to submit proposals to receive up to USD5M for strategic capacity-building in the forest sector, such as the development of a national forest carbon monitoring system and alternative development pathways for local economic development in forested localities.

Given the poor record of Solomon Islands in sustainable forestry, it is a struggle to attract investors, particularly given that there is no legislation to deal with the issue and while land tenure remains insecure. Investors will need to be guaranteed long-term secure forest areas, which under existing institutional frameworks will be difficult to achieve. The country could start by reserving some areas, with initial international funding channelled through NGOs.

In the Asia Pacific region, despite the extreme circumstances of forest management, efforts have begun with countries seeking to be involved in various forms of the climate mitigation exercise. Australia has a Global Initiative on Forests and Climate, launched in 2007. It aims to reduce greenhouse gas emissions from global deforestation, support new forest planting, promote sustainable forest management, and encourage action by other countries (Downer and Turnbull 2007). Under this initiative Australia would contribute funding to help preserve 70,000 hectares of peat land forests in Indonesia's Kalimantan region, and plant up to 100M new trees on rehabilitated peat land for conservation purposes.

Solomon Islands could also learn from its nearer neighbours. Vanuatu has recently undertaken a national climate change program to develop capacity for the forest sector through the Vanuatu Carbon Credits Project, in partnership with a team of international technical advisors. This project has focused on targeting international grant finance to help develop the basis for a more sustainable forest sector through avoided deforestation, plantation forestry and agro-forestry. The project recognizes that sustainable forest management depends on delivering real economic development benefits to local people and the country as a whole. Funding has so far come from Victoria University of Wellington, the UK Government, the Government of Germany, and the New Zealand Royal Society. Vanuatu has also applied to the World Bank's Forest Carbon Partnership Facility and the European Commission's Global Climate Change Alliance.

The core of the Vanuatu forest program has been to develop a national forest carbon monitoring system and local monitoring capability using remote sensing and forest inventory methods and systems. So far it has completed a national forest area change assessment for 1990–2000, and is now planning to complete the 2000-2005 period in the near future. Another dimension is to undertake policy analysis to determine the economic pressure on forests. This is to develop alternative forestry development programs that are capable of delivering on the core development needs of the forest owners and the Government. Solomon Islands could seek to make progress in these same areas, which can help it become eligible for future funding support for forest sector sustainability initiatives.

Solomon Islands may opt to begin with the development of a national forest area change assessment and in the process build the basics for a national forest carbon monitoring capability (which is also useful for land based strategic planning). Vanuatu's technical advisory team may be able to assist Solomon Islands in taking these first steps. One of the most appropriate sources of funding for these first steps is the Forest Carbon Partnership Facility and potentially the Forest Investment

Program (both World Bank initiatives).

Solomon Islands could also consider other positive incentives that are not based on carbon trading. One such non-carbon based approach is known as 'Direct Barter', a form of payment for ecosystem services. The Direct Barter approach involves negotiating the exchange of an ecosystem service provided by Solomon Islands or an entity within it with something of value that can be provided by a developed country or an agency or private sector buyer. The seller presents a portfolio of 'to-be-protected' ecosystem services as large-scale barter assets. The buyer is seeking to protect these ecosystem services. The value to be exchanged is determined through negotiation between the parties and could include cash, debt cancellation, trading opportunities, employment, migration, technology transfer, education, capacity-building—anything that the seller wants from the buyer that the buyer is willing to consider trading. This mechanism is similar to existing market approaches but credits can be paid using payment mediums other than money (Weaver 2007). The Direct Barter method has been used successfully in Fiji and New Zealand.

Prevailing conditions in Solomon Islands suggest that Direct Barter could also be applied, beginning on a small scale. A case that Government could consider for direct barter is the island of Tetepare. The island is uninhabited and has an area of 120km^2. It is recognized both nationally and internationally for its conservation significance and archaeological values. Landowners have been able to resist the loggers up to now, making the island the only one that has not been subjected to destruction associated with logging. Given that the pressure from logging may grow, it may be appropriate for Government to work with landowners to reward them for protecting the island. NGOs such as Conservation International are already working on the island.

7.10 CONCLUSIONS

This chapter has identified a number of constraints and opportunities to sustainable forestry and logging in Solomon Islands. Many of the constraints concern environmental and economic governance. Environmentally, it is observed that when logging activities intensified, there was minimal corresponding success in achieving sustainability. There is limited implementation of the COLP, environmental legislation, policies and related strategies. In terms of economic governance, Government has failed to ensure that maximum benefits are derived from the country's forestry resources. While Government finances benefit substantially through the duty on log exports, wider land-owning groups have not. The redistribution of resources from the national treasury is a cause for concern, especially as little is being ploughed back into reforestation and afforestation work. Human development and social equity have become secondary in this situation.

The very important activities of the Ministry of Forestry have been allocated unrealistic and insufficient budgets. As a result, the Ministry has been restricted in its functions. Yet agencies like the DEC, Ministry of Land, MFT, Ministry of Public Service and Ministry of Women Youth and Children, all have a role to play in environmental and economic governance.

With an absence of concrete measures to reduce logging of natural forests and the Government's dependence on export duty revenues, it is unlikely that the existing stocks will be spared on most of the islands on which logging is active, meaning that stocks will continue to decline. Efforts to promote sustainable forms of forestry and logging may yield bigger environmental, social and economic returns than attempts to combat the logging of natural hardwoods. Among other things, sound policy and legal frameworks must be in place, and above all there must be a willingness to implement them by making funds available. Implementing the COLP and restricting re-entry logging would also go a long way in achieving sustainability. There is a need to implement programs in favour of niche markets for timber and other products. Policy should also acknowledge the opportunities presented in international markets, such as in forest certification and environmental services such as carbon trading. Considerable opportunity exists in value addition, and this sub-sector can expand, given better organisation and Government commitment. The success of KFPL and EPPCL underline the potential of industrial forestry, but also reveal the opportunities for landowners to grow and market their own logs and timber. Finally, appropriate measures need to be articulated and implemented if the next several years are to mark not only an end to unsustainable logging, but also an era in which human development and equity become central to initiatives in the sector and others.

CHAPTER EIGHT

Agriculture, agro-processing and livestock

8.1 INTRODUCTION

Agriculture is fundamental to both the traditional and the cash economy of Solomon Islands and has important implications for human development. It involves more people than any other economic activity and helps preserve traditions. It is also the second-largest contributor to GDP and dominates goods exports. Even before the Tensions, most of the rural population had a very low annual cash income, and subsistence agriculture formed an important safety net.

This chapter assesses the Agriculture, agro-processing and livestock (AAL) sector in terms of identifying the trade capacity gaps which need to be filled in order to meet the two major objectives of the IF: firstly, to mainstream trade into Solomon Islands development plans and poverty reduction strategies and secondly, to assist in the co-ordinated delivery of trade-related technical assistance. More specifically, the focus of the chapter is on the improved commercialization and value enhancement to both traditional agricultural products and emerging higher value commodities. The chapter assesses and prioritises key issues such as the potential for growth and sustainability; current bottlenecks and trade gaps; value creation and addition; expansion, and the integration of stakeholders along the production and supply chains. Current initiatives are assessed and possible future areas of donor assistance proposed.

8.2 OVERVIEW

8.2.1 Macroeconomic context

According to the CBSI, agricultural production grew 21% in 2007, mainly due to improved output and better global prices. Cocoa, copra and palm and kernel oil together accounted for 18.5% of GDP. Cocoa production rose by 12.7% during the year, copra by 31.2%, while palm oil and palm kernel oil registered a threefold and fourfold volume increase respectively. The improved performance is attributed to further improvements in the law and order situation; greater investor confidence; improvements in the business environment; the Government's implementation of its reform policies; continued donor support; positive developments in the country's major international trading partners. In 2007, cocoa contributed USD51.5M in foreign exchange earnings and copra USD47M, of which USD39.1M and USD37.6M goes directly to the producers and traders in rural areas.[1]

[1] Source; CEMA, 2008

8.2.2 Government policy

The current Coalition for Unity and Rural Advancement (CNURA) Government policy for the sector is enshrined in its Policy Statements issued in January 2008, which present a vision, mission, principles and national objectives for the future prosperity of the country based on a rural advancement policy approach. The Government's policy focus has identified six priority areas:[2] agriculture, agro-processing and livestock development activities are included under the Economic and Productive sector. A Government 'Translation and Implementation Framework Document', published in February 2008, subsequently detailed the strategies and activities of all twenty four ministries aimed at achieving Government policy. The Medium-Term Development Strategy, 2008 to 2010 (MTDS), published in July 2008 by the Ministry of Development Planning and Aid Coordination (MDPAC), identifies and details programs aligned to the long-term policy vision which can be practically implemented over a three year period. Closely linked to the MTDS is the Medium-Term Fiscal Strategy, 2008 to 2013 (MTFS) which aims to ensure an affordable and sustainable Government budget, and, implement structural reforms, in order that policy objectives may be achieved.

Within the AAL the Government's stated policy objective, to be achieved by the Ministry of Agriculture and Livestock (MAL), is to provide extensions, regulatory, research and associated activities to improve the sector's contribution towards increased food production, food security and standards, and economic recovery and development.[3] This objective is consistent with the overall guidelines for sector development as set out in the Agriculture and Rural Development Strategy (ARDS), developed in March 2007, and the Transitional Support to Agriculture Project (TSAP). In very general terms, the expected outcomes of achieving the above policy goals are:

- Increased production of cocoa and copra and the establishment of two full scale rice production projects;
- Support availability of practical and technical assistance for sustaining the development of agriculture and livestock activities in rural areas;
- Recognition that food security through increased production, in order to prevent hunger and malnutrition, is a shared community responsibility;
- Better prices obtained through improved quantities, quality, and transport facilities, thus contributing to increased commercialization of agriculture;
- Maintain traditional staple food production as population increases;
- The development of oil palm plantations on Guadalcanal, Malaita, Choiseul and Vangunu;
- Develop import substitution to reduce reliance on imported foodstuffs;
- In accordance with the Millennium Development Goal of alleviation of poverty, each person in the country to eat a balanced meal once a day by 2015;
- The development of downstream processing and value addition;
- The development of a pool of trained agriculturalists to meet public and private sector demands;
- The eradication of destructive pests by efficient control measures;,
- Ongoing development of adaptive research into exotic crops.

In order to achieve the above policy outcomes, the MAL will initiate the following development programs between 2008 and 2010:[4]

[2] The six priority areas are: *(1)* Reconciliation and Rehabilitation; *(2)* National Security and Foreign Relations; *(3)* Infrastructure Development; *(4)* Social Services Sector; *(5)* Economic and Productive Sector; *(6)* Civic Affairs.

[3] Source: 'Policy Statements—page 28, Part III, MAL'

[4] Some of the MAL's program outcomes are the same as those being initiated by the MRD.

1 **Smallholder Commercial Tree Crops Program:** covering primarily cocoa, coffee and copra processing, at an indicative cost of SBD35,817,000 in 2009 and SBD10,901,000 in 2010. The MTDS identifies the key program outcome indicators as follows:
- The number of people receiving regular salaries and wages in rural areas to increase from 133,417 in 2005–06 to not less than 155,000 in 2010;
- Cocoa production to increase to 20,000t/p.a. from the current 4,000t/p.a. by 2013;
- Coffee production to increase by 20% by 2020. Current production is around 2t/p.a.;
- To be self-sufficient in biofuel by 2020.

2 **Food Security Program:** covering basic food crops and livestock production; marketing, including the establishment of wholesale markets; research and development, including food processing; infrastructure development, including the establishment of farmers groups and associations, at an indicative cost of SBD17.5M in 2009 and SBD16.5M in 2010. The MTDS identifies the key program outcome indicators as follows:
- The prevalence of under-nourishment to be reduced from 21% in 2004 to 11% by 2013 in accordance with MDG 1;
- Children under five years old suffering stunted growth to be reduced from 32.8% in 2006–07 to less than 20% by 2012;
- The percentage of underweight children to be reduced from 11.8% to less than 8% by 2012;
- Food production to increase by 10% by 2012.

3 **Exotic and Indigenous Crops Program:** covering crop selection and testing, root crop and kava development, ornamental crop development, and other crops considered commercially viable, at an indicative cost of SBD1.8M in 2009, and SBD0.7M in 2010. The MTDS identifies the key program outcomes as follows:
- Of rural households with incomes from self-employment and related businesses, the proportion engaged in root crop farming to increase from 27% in 2005–06 to 33% in 2010.

4 **Palm Oil Development Program:** covers activities under the National Oil Palm Program including the development of proposed projects on Auluta, Waisis, Vangunu and Choiseul, together with out grower scheme development generally and in co-operation with GPPOL; the indicative cost is SBD13.75M in both 2009 and 2010. The MTDS identifies the key program outcomes as follows:
- The proportion of rural incomes derived from gross salaries and wages to increase from 12.75% to 15% in 2012;
- The number of people receiving regular salaries and wages in rural areas to increase from 133,417 in 2005–06 to no less than 155,000 by 2010;
- Palm oil production to increase from 10,000t/p.a. in 2007 to 100,000t/p.a. in 2020.

5 **Livestock Development Program:** covers poultry, pigs, honey development; cattle and small ruminant development; the establishment of slaughterhouse

facilities in Honiara and rural areas. The indicative cost is SBD12.25M in 2009 and SBD10.5M in 2010. The MTDS identifies the key program outcomes as follows:

- Of rural households with incomes from self-employment and related business, the proportion engaged in livestock farming increased from 10% in 2005–06 to 13% in 2010;
- Numbers of farmers with incomes from poultry to increase from the current 22,000 to 33,000 by 2010;
- Cattle production to increase from 2000 head to 15,000 head by 2015;
- Honey production to substantially increase from the current 800kg/p.a.;
- Poultry production to increase from current 220,000 birds to 374,000 by 2010.

6 The proportion of rural incomes derived from self-employment and related businesses to increase from 9% in 2005–06 to 12% in 2010 (joint target with the Smallholder Commercial Tree Crops Program, Exotic and Indigenous Crop Program, Palm Oil Crop Program).

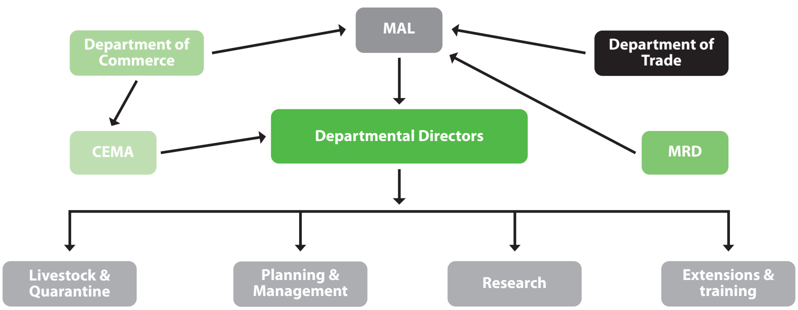
The Ministry of Rural Development (MRD) will initiate a Indigenous Business Development Program and a Constituency Development Program to compliment MAL's development agenda.[5]

[5] See comments under policy assessment—section I, H, 1

8.2.3 Institutional framework

The key public sector institution concerned with the AAL is the Ministry of Livestock. (MAL). The Department of Trade, particularly through its statutory body, the Commodities Export Marketing Authority (CEMA) and, the Ministry of Rural Development (MRD) also has cross-cutting responsibilities towards the AAL. During the Tensions the AAL had virtually collapsed. This disastrous situation was reflected in the poor capacity of the AAL sector's institutions to maintain adequate and appropriate service delivery and spearhead sustainable development. Consequently, the institutional support framework for agriculture is almost non-existent in many rural areas. Support, to some extent, for village based agriculture, is provided by NGOs, farmers' associations, rural training centres (RTCs), women's groups, private agribusiness entrepreneurs and others. Considerable potential exists alongside Government to deliver information, services, and technology to farmers. The relationship between the various ministries, departments and CEMA is shown in figure 8.1 below.

FIGURE 8.1 **Organization of AAL sector institutions**



Ministry of Agriculture and Livestock (MAL)
The MAL is currently subdivided into four departments, each with its own director:

- **The Livestock and Quarantine department** aims to formulate and regulate policies; provide livestock development and extensions services in the provinces; breed and distribute livestock and disseminate information; conduct research into indigenous animal species; manage and develop the Government-owned farm at Tenavatu. The current acting director aims to prioritise the rehabilitation of the cattle industry; the improvement of animal health services, particularly through the rehabilitation of laboratory facilities and capacity-building of diagnosis skills; the development of the honey bee industry. The Solomon Islands Agricultural Quarantine Service (SIAQS) has no facilities for the screening the import of plants and animals, as the facility was destroyed during the Tensions. Facilities for the introduction of small livestock currently exist on the Republic of China experimental farm, but may require upgrading.
- **Extensions and Training Department:** The department's staff are supposed to work directly with villagers in rural areas. Around 100 extension staff are planned for the provinces, mostly men, with up to 10 in each province except Western Province and Malaita which will have 20 each. In many cases, the majority of staff are based in the provincial capital. Most extensions officers have some general training in agriculture, with around 10–20 years of field work experience. Little support is provided for staff in the provinces beyond salaries. Housing is a major problem for field officers, and many are not housed in their designated locations. Staff morale is low because of housing problems, lack of direct support from headquarters, and lack of promotion opportunities.[6] Six agricultural training centres in the provinces are in varying states of repair and with some level of activity. Some MAL extensions officers are based at these centres; however no serious training has been conducted for some years. The sites remain potentially valuable provincial resource centres
- Research Department: In the past the research division, based at Dodo Creek, played a major role in the delivery of services, both directly to farmers via on-farm field trials and demonstration plots at its field stations, and via technical support to the extensions and training division. With the destruction of the research station and the displacement of research staff, the department is unable to function effectively. The current director believes that the old Dodo Creek facility cannot be rehabilitated, and that a new research station should be established which will also meet the needs of the livestock department. The remit of the RDP and TSAP donor programs does not extend to funding centralized research and on-farm activities such as demonstration plots.
- **Planning and Management Department:** The department includes the land use planning unit, which is largely defunct, and has a general role in co-ordinating the activity and policy of the other MAL departments. The current director mentioned a particular focus on the national plan for oil palm development, biofuel and renewable energy, and the development of communal plantations through group formation.

The MAL's estimated development budget for 2008 at SBD28.4M, while over

[6] Source: AusAID Solomon Islands Smallholders Agriculture Study, 2006

double that of 2007 (SBD13.05M), is inadequate to make much impact on AAL policy priorities under the MTDS. The 2008 plan focuses largely on cattle industry development (SIB 11.465M–40.36%); coconut and cocoa rehabilitation (SBD5M–17.6%); the Auluta oil palm project (SBD5M–17.6%); rural rice projects (SBD2.68M–9.44%).[7]

[7] Source: conversation with the PS, MAL

Ministry of Rural Development (MRD)

The MRD was created in October 2007 to complement the rural orientation of development programs of other ministries, particularly the MAL. The ministry has particular responsibility for addressing rural livelihoods, social infrastructure and inequalities, in the provinces by promoting indigenous business, including non farm activities, in the provinces. The MRD's plan is to appoint one community development officer (CDO) in each of the country's 50 constituencies. The CDOs will work with local MPs and local community leaders to design and implement a comprehensive constituency development plan. The ministry has responsibility for three main development programs; *(i)* the Rural Constituency Development Fund; *(ii)* the Constituency Development Fund;, *(iii)* the Rural Indigenous Livelihood Fund. These programs are primarily funded by the ROC, linked to the MRD operational budget for 2008 of SBD80M. It should be noted that these programs, in addition to addressing issues regarding rural health, sanitation and education, also involve the promotion of AAL activities such as support to on-farm enterprises such as small livestock production.[8]

[8] Source: conversation with the Under-secretary, MRD, and the PS, MAL

The introduction of another ministry concerned with rural development conflicts with the interests of the MAL in particular, and would be a costly and inefficient way of addressing policy development in this context. The ministry seems at present to be, for all practical purposes, ineffective and under resourced. Furthermore, the emphasis on linking program implementation to CDO's under the strong influence of local MPs could cause problems in the future due to the possible promotion of vested interests, not necessarily in the best interests of the rural population. The role and budget of the MRD should be absorbed by the well-established MAL, forming an enhanced ministry, the Ministry of Agriculture, Livestock and Rural Development (MALRD). This recommendation is made in the interests of cost and operational efficiency, bearing in mind that the objectives of the two ministries are very similar. The MALRD should also rationalize its departments into three: agriculture, livestock and rural development, to avoid duplication of effort and reduce operational costs.

Commodities Export Marketing Authority (CEMA)

The Commodity Export Marketing Authority (CEMA) was established in 1985 as a successor to the Copra Marketing Board to generally oversee and regulate trade in copra and cocoa, and to act as a buyer and exporter of these commodities via a network of buying centres throughout the country. The Act prescribed certain commodities as coming under the control of CEMA. In addition to copra and cocoa, this eventually included coconut oil, palm oil, palm kernels, nuts, spices and kava.

In 1995 CEMA took control of the old established Unilever coconut, cocoa and cattle plantation company Lever Solomons Ltd. (LSL), which had been sold to the Government, and whose activities were concentrated on the Russell Islands and Guadalcanal. The company was renamed Russell Islands Plantations Ltd. (RIPEL). LSL had established a copra crushing mill at Yandina in the late 1980s, which was upgraded by CEMA which embarked on a plan to mill all the country's copra by

2000. In 1999 CEMA and RIPEL became virtually bankrupt and CEMA was unable to perform its role as the monopoly buyer and exporter of copra and cocoa.

CEMA was restructured in 2002 to become solely a regulatory and advisory body to the commodity trade with its trading monopoly abolished. CEMA's main role[9] now includes; *(i)* the approval and issue of export licenses; *(ii)* quality standards assurance and the issue of relevant shipping documentation; *(iii)* facilitate market intelligence and the collection and dissemination of commodity statistics; *(iv)* farmer training on quality; *(v)* an advisory role to the Government on commodity policy formulation and implementation.

[9] Source: conversation with the GM of CEMA

CEMA, in common with other public sector institutions concerned with the AAL, is under-resourced both in human and financial terms. Its current senior management is knowledgeable and experienced but lacks guidance, focus and support. However, the real issue concerns the future role, and indeed relevance, of CEMA to the development of the commodity trade in an era of market liberalization and the Government's acknowledged policy aspiration of private sector-led growth. CEMA was established in an era of widespread Government intervention, monopolistic trading and excessive regulation, through commodity boards involving price support, which was unsustainable in the long-term. Recent global trends regarding the role of marketing boards should be examined in the context of the future of CEMA.

As the privatisation of statutory marketing bodies became the norm in developing countries, market prices were seen as the efficient means of allocating scarce resources in the commodity sector. However, a major underestimation in this quest for privatisation was the importance of commercial risk and in the newly emerging private sector environment overseas buyers became increasingly concerned by the risk of non-performance by an exporters, and quality deterioration.

Since the initial liberalisation of developing countries commodity markets a number of lessons have been learned, the most important of being:

- A new marketing structure must make allowance for commercial risk and ensure it can be properly and effectively managed;
- Appropriate institutional devices and instruments must be introduced which are suited to the circumstances of a particular country;
- The system must have an effective quality control system;
- Contract reliability of exporting companies is essential for long-term relationships between buyer and seller.

Although CEMA's monopoly was abolished in 2002, the organization still maintains control over the country's marketing system that is inefficient, costly and detrimental to stakeholders' interests. For example the levy of export licences fees (SBD5,000 p.a.) may be unnecessary. Management fees (SBD40/t for cocoa and SBD30/t for copra) represent a burden to the trade, the costs ultimately being passed back to the farmer. It is recommended that as a matter of urgent policy reform, a comprehensive study on the future of CEMA is undertaken.

NGOs, women's groups, religious organizations, and rural financial institutions[10]

- **NGOs**: Several national and provincial NGO's, with capacity in agricultural production and development, operate in rural areas, the best known of which is the Kastom Gaden Association (KGA), established in 1989.

[10] Source: Interview with the Program Coordinator, KGA; AusAID Smallholders Report, 2006

The KGA has current programs in Choiseul, Guadalcanal, Makira, Malaita and Western provinces, where it seeks to improve subsistence production systems.

- **Womens' Groups**: There are many community women's groups throughout Solomon Islands, as well as 10 national women's organisations. Locally, women's groups are an effective way to deliver agricultural and marketing information to women. Organisations that promote agriculture among women include the mothers' Union of the Church of Melanesia, Soroptimist and "Voice Belong Mere". The Mothers' Union promotes food production, nutrition and better health among women members. Soroptimist is assisting women in the provinces to establish marketing centres. Voice Belong Mere is an information network that puts out a regular newsletter and radio messages to rural women through the Solomon Islands Broadcasting Corporation. Some of the information is related to agriculture
- **Rural Training Centres (RTCs)**: There are 23 residential and 12 community RTCs; most are operated by churches and are loosely associated under the banner of the Solomon Islands Association of Rural Training Cent (SIARTC). RTCs vary in their capacity, but overall they are a potentially valuable resource for training, distribution of planting material, and as buying centres. They need help with generating income from agriculture, with food production for students, and with upgrading the skills and knowledge of teaching staff. Most are supported by student fees, with some support from the churches and the EU through the SIART.
- **Rural finance institutions/credit to the commodity trade:**[11] There is virtually no lending to the agricultural sector—for either investment or working capital. Total private sector credit to the agriculture sector in 2007 was 1.2% of the total (CBSI 2008). Financial services in rural areas are extremely limited and mainly located in provincial centres. Access to credit is a significant limiting factor for those who wish to undertake production on a larger scale or adopt some technical innovations such as processing coconuts into virgin coconut oil. The lack of availability of credit for working capital is a major constraint for those trading cocoa, copra, fresh food, livestock and other agricultural produce. Some credit is provided to traders, especially for cocoa buying.

[11] While finance for trade is covered in detail in the business environment chapter of the DTIS, the comments here relate specifically to the AAL.

External donor support

Current donor funding to the AAL falls within economic affairs support, which represents 18% of total development assistance. The AAL sector is being supported primarily, through projects and programs initiated by AusAID, the EU and the World Bank.

Most donor-funded programs (except TSAP—see below) with a current impact on the AAL address rural development as a whole rather than the specific needs of farmers and traders in the sector. As a general comment the various programs need more coordination and linkage to AAL development initiatives, recognizing that rural development is overwhelmingly agricultural in nature.

The largest donor funded agricultural program is the RAMSI-supported **Transitional Support to Agriculture Program (TSAP),** which is due to end in 2009. TSAP seeks to promote sustainable rural livelihoods and broad-based growth to improve both food security and rural incomes. Domestic food production and marketing is promoted through sub-projects to address such issues as access to improved root crop and tree crop materials and smallholder and private sector partnerships for marketing and market information. TSAP is considered by the Government to be the key partner in agricultural development, particularly through support to its own ongoing programs such as the **Smallholder Tree Crops Program** and the **Smallholder Livestock Program** covering, oil palm development, cocoa rehabilitation, honey production, rural rice production, and smallholder livestock. It is strongly recommended that initiatives and proposed interventions are linked as far as possible with the TSAP. The management of the TSAP, in conversation with the consultants during the mission, indicated a willingness to work with the IF.

Within the economic and productive sectors the largest specific rural development programs are the following cluster of **four constituency development funds**; *(i)* the ROC Constituency Micro-Project Fund (RCMPF); *(ii)* the ROC Rural Constituency Development Fund (RCDF); *(iii)* the Rural Constituency Livelihoods Fund (RCLF); *(iv)* the ROC Millennium Constituency Development Fund (MCDF). The RCLF is funded from Government resources, and the other constituency programs by the ROC. These programs are supposed to be undertaken by Constituency Development Officers who will undertake site visits as part of the approval process, and subsequent monitoring and evaluation procedure.

The EU, AusAID and World Bank/IDA jointly funded **Rural Development Program**, administered by the MDPAC, scheduled to run for five years from January 2008, and contribute some USD7M p.a.over 2008 to 2010, i.e, the MTDS period. Government and beneficiary communities will provide an additional 10% p.a. The program has three main components: *(i)* local infrastructure and service delivery to increase access to and use of infrastructure and services; *(ii)* improved agricultural services to support income growth; *(iii)* rural business development through equity finance, training and technical assistance. The RDP seems to be rather slow in its start up phase and the impression also gained by the consultants was that although the RDP is a joint program, communication between the various participatory donors could be better. The RDP's will not directly support the needs of farmers but aims to focus on strengthening and restoring agricultural extensions infrastructure and training.

AusAID's current **Community Support Program**, running from 2005 to 2010, and a new program is being considered for 2010 to 2015. The long-term program has three key components: *(i)* village development for capacity-building in self reliance, action planning, and community organization, supporting one of the communities identified projects; *(ii)* CBO capacity-building and partnerships targeting youth awareness, livelihood activities; *(iii)* community infrastructure to provide access to services, key marketing facilities and livelihood and income generating activities.

The second phase of the EU's **Micro Projects Program** finishes in December 2008. The community based program provides matching grants for social infrastructure rehabilitation and small agricultural enterprises involving products such as honey, cocoa, coffee, cattle and pigs. A third phase of the program is planned.

The Government's **Indigenous Development Program** focuses on physical infrastructure development, and the development of enterprise skills and capacity through reinvigorating existing but ineffective institutions. At present there is no donor support to this program, apart from NZAID's initial support to the Solomon Islands Small Business Enterprise Centre (SISBEC), and the Government is requesting support in this context.

Support for inter-island shipping infrastructure, which is of paramount importance, particularly to the cocoa and copra sub sectors, has been given primarily through a series of EU funded initiatives to rehabilitate or construct new wharves under the **Domestic Maritime Support Project (DMSP).** The DMSP is also supported by the ADB through technical assistance.

Assessment of the enabling environment

It is generally accepted that the proper role of Government in the AAL, and other sectors, is to provide support for private sector growth by helping it to produce and profitably market its products. In this context the private sector includes smallholder farmers, traders and wholesalers as well as larger agribusiness companies. The Solomon Islands Government, in common with other Pacific Island governments, has had a tendency to view smallholder farmers as different and separate from the private sector, which has led to flaws in the formulation of agricultural policy.

8.3 SECTOR ASSESSMENT AND ANALYSIS

Coconuts and cocoa are the most important cash crops grown throughout the country and the organization of production; primary processing, storage, transport, and trade of both crops and their products are similar in many respects. They are often cultivated together through inter-planting, and suffer from similar constraints to development.

8.3.1 Cocoa

Much of the arable land in Solomon Islands is eminently suited to cocoa production. In recent years cocoa, almost entirely smallholder based, has been the country's third most important cash crop, and was the least affected by the recent Tensions. Average production before the disorder was around 3,500t/p.a., and between 1999 and 2002, production fell by around 1,000t. However in 2005, production reached a record level of 4,912t, and remains stable in the 4–5,000t/p.a. range.[12] Cocoa production is concentrated in Guadalcanal and Malaita, which together produced 82% of total production in 2007; however, all provinces grow cocoa except Rennell/Bellona. Recent production trends are shown in Table 8.1 below:

[12] Source: CEMA, 2008. By comparison, this is more than twice recent annual cocoa production levels in neighbouring Vanuatu.

TABLE 8.1 **Cocoa production by province, 2003–07**

Provinces	Annual Production in tonnes (rounded to nearest tonne)				
	2003	2004	2005	2006	2007
Western	8	43	41	23	22
Choiseul	1	42	39	23	2
Isabel	76	84	88	49	34
Central	263	168	249	159	162
Guadalcanal	2,842	2,436	2,342	2,028	2,285
Malaita	1,054	1,050	1,199	1,021	1,015
Makira	360	504	927	537	467
Temotu	14	15	28	13	18
TOTAL	**4,617**	**4,343**	**4,912**	**3,852**	**4,006**

The resilience of the predominantly smallholder cocoa farmers and traders during the Tensions, when most other sectors were collapsing, has been attributed to a number of factors, and in particular the following:[13]

[13] Source: Conversations with CEPA and local cocoa traders

- Relatively favourable world market prices in 2002 and 2003;
- As cocoa is grown as part of a traditional mixed cropping system, giving reasonable returns to labour even when prices are relatively low;
- A competitive domestic marketing system, with buyers actively competing for beans in the production areas;
- The overall marketing system for export remaining essentially intact in the main production areas of Guadalcanal and Malaita;
- Cocoa being better able to absorb increases in shipping costs due to its relatively higher unit value.

The cocoa value chain: The term value chain is often used to mean market channel or supply chain, however, a value chain should also indicate price determination points along the chain. At each stage along the chain monetary value is added to the original wet cocoa beans through various activities and transactions such as, the cost of conversion to dry cocoa, bagging, internal transport, inter island shipping, warehousing, agents fees, profit on sales, sea freight, insurance, interest on working capital, product manufacture, packaging and retailers sales costs. Stakeholders along the chain should have an economic role to play and must include an adequate profit margin to ensure an acceptable return on their business activities. The following main categories of stakeholders have been identified relative to the Solomon Islands cocoa industry:

- Wet cocoa producers (smallholder farmers/producer organizations (POs)/plantations);
- Dry cocoa producers (producers associations/plantations/independent fermentary operators);
- Local intermediaries (traders and agents);
- Local service providers (transporters, warehouse operators, quality inspection providers, insurance companies, credit providers);
- Public sector Institutions serving the cocoa industry (CEMA, MAL);
- Licensed cocoa exporters and overseas traders;
- Overseas service providers (shipping, insurance companies and banks);
- Cocoa product processors and chocolate manufacturers;
- Retailers and cocoa products consumers.

The cocoa value chain, price determination points, stakeholders and main cost identification, FOB Honiara, is shown in Table 8.2 below. The value chain is very similar for coconuts. Cocoa is almost solely an export crop shipped in the form of dry beans. Exports in terms of volume and value are shown in Table 8.3 below.

Six licensed exporters exist, although virtually all Solomon Islands cocoa is exported to Singapore/Malaysia through sales to one Australian trader, Holland Commodities, which also has a near-monopoly in Vanuatu exports. Solomon Islands cocoa beans are sold as bulk shipments, often with other origins, via the trade, to South East Asian cocoa product manufacturers producing cocoa butter, powder and liquor. The relatively poor quality of Solomon Islands beans, coupled with the monopolistic export trade situation, makes it difficult to access more lucrative markets such as the EU. At present there is little scope to downstream cocoa primary processing into exportable quality dry beans into end products such as cocoa butter, powder, liquor and chocolate. The focus should be on improving the quality and standardization of dry cocoa beans.

TABLE 8.2 **The cocoa value chain**

Source: CEPA and author's records

Price determination points		Indicative price (SBD/t)	Stakeholders	Main costs
1	**Cost of production of wet beans to farmer**	—	Smallholder farmer	Agricultural inputs and labour Transport / bagging / labour
2	**Ex farm/delivered processing unit**	3,200	Primary processing unit owner (fermentary/dryer/ storage)	Conversion from wet to dry bean (X 2.5)—fermenting, drying and sorting / labour / bagging / storage / credit for working capital (WC)
3	**Ex processing unit/ collection point**	10,000	Local trader/agent	Internal transport (inter island shipping etc) / labour (loading) / credit for WC
4	**Delivered Honiara**	14,000	Local trader/ agent licensed exporter	Unloading / transport to warehouse / grading / storage / shipping documentation / CEMA fees / SIQS fees / loading / labour / credit for WC
5	**FOB Honiara**	16,000	Licensed exporter overseas trader	
6	**CIF Singapore**	?	Overseas trader	The FOB buyer calculates his price to the Solomon Islands Seller based on the NY cocoa futures market, less about USD 450/pmt to cover freight/insurance/WC/profit

TABLE 8.3 **Cocoa exports by volume and value**

Source: CEMA, 2008

Year	Volume (tonnes)	Value	
		Value (USDM)	Value (SBDM)
2007	4,245	16.275	51.502
2006	3,828	340.575	34.103
2005	4,928	38.500	40.839
2004	4,188	255.379	36.419
2003	4,587	340.795	50.469

Under the monopolistic cocoa trading situation, one overseas buyer purchases only undifferentiated fair average quality (FAQ) cocoa for shipment in bulk, with no apparent interest in encouraging better quality. Commentators claim that prices are discounted by as much as 20%, and that Solomon Islands cocoa is prevented from retaining its identity and improving its quality status. There is no intrinsic reason why Solomon Islands cocoa cannot compete in the more lucrative chocolate manufacturing market. It should be noted that prior to 1995, when LSL was sold to the Government, Solomon Islands cocoa beans were shipped regularly direct to the premium Belgian chocolate manufacturing market. This unsatisfactory state of affairs resulting from the lack of market competition is due to the following factors:

- Individual cocoa farmers have little bargaining power and in economic parlance are 'price takers' and to a lesser extent (as some processing units are controlled by licensed exporters and/or their agents) primary production operators in the growing areas are in a similar position;
- The quality of Solomon Islands cocoa has generally deteriorated over the past decade;
- There is almost a total lack of formal credit from, the local banking system, available to finance working capital requirements from the purchase of

> wet beans, normally cash on delivery, to FOB. The key reason for this situation is that Solomon Islands stakeholders in the cocoa industry lack acceptable collateral, coupled with banks general reluctance to lend to the agricultural sector, which, worldwide is considered very risky. The lack of working capital through overdraft facilities, revolving credit funds and third party guarantees is considered the major factor in restricting trade to a monopolistic buyer. The fact that the Solomon Islands' overseas buyer provides pre-shipment finance to local licensed exporters, who have no other realistic credit alternatives, ensures the maintenance of the current monopolistic trading situation.

A possible solution to introducing more competition to the cocoa trading system lies in two linked strategies: *(i)* the encouragement of the formation and capacity-building of producer/trader groups; *(ii)* the provision, by Government of guarantees to the formal sector to allow working capital to be extended to primary processing unit operators and licensed exporters. In this context an NGO, the Cocoa Exporters and Producers Association (CEPA) was registered in November 2005, with 27 founder members. It aims to promote the interests of Solomon Islands cocoa growers, traders, and exporters and ensure their direct participation in the development of the industry.

The following proposals, already discussed with Government, are strongly recommended as first steps towards breaking the monopolistic cocoa trading situation, and paving the way towards better net prices for farmers, increased foreign exchange earnings through improved production and quality, and more direct access to overseas markets:

1. A project proposal to the Government through the department of foreign affairs and external trade to assist with the establishment of CEPA.
2. An application to the Government for the establishment of a pre-shipment cocoa credit facility (PCC) under the Government's specific grant assistance program to the agricultural cash crops sector.

The formation of CEPA was based on a model developed in Vanuatu with Government of Vanuatu (GoV) and donor support. The Cocoa Growers' Association (CGA) and its progress towards breaking a similar monopolistic trading situation involving the same overseas buying company, which operates throughout the Melanesian region, has lessons for the future of the cocoa industry in Solomon Islands (see Box 8.1).

The CGA's membership produces around 600t of cocoa, representing over 50% of national production, which is sold to local licensed exporters mainly on a delivered Luganville basis; Luganville, Santo, being Vanuatu's major commodity export port. CGA members have been selling their cocoa on an individual basis which limits their price maximization potential due to the lack of economies of scale, volume and standardization of quality and grades. In economic terms they are 'price takers' with little prospect of improving their marketing efficiency on an individual basis. The formation of the CGA address this situation by providing a 'group' marketing service and moving cocoa producers jointly up the value chain to become eventually sellers, with their own export license, on an FOB basis with direct relationships with overseas buyers. Producers have been supported both through capacity-building training, and financially, through short-term working

BOX 8.1 **The Vanuatu Cocoa Growers' Association (CGA)**[14]

The CGA is an independent organization, registered on 6th July 2005 under the Vanuatu Charitable Associations (Incorporation) Act (CAP 140) and set up on the initiative, and with the support of the EU funded Producers Organization Project (POP2), which ran from 2002 to December 2007.

The CGA is an umbrella organization with membership drawn from individual cocoa farmers, cocoa producers' organizations/co-operatives and cocoa plantations. The key criteria for membership is access to, and control over, primary dry cocoa bean processing facilities that can produce cocoa of a quality standard suitable for export. The objective of the CGA is to provide cocoa export marketing services, on an agency basis, to its members.

Current membership comprises nine cocoa co-operatives and three cocoa plantations, located on the islands of Malekula and West Malo, and involving some 1,700 people.

The CGA represents the interests of Vanuatu cocoa producers and provide them with a marketing service with a view to improving net prices, marketing efficiency and expertise, and market outlets. The organization was formed at the end of the 2005 harvest season and had established its staff, administration and procedures in preparation for operation from the start of the 2006 season.

[14] Source: authors' notes

capital loans and small capital grants for cocoa processing equipment and infrastructure by the EU funded POP2.

The fair trade movement is growing throughout the developing world as a marketing alternative for small scale farmers and workers, and has been particularly successful in the cocoa sector. Fair trade is an initiative for small farmers and wage workers in the global South. The key advantage of the system is that farmers are guaranteed a minimum price related to the global market in addition to the fair trade premium. Smallholder farmers can join fair trade if they have formed organisations, in co-operatives, associations or other organised forms, which are able to contribute to the social and economic development of their members and their communities and are democratically controlled by their members. They must also comply with ILO labour conditions. Organisations can be certified by the Fair Trade Labelling Organization (FLO), which is based in Germany, with associated organizations worldwide, including Auckland, New Zealand.

The fair trade standard must meet minimum requirements and process requirements, on which producer organisations must show permanent improvement. Fair Trade instruments can take effect and lead to a development which cannot be achieved otherwise. The degree of progress, which FLO requires from each producer organisation, depends on the level of economic benefits it receives from fair trade and on its specific context. FLO also requires that producer organisations always abide by national legislation. Furthermore, national legislation prevails if it sets higher standards on particular issues than FLO.

8.3.2 Coconuts

In common with other Pacific Island countries, coconuts have long played a key role in the livelihoods of Solomon Islanders, providing them with food, building materials and ingredients for local medicines. The coastal areas have a good climate for coconut production, with high year-round temperatures and humidity.

Coconuts and their products are of fundamental importance to the economy. They are an important item in food security and are also exported as whole nuts, copra, coconut oil manufactured from copra (conventional coconut oil), or oil extracted directly from coconuts (virgin coconut oil). Potential also exists for the domestic use and export of other coconut-derived products such as semi-activated coconut shell carbon, pith, coir fibre, coconut water, desiccated coconut and coconut cream. Coconuts tolerate neglect better than other tropical crop, although at a diminished level of yield. Coconuts provide important cash income for rural households that have few other sources, through fresh nut and copra sales. Copra is relatively non-perishable and thus is more resistant to infrequent and unreliable transportation infrastructure than are other crops.

Production, in copra terms, peaked at around 42,000 in 1984/85, and since then has declined, partly due to poorer yields resulting from the age profiles of coconut stands throughout the country. There has been no systematic replanting undertaken in recent years, with many trees being 80 years or more old. Copra is produced throughout the country with Guadalcanal and Western Province currently producing around 28% and 21% respectively, of total production. Central Province and Malaita are also significant producers with around 18% and 16% of total production. Production trends over the past decade are shown in Table 8.4 below:

TABLE 8.4 **Copra production by province, 1999–2007**[15]

Provinces	Annual Production in tonnes (rounded to nearest tonne)								
	1999	2000	2001	2002	2003	2004	2005	2006	2007
Western	6,830	5,211	213	220	2,475	3,506	4,060	3,325	5,858
Choiseul	2,450	2,501	88	16	890	1,233	1,072	915	1,519
Isabel	1,892	1,597	51	100	230	870	1,770	1,437	1,213
Central	1,123	1,179	426	617	5,651	3,883	5,440	4,460	4,413
Guadalcanal	2,569	1,677	326	211	3,314	7,572	7,314	5,970	7,959
Malaita	4,637	4,797	313	365	3,012	3,560	3,782	3,140	3,844
Makira	2,239	1,749	157	112	1,001	1,748	1,992	1,520	2,494
Temotu	1,502	834	45	14	950	294	730	500	604
TOTAL	**23,242**	**19,545**	**1,620**	**1,555**	**17,525**	**22,667**	**26,182**	**21,267**	**27,904**

Source: CEMA, 2008

[15] By comparison, production in Vanuatu has fluctuated between 25,000t and 47,800t in recent years.

The table above shows clearly how copra production, unlike that of cocoa, dropped dramatically during the period of Tensions collapsing to less than 2000t in 2001/2002.

Solomon Islands copra is primarily an export crop with only small scale agro-processing vale addition being undertaken to convert copra to conventional crude coconut oil and other products such as virgin coconut oil and biofuel. It should also be noted that Solomon Islands is one of the few remaining countries still exporting copra, most of which are in the Pacific region. Larger coconut producers and former copra exporters, such as Indonesia, Philippines, Malaysia and Sri Lanka, add value to coconuts, producing a variety of coconut-based products.

Traditionally Solomon Islands exported copra to Europe, but, by the 1980s most major coconut producing countries were milling their own copra and exporting coconut oil and copra cake for the animal feed industry. Currently there are only two agribusinesses in the country attempting to develop value addition to coconuts, Solomon Tropical Products, and Kokonut Pacific Solomon Islands Ltd., whose activities are described below. Substantial value addition through agro-processing ceased in 2004 due to the RIPEL dispute. It is estimated that due to the closure of the copra crushing mill at Yandina, the country is losing some SBD115M per annum because of the reversion to exporting the raw material rather than the value-added products, coconut oil, biofuel blends and coconut meal. It is strongly recommended that an independent international panel of arbitrators is appointed in order to resolve the RIPEL dispute as soon as possible.

Currently copra is exported mainly to Asia, with the major market being the Philippines, which took the entire available export volume (19,301t) in 2007. The other significant Asian markets over the past decade have been Singapore and Bangladesh. Europe was formerly a main market for Solomon Islands copra but with the closure of the last remaining copra mill in Germany, this market for copra no longer exists. Copra exports in terms of destination, volume and value are shown in Table 8.5 below.

TABLE 8.5 **Copra exports by volume, destination and value, 1998–2007**

Source: CEMA 2008

Dest & vol (t)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Europe	–	–	–	–	–	9,566	10,034	11,281	11,096	–
Asia	12,109	7,525	8,404	1,620	1,557	5,281	9,240	14,222	8,734	19,303
Total	**12,109**	**7,525**	**8,404**	**1,620**	**1,557**	**14,847**	**19,274**	**25,503**	**19,830**	**19,303**
Value (SBDM)	*18.12*	*13.11*	*9.97*	*1.75*	*1.87*	*20.76*	*33.62*	*43.48*	*32.56*	*47.01*

From independence until 2002 the marketing of copra, a Government-controlled monopoly, firstly under the Copra Marketing Board (until 1985) and then CEMA. Deregulation led to the issuance of 13 export licenses, although only three of these companies are active participants in the trade. The introduction of private sector competition has seen an expansion of agents and small scale traders operating in the provinces and a recovery of production from the low point of 2002. The copra industry's recovery can be attributed to:[16]

- The country's fundamental comparative advantage in copra production;
- The need of many rural households for a regular source of cash income;
- The ability of coconuts to survive several years of complete neglect;
- A period of relatively favourable copra prices since 2002;
- The existence of a network of collection centres, previously established by CEMA, which to some extent, are being be used by the private sector;
- The willingness of the private sector to become involved in copra trading. It should be noted in this context that unlike cocoa and coffee, copra is a homogeneous product, sold to few buyers worldwide allowing substantial economies of scale in its marketing.

[16] Source: Conversations with leading copra exporters, domestic buyers and Solomon Islands Smallholder Agricultural Study, AusAID, 2006.

While the copra trading situation would seem less monopolistic than cocoa, there are still only three overseas buyers who all pre-finance local licensed copra exporters. Local exporters are left with few marketing options and have to deal on an exclusive basis with one overseas buyer, to the detriment of marketing efficiency and the net prices received by exporters, which in turn are reflected in the prices received by smallholder farmers in rural areas. It is estimated that if exporters had a source of easily accessible and available credit through, ideally, the formal local banking sector, prices could improve by 10 to 15% on an FOB basis, as shippers could then deal with buyers at destination rather than the current middlemen. In order to achieve this objection, as in the case of cocoa, some form of Government guarantee, or donor funded revolving credit scheme is needed. An example of a successful donor supported revolving credit fund is illustrated in Box 8.2 below.

The fund was mainly used to assist copra, cocoa and coffee producers' groups with their working capital requirements for the purchase of raw materials for primary processing, e.g. drying, into copra, dry cocoa beans, and green coffee. The RCF was also used for short-term loans needed for the capital items such as copra dryer rehabilitation. Throughout its operation the RCF operated without any major problems and recoveries of debts were in excess of 95% at the end of the POP2. At the end of POP2 the RCF was distributed to producers' organizations in the copra, cocoa and coffee sector, and used specifically as interest bearing deposits with the National Bank of Vanuatu to guarantee credit line/overdraft facilities.

Solomon Tropical Products

This small, family owned, Honiara based company have been buying copra since 2002 and processing conventional crude coconut oil for export, coconut oil biofuel blend (around 80% coconut oil and 20% aviation kerosene) for local sales; various personal coconut based products, e.g. soap, body and hair oil, for the domestic market. The company exports about 125t of coconut oil monthly, in 20t flexi bags in containers, to Singapore. The company has plans to expand its productive capacity and biofuel activities, but lacks finance and sufficient collateral to satisfy the formal banking systems requirements for loans.

It is recommended that support is given, through the DOT, to assist the Government facilitate applications for concessional loans by private sector entrepreneurs in the agro-processing sector to develop their businesses.

Kokonut Pacific Solomon Islands Ltd (KPSI)

KPSI is jointly owned by the Prosolutions Company, Solomon Islands and Kokonut Products Australia. The company was set up in February 2004 as a joint venture between KPSI and local farmers in rural areas to produce direct micro-expelling (DME) virgin coconut oil. The business is based on the farmers producing the DME virgin coconut oil, and KPSI providing the processing equipment, technical exper-

BOX 8.2 **The Vanuatu Producers' Organization Project Revolving Credit Fund (RCF)**

A RCF was established in 2003 with funds available from the European Union budget, under the Financing Agreement between the EU and the Government of Vanuatu (GOV), for the Producers Organization Project (POP2), which ran from 2002 to 2007. The total funds available from the EU budget for operating the RCF were €160.000. The objective of the RCF was to promote the access and availability of credit to POP2's beneficiaries, agricultural producers' organizations for: *(i)* working capital requirements to purchase crop for processing and sale; *(ii)* items of capital expenditure; *(iii)* rehabilitation of existing planted areas; *(iv)* planting material; *(v)* any other purpose authorized by the POP2 project steering committee. The project management unit of POPACA/POP2 was responsible for the operation and control of the RCF, with the Vanuatu Department of Agriculture and Rural Development (DARD). POP2's implementing agency, providing accountancy assistance.

tise, supply of spare parts and packaging materials, and prompt payment on collection at the rural sites. Currently there are 14 DME units operating in and around Santa Cruz. The units are organized in clusters of four, based on village communities, which have organized themselves into a legally-recognised Virgin Coconut Oil Producers Association. Each unit produces around 150kg of oil per week, based on a nine-month working year. The oil is shipped to Honiara in 60L (57kg) plastic reusable containers, with shipments about once a month; although the lack of regular shipping is a problem. The oil is shipped to Kisi's warehouse and facility in Honiara where it is treated and converted into a suitable state for export. The oil is sent to Australia in 1,000L lots, in containers, where it is on shipped to international markets. Current markets are primarily the UK, Germany and Canada, where the oil is consumed as a health product. The company produced 80t of oil in 2007 and plans to expand to 120t by 2009. The owners believe that production could double annually over the next ten years given the current high market demand. The value chain may be illustrated simply as follows:

TABLE 8.6 **Simple virgin coconut oil value chain**

Source: KPSI

Price determination point	Stakeholder	Indicative price
Ex farm/collection point	Coconut farmer	30/35 cents per nut
Ex DME facility/collection point	Primary producer virgin coconut oil producer	SBD14 per kg 15 nuts equals 1kg)
Delivered Honiara facility	KPSI	–
FOB Honiara	KPSI	–
CIF Australia	KP Australia	–

Key issues and constraints affecting the cocoa and coconut industries

The key constraints, and issues to be addressed, to the sustainability and development of the cocoa and coconut industries may be summarized as follows:

- The lack of a comprehensive replanting program to address the problem of declining yields and low productivity from an aging population of cocoa and coconut trees;
- The lack of easily accessible and affordable credit to support primary processing activities and trading transaction costs;
- Unco-ordinated inter island shipping services, with regular schedules, particularly those serving the outer and more remote islands;
- Uncertainty regarding the role and operational functions of the public sector statutory body, CEMA under a national AAL policy espousing and promoting private sector led growth;
- The seemingly inability of the Government to settle the RIPEL issue and return to substantial agro-processing and value addition of coconuts;
- Insufficient primary processing units, and wholesale produce traders and agents operating in the remoter areas of production;
- Insufficient companies supplying agricultural inputs to the rural farming sector;
- The weak financial and human resource situation of MAL and its inability to provide essential service delivery to rural areas, particularly through extensions and focused and targeted applied research and development activities;
- The confusion and inefficiencies caused by the existence of two separate

ministries involved in rural development, which primarily falls within the AAL sector, and with separate budgets, the MAL and MRD;,
- Lack of small scale farmer bargaining power due to the slow progress in developing market orientated producer groups.

While all of the above constraints have important sector sustainability implications, the following have particular priority: *(i)* easily accessible and affordable credit; *(ii)* more co-ordinated inter-island shipping services; *(iii)* recommencing large-scale copra milling and coconut oil exports from RIPEL.

CEMA management rightly stress that smallholder cocoa and coconut farmers in the remoter areas have no regular access to buyers due to the lack of regular shipping services and inoperative buying stations. CEMA and ship operators acknowledge that there are a sufficient number of vessels available to serve the country, and that the main routes such as Honiara to Malaita are profitable. The increased availability of mobile phones, which is likely after deregulation, is likely to lead to improvements in this area. It is also acknowledged that introducing a more regular scheduled service to the outer islands needs to be subsidized, and a donor project is already underway in this area. Vanuatu supports shipping services to its outer islands through fuel subsidies.

The following recommendations are made in the context of the cocoa and coconut industry as a whole, and which should be given further consideration by the Government and donors. More specific trade-related recommendations for support are detailed in the section below.

1 **Overall policy and institutional framework:** In general, policy should move towards greater private sector involvement in all aspects of the industries, with priority given to greater participation in policy formulation and implementation, and access to funding for development orientated business ventures and projects. The MRD should be absorbed by the MAL, and a review of the role and functions of CEMA undertaken.

2 **Rural and trade credit:** Government and donors should address the problem of easily affordable and accessible credit through guarantees to the formal banking sector and/or revolving credit schemes along the lines of the Vanuatu RCF (see Box 8.2), in order to achieve greater production, and better prices through curtailing the monopolistic situation prevailing in both the cocoa and copra trade.

3 **Agro-processing:** Government should resolve the outstanding issues surrounding RIPEL, and satisfy the legitimate claims of the overseas investors and managers, with a view to restarting substantial coconut oil exports, and implementing the former policy of attempting to process all copra domestically. A longer term policy should be formulated to move away from the production and export of copra, conventional coconut oil, copra meal production used in the manufacture of basic foodstuffs, animal feeds and for industrial products, and toward a future in the high value and niche coconut product markets geared to health and nutrition. This policy is also the stated global objective of the Asia Pacific Coconut Community (APCC). The development of coconut oil biofuel for domestic use, although used for more industrial purposes, is probably a special case, in view of escalating world fuel prices and the high cost of imports into small island states. Such a change of focus is particularly important for Solomon Islands

in view of its low economies of scale, distance and high transaction costs.

4 **New coconut product development:** VCO, coconut shell charcoal and activated carbon/pith, for the horticultural sector; coconut wood; coconut oil biofuel. Organic certification should also be priority in order to take advantage of premium markets for health and nutrition products. It should be noted that the development of desiccated coconut; coir products;[17] soaps and oils as branded products for export probably has little chance of success in Solomon Islands because of high labour costs and availability; low economies of scale; high transaction costs and strong international competition.

5 **Market research and product promotion into:** regional and global niche and premium (e.g. organic, fair trade etc.) markets should be undertaken, with particular emphasis on compliance with international rules and regulations regarding environmentally-friendly products and technologies

6 **Low productivity:** the Government should address declining yields and low productivity through new planting and replanting with suitable varieties geared to product development, e.g. VCO is said to need traditional varieties rather than hybrids.

7 **Fair trade and organic certification:** The Government and donors should support the formation of producers groups which is essential to qualify for fair trade certification. The desirability of organic certification should be viewed in the context of cost/benefits, as inevitably production is lost through the curtailment of certain agricultural inputs, e.g. inorganic fertilizers; therefore, organic premiums should compensate for loss of production.

8 **Farming systems:** The efficiency of traditional Melanesian farming systems should be improved through encouraging the integration of Solomon Islands smallholder systems into commercial cocoa and coconut farming through intercropping and cattle

9 **Labour shortages and high costs:** In the longer term, escalating costs and the shortage of labour in some industries, e.g. copra cutting should be address through the mechanization of harvesting, nut cracking, product processing and packaging.

[17] Coir products include fibres for matting, sacks, etc. from coconut husks, and constitute a significant trade item in Sri Lanka and India.

8.3.4 Oil palm

Prior to the Tensions oil palm was Solomon Islands' most successful tree crop in terms of efficiency, international competitiveness and foreign exchange earnings. The industry was started by the Commonwealth Development Corporation in 1973 when Solomon Islands Plantations Ltd (SIPL) was formed and 3,000ha planted with oil palm on the Guadalcanal plains. A mill was opened in 1976 and by the late 1990s, 6,000ha had been planted to oil palm and almost 37,000t of palm oil products (palm oil and palm kernel oil), were being exported earning around USD94M in foreign exchange. Commonwealth Development Corporation pulled out of SIPL in 1999 and the mill was closed in 2000, with a detrimental effect on foreign exchange earnings and employment.

In 2005 New Britain Palm Oil Ltd (NBPOL), a leading Malaysian-owned Papua New Guinea (PNG) oil palm plantation company quoted on the London Stock Exchange signed an agreement to take over SIPL. A newly formed company, Guadalcanal Plains Palm Oil Ltd. (GPPOL), with an 80% NBPOD and 20% landowner's equity structure is now in full operation.

The original Commonwealth Development Corporation oil palm operation was operated solely on a plantation model, whereas NBPOD, in common with most of the PNG oil palm industry operate on a nucleus estate model. Between 65 and 70% of workers recruited are from Guadalcanal, and currently employment is around 2,200. The responsibilities of the company are to provide processing facilities and marketing for their own as well as smallholder production; to provide planting materials and other material inputs for both as well as management of their own operations, including a nucleus estate which serves to provide a technical demonstration on the proper establishment and management of the crop. The responsibilities of smallholders are to provide labour and management for the development and maintenance of their blocks; to sell their oil palm fresh fruit bunch (FFB) produce of acceptable quality to the company in accordance with delivery arrangements advised by the company. GPPOL is developing outgrower schemes similar to the PNG model based on 3ha blocks per family, and twice monthly harvesting. In addition to providing planting material, land preparation and planting expertise, GPPOL also provides interest free credit for inputs such as fertilizer, with recovery after a grace period of two years of a maximum of 50%of FFB sales proceeds. The out-grower scheme is still in its infancy with about 700ha being operated by smallholders linked to GPPOL. GPPOL also operate a Community Investment Fund on behalf of landowners and out growers, based on deductions from their royalties. Outgrower schemes have been acknowledged as a successful method of bringing customary owned land into commercial production. It is to be hoped that these new developments can reduce landowner problems that have previously plagued the oil palm industry.

With more land being brought into production GPPOL estimates that it will export about 24,000t of palm products in 2008, and by 2010 the maximum volume exported by the old SIPL will be exceeded. Shipments are currently being made on charter to Kimbe in PNG, where they are subsequently on shipped to other markets on largest vegetable oil tankers. GPPOL hope to more than double the area under oil palm by 2015 to around 15,000ha, which could see palm product production exceed 75,000t.

National oil palm development plan: The Government understands the importance and potential of oil palm to future foreign exchange earnings, particularly as replacement industries are needed to assist a positive balance of payments position as logging revenues decline. Further oil palm ventures are planned by the Government. To date a scheme on Vangunu is experiencing severe operational problems, and another scheme planned for Aluta is still at the design stage. Further oil palm schemes are planned at East Choiseul, Waisi and the Shortland Islands. It is essential that for oil palm development to succeed that a co-ordinated policy is formulated in collaboration with GPPOL and in this context a national oil palm development roadmap should be designed. It is recommended that the IF assist with the preparation of the roadmap by supporting a feasibility study.

The management of GPPOL made the strong point that the secret to the success of the rehabilitation of oil palm on Guadalcanal was the construction of the surfaced road from Honiara, funded by ADB. Furthermore, infrastructural improvements in the area have brought about an increase in market garden enterprises supplying Honiara. The growth in market gardens and rehabilitation of palm oil provides valuable lessons as to the overall importance of infrastructure to other parts of the economy.

Concern has been expressed that oil palm development will be used by foreign investors as primarily a short-term strategy to clearfell forests and acquire logging revenues, rather than as a key element in fostering sustainable economic development and employment and income generation in rural areas. Undoubtedly such unscrupulous operators exist and the Government must learn how to distinguish between, say, a Malaysian company primarily interested in clear felling for logging revenues, and, a company with a long-term track record and expertise in genuine oil palm development. GPPOL, through NBPOD, and its parent company the Kulim Group of Malaysia, have been successfully involved in oil palm development in South East Asia and PNG since the 1960s. It should be given all encouragement and support to drive the SI's oil palm development program. Furthermore, concerns are often expressed regarding oil palm development's negative impact on the environment, particularly in relation to deforestation, the destruction of the natural habitat of flora and fauna, and pollution through uncontrolled factory waste. NBPODs PNG operation has addressed these issues to the satisfaction of donors such as the World Bank, and GPPOL's oil palm expansion in Solomon Islands should pose no serious environmental problems.

8.3.5 Coffee

Coffee production in Solomon Islands is in its infancy, with only about 2t currently produced annually. The country can probably only succeed in niche export coffee markets, for example, the gourmet, fair trade and organic sectors. A local processor is producing three brands for the local market, and as import substitution this type of co-operation should be encouraged. Vanuatu may provide a useful model, having successfully developed its high value *arabica* coffee market to about 30t of consumer product in 2008 from around 3t in 2002. Growing conditions in Vanuatu may be better as the island of Tanna, the main coffee production area, is about 17 degrees south of the equator and enjoys a latitudinal advantage which compensates for the lack of elevated land.

8.3.6 Exotic and indigenous crops

Spices

The introduction and research efforts to promote spices as the potential low-volume and high-value crop for both domestic and export markets commenced in late 1980s at the Dodo Creek Research Station (DCRS). Spices promoted at that time include: chilli (var. *akabare*), turmeric, vanilla, cardamom, ginger and cinnamon. Further development of these spices collapsed during the Tensions, with the destruction of DCRS.

The potential of spices for export is high because they grow well in Solomon Islands climate and soils. Access to markets is poor, resulting in low domestic production and export. The main buyer for chilli is the SOLTAI Fishing and Processing Company. However this market is not consistent, giving farmers little incentive to maintain their plots. A similar situation is true for other spices such as cardamom and cinnamon. Turmeric and ginger sell in small quantities in the domestic market.

Development of vanilla is currently supported under a project funded by AusAID through TSAP/CSP program. Farmers in Guadalcanal were assisted to plant and manage their output, and a few potential local buyers received technical assistance in drying and processing of vanilla beans. Current efforts are aimed at the domestic market since the volume of production is still low. Varivao Holdings Ltd. is the main buyer of vanilla as well as other spices but in small quantity. Vanilla production is around 13kg dried beans per annum.

Horticulture and floriculture

The development of exotic fruits and vegetables in Solomon Islands has a significant start in the late 1980s when the Government agricultural research division at the then DCSR imported various fruit tree species and vegetables for trial. Around the same period, the Government established a number of Field Experimental Stations (FES) throughout the country—e.g. Ringgi FES in the Western Province, Tenaru FES and A'vu FES in the Guadalcanal Province, Fote FES in Malaita Province and Newi FES in Temotu Province. These FES's had a germ plasm collection of different species of exotic fruit trees for trial. At DCRS and the FES's, seedlings and clones of fruit trees and vegetable seeds were sold to farmers and the general public.

The collapse of DCRS and the rundown of FES's due mainly to the Tensions saw the end of research work on the improvement and promotion of exotic fruits and vegetables. At farmer level, especially those who have bought planting materials from DCRS have managed with little assistance from the Government to establish a backyard orchard with stands ranging from one to less than 100 trees. In terms of vegetable seeds, farmers have turned to overseas supply through local private companies, e.g. Island Enterprises Ltd. The Kastom Gaden Association (KGA) through the Planting Material Network also produced vegetable seeds as well as planting materials of roots crops and fruit trees, which members in particular benefited from. Most farmers remain untouched and are in need of accessing improved planting materials.

Against this background, trading of fruits and vegetables is limited to the domestic market. Ad hoc export of these products to Nauru is insignificant. There is potential to trade fruits and vegetables, e.g. pineapples, lettuce, cabbage and cucumber to other regional neighbour countries such as Nauru, Cook Islands and Kiribati, provided costs involved are reasonable and the quarantine requirements are met.

The arrival of RAMSI in 2003 had some positive impacts on floriculture development, with increased demand for flowers for decoration, wreaths or ceremonial purposes. Flowers and pot plants have been also hired out to Government offices, business houses including hotels and organizers of official functions for decorations. The interest of women in floriculture is increasing and is expected to increase even more in the future.

Root crops such as sweet potato (*Ipomoea batatas*), cassava (*Manihot esculanta*), taro (*Colocasia esculanta*), giant taro (*Alocasia macrorrhiza*) and yam (*Dioscorea* spp.) are important staple food crops in Solomon Islands. In the past, these root crops are mainly planted for subsistent use thus, is only addressing food security issues. Today, this situation has changed and farmers are planting these crops for sale too.

Trading of root crops is currently aimed mostly at the domestic market, although some small export of taro exists. Rural farmers bring produce to urban markets in, Gizo, Munda, Noro, Honiara, Buala, Tulagi, Auki, Kirakira or Lata. Farmers from Central, Guadalcanal, Isabel and Malaita come to Honiara, the biggest market. Transport costs, however, account for a significant proportion of this income.

Non-timber forest products (NTFP)

NTFP are the products of wild trees which have been used to sustain livelihoods over many years, and which have been largely neglected by modern science. As these wild tree species become domesticated, they are termed agro-forestry

Products (AFP). These products include but not limited to fruits and nuts (food), medicines, dye, resin and fuel. Some examples of these are: ngali nut (*Canarium indicum*) for food, noni (*Morinda citrofolia*) for medicine and rattan or lawyer cane (*Calamus hollrungii*) for furniture and rope. The development of these products for export from Solomon Islands is currently limited, although potential exists for further commercialization.

Previous work in the Pacific region has concluded that tree nuts offer probably the best export market prospects of any horticultural product, and that the biggest constraint to expanding formal market sales is the lack of consistency in supply, in terms of quality and volume (McGregor 1997; Evans 1996 and 1999; Long Wah 1996; Bourke 1996; Yen 1996). Entrepreneurs in Vanuatu have developed a supply chain and storage techniques for *Canarium* (drying, salting, roasting, honey-coating) that allow villagers to be the beneficiaries of a growing market. In PNG, an ACIAR funded project on the domestication and commercialization of *Canarium indicum* is currently in progress. In Solomon Islands, work on *Canarium indicum* in the 1980s and 1990s benefited rural farmers, although a lack of consistency in supply and quality ended the commercialisation of this species.

Kava and betel nut

Kava (*Piper methysticum*) is a very recent crop development in Solomon Islands, since traditionally few Solomon Islanders drink kava. In terms of domestic consumption kava was mainly sold to RAMSI officers, especially those from Samoa, Tonga, Vanuatu and Fiji. The export of kava to Fiji and Kiribati is small but growing. Current production recorded by the Varivao Holdings Ltd (VHL) is approximately 1.3t of dried roots per month. Kava production is mainly from Isabel province at the moment, although new plantings have occurred in other provinces. Apart from VHL, there is no knowledge of any other persons or firms exporting kava in Solomon Islands.

Betel nut (*Areca catechu*) is a crop with traditional value and purpose in the culture of Solomon Islands. People chew betel with the leaf or fruit of *Piper betle* and with some lime—the combination turns the saliva and masticate a bright orange-red. To some the chewing of betel nut gives them a short-lived 'drunkenness', especially when the juice is swallowed, while others regard it pleasant and soothing.

In terms of trading, betel nut is lucrative and in high demand in the current domestic market. This situation is unlikely to decline as production among the youth is increasing. In the Household Income and Expenditure Survey (HIES) 2005/6, betel nut was grouped under other food with an annual average expenditure of 6.7%. Interviews with vendors in Honiara indicated a weekly income of SBD3–5,000. The livelihoods of many people in Honiara, especially those in the peri-urban areas, depend on betel nut trading.

There is no data on current betel production, but it appears to increase in the future. Like any other commodities, the supply of betel nut from rural areas to urban market is invariably hampered by inconsistency and unreliability of the inter-island shipping services—a well-known problem that has persisted over the years. Exports are nonexistent, and would have to compete with India, the major global producer of betel nut, although pharmaceutical and 'niche' markets may be possible.

8.3.7 Rice

In Solomon Islands, in common with other countries in the region, rice is an important constituent of the daily diet, with consumption per capita among the highest in the Pacific Islands (see Table 8.7). Virtually all rice consumed in Solomon Islands is imported (averaging around 23,000–24,000t per annum over the past decade). In 2007 the landed value of rice imports was around USD140M.[18]

[18] CBSI Annual Report 2007

TABLE 8.7 **Rice consumption, production and imports for selected Pacific island countries**

Country	Rice Consumption	Local Production	Imports (tonnes)	Per capita consumption (Kg/per annum)
Solomon Islands	**23,600**	**100**	**23,500**	**57**
PNG	150,400	400	150,000	27
Fiji	45,000	15,000	30,000	51
Samoa	4,500	–	4,500	25
Vanuatu	13,000	–	13,000	64

Source: Solomon Islands Smallholder Agriculture Study, AusAID, 2006/ ADB 2004/FAO 2004

While rice imports have remained constant in recent years, per capita consumption has fallen due to rapid population growth, the steady decline in real disposable incomes, and the depreciation in the value of the domestic currency, which has increased the price of imports. The high level of rice imports has raised concerns regarding both sustainable food security and the high cost in foreign exchange of importing rice. Therefore, domestic rice production has become a Government policy priority. It should also be noted that self-sufficiency in rice production has been a policy priority since the early 1960s (see Box 8.3).

The failure of the Solrice plantation venture, together with land issues and the objective of encouraging greater smallholder involvement in food security, has led the Government to focus on smallholder village-level rice production (see the chapter on human development). The National Rice Project (NRP), with assistance from the Republic of China (ROC) has been responsible for co-ordinating the task of encouraging local farmers to participate in this industry. However, NRP reported that production in 2007 fell by 14% to 2,800 tons, from 3,250 tons in 2006. Most of the harvested rice was consumed by producers, though small surplus amounts were sold domestically between $5 and $7 per kilo.

In 2008 the NRP plans to set up two commercial rice farms at Lungga and Metapona on the Guadalcanal Plains. Government is prioritising domestic rice production to ensure food security and to reduce foreign exchange leakage. The

BOX 8.3 **Solrice**

Guadalcanal Plain Ltd. (GPL) was formed to grow rice as a mechanized plantation crop. A major expansion in Guadalcanal rice growing occurred in 1978 with the creation of Solrice, a joint venture between C. Brewer Corporation (a Hawaiian-based agribusiness) and the Solomon Islands Government. Around 1000 hectares of rice were planted on some of the country's best land. C. Brewer withdrew from the joint venture after four years of successive losses (ADB 1998). With serious insect problems and highly mechanized production practices that yielded well below projections, the enterprise was unlikely to succeed financially. Hence, there was little incentive to re-establish Solrice's plantation after the destruction wrought by Cyclone Namu in 1985. Solrice remains in existence today, under Australian ownership, and is the main importer of rice to Solomon Islands. It no longer has any involvement in domestic rice production.

ROC has provided major impetus and funds. Using the same rationale, other countries in the region are endeavouring to either increase or start domestic production of rice. Vanuatu has initiated a rice production program with the support of the Peoples Republic of China (PRC).

The findings of the provincial reports of AusAID's 2006 Smallholder Agriculture Study suggest that a smallholder rice development program is unlikely to be any more sustainable than previous commercial farm/plantation rice ventures. Experience to date indicates there has been a pattern of low yields, a dependency on subsidized imported chemical, mechanical and technical agricultural inputs, subsidized extensions services, and major pest and disease problems.

The foreign exchange cost of importing rice should be balanced against the value of current and potential exports such as oil palm, coconut product, cocoa, gold and nickel. Resources foregone in the production and promotion of rice are likely to be higher than those potentially used in areas with a higher comparative advantage. The policy priority, even in food security terms, should be to increase production and export of cash crops, particularly those conducive to agro–processing and value addition. There is also considerable potential in increasing production of traditional food staples such as sweet potatoes and other root crops, which may form more suitable sources of import substitution.

8.3.8 Livestock

Cattle

The beef cattle sector has almost ceased to function since the Tensions. Very few head remain, while no abattoirs exist. The sector is important for reducing imports of beef, and as the tourism industry develops, for supplying local hotels. As in Vanuatu, a long-term approach to the reconstruction of the industry should be geared towards attracting foreign direct investment and expertise to develop large areas of land. Smallholders can provide facilities for breeding and selling weaners (cattle of six to 10 months old). The MAL has ambitious plans to resuscitate the beef industry, based on the rehabilitation of the Government-owned and managed Tenavatu farm outside Honiara, and the import of around 1,200 cattle, probably from Australia. The Government and local customary land owners signed a partnership agreement in May 2008. A stockyard, new fencing, a wharf, and pasture is under preparation. The MAL has a budget allocation of SBD11.5M for this project. The aim is to make Tenavatu farm the focal part of the industry acting as a holding area for grazing and fattening cattle, and for distribution of animals to smallholders in the islands. A major constraint to the success of the project is a lack of sufficient funds. The cattle import will cost more than SBD23M. In addition there is a lack of expertise in handling the necessary import protocols; technical areas such as veterinary and quarantine issues; a need for capacity-building in aspects of farm management.

Small livestock

Solomon Islands has a long tradition of village-based livestock production, mainly pigs and poultry, and a recent donor-funded study[19] recommended that priority should be given to supporting these subsectors before beef cattle and other livestock. Despite dramatic disruption during the Tensions, many of the pig and poultry producers are re-establishing their operations following the restoration of law and order and market demand. The cost of imported feeds is a major impediment to the rebuilding of these intensive industries. This impediment needs to be

[19] Solomon Islands Smallholder Agricultural Study, AusAID, 2006

addressed by using locally available feeds and by-products, and re-establishing a local feed mill. The pig and poultry industries can be developed by improving subsistence production for local consumption and sale, developing small-scale commercial production to supply Honiara and the provincial capitals and sub-centres, and developing medium and large-scale production based on Guadalcanal, (and to a lesser extent the surrounding provinces), to provide the bulk of supplies into Honiara.

Both the AusAID and EU/World Bank projects, TSAP and RDP/Micro phase two, support the development of small livestock activities in rural communities and it is not recommended that the IF Trust Fund be used in this context.

Agriculture and tourism

Tourism is the subject of a separate chapter of the DTIS, however the important synergies between trade development in the two productive sectors should not be underestimated, particularly in the following areas:

1. Supply of domestically produced food products, including meat, to local hotels. This will be an important factor as the expected increase in tourist numbers materializes.
2. Ecotourism—this is a growing area of tourist development worldwide and is centred on rural areas where the primary activity is farming, and of growing importance, the exploitation of the NTFP resource. These activities can be linked to ecotourism development.

8.4 CONCLUSIONS

Solomon Islands has a highly dualistic economy that depends on agriculture for both food and cash crops. Even before the Tensions, most of the rural population survived on a very low annual cash income. A strong subsistence agricultural sector acted as a safety net. The relatively good past performance of the Solomon Islands tree-crop sector (cocoa, coconuts and oil palm) can be explained by a combination of factors:

- The competitive advantage of Solomon Islands smallholders;
- The absence of alternative income-earning opportunities compared with producers in other Pacific Island countries;
- An imperfect, but functioning marketing system;
- A depreciating currency.

The ongoing recovery of the Solomon Islands coconut and cocoa industries provides an encouraging base for growing rural livelihoods. It is doubly fortunate that both commodities are enjoying a period of favourable prices. The prospects for the oil palm industry are now more positive with the decision of NPPOD to invest in the rehabilitation SIPL. There are good prospects for the Solomon Islands tree crop sector to return to, and even expand beyond, pre-Tension levels.

Profitable export markets are available for a number of spices, indigenous nuts and other minor products. There are very substantial opportunities for import substitution, particularly for traditional staples, fresh fruit and vegetables and livestock products.

CHAPTER NINE

Fisheries and aquaculture

9.1 INTRODUCTION

The fisheries and aquaculture sector is of major importance to the economy of Solomon Islands. In the short to medium-term the industrial tuna sector is one of the sectors capable of filling the gap in foreign exchange left as logging declines. Including onshore processing, tuna could potentially contribute up to 3,000 jobs and spawn numerous associated businesses. Small-scale fisheries and aquaculture have less potential to contribute to national aggregate economic figures but are vital in terms of food security and livelihoods for rural areas. In many areas small-scale fisheries and aquaculture are among a handful of cash-earning possibilities.

This chapter examines the background to fisheries sector in Solomon Islands, including its contribution to the economy and governance issues, before moving on to a description and analysis of tuna fisheries and processing, coastal and nearshore fisheries and aquaculture.

9.2 BACKGROUND

9.2.1 Food security and livelihoods

Coastal fisheries resources are vital for national food security, since Solomon Islanders rely more heavily than the international average on seafood as a source of protein. It is estimated than in 1990 Solomon Islands inshore fisheries production was 10,000t. On the basis of projected population estimates and fish being half of protein intake, in 2010 Solomon Islands will need to produce or import 18,000t, in 2020 25,500t and in 2030 29,900t. (Wilson 2007: 12). While Solomon Islands has a relatively low population density and reefs are mostly healthy, pressure on reefs will increase with as the population grows. Effective management of these resources is of prime importance to enable villagers to profit from their marine resources while protecting food stocks.

9.2.2 Foreign exchange earnings and savings

The value-added onshore processing of tuna by Soltai Fishing and Processing (formerly Solomon Taiyo Ltd) has contributed significantly to the balance of payments since the early 1970s. One estimate put the economic benefits from Solomon Taiyo in terms of combined foreign exchange savings and earnings in the mid 1990s at SBD30–35M annually (Hughes and Thaanum 1995). Cans sold in the domestic market substituted for imported canned mackerel and tuna. Until the mid 1990s when log exports started to climb to very high levels, fisheries exports (mostly canned, whole frozen, and smoked tuna) were usually around the same level as logging exports (CBSI 1999: 87). Even after logging escalated while Solomon Taiyo was operating at full capacity in the late 1990s fish exports remained significant: fish exports were worth 45% of timber exports in 1997, and 63% in 1999 (CBSI 1999: 85; CBSI 2004: 91).[1]

[1] It should be noted that the total foreign exchange earning of fish exports is the export figure minus the value of imports used in production (cans, boxes, plastic bags, and ingredients such as oil, chillis and salt).

9.2.3 Revenue, employment and business opportunities

Fisheries and aquaculture contributes over SBD50M a year in revenue collected from access fees charged to international fishing fleets and taxes generated from domestic businesses It could contribute more. The skipjack tuna fishing and canning company Solomon Taiyo Ltd was from the early 1970s until 2000 the largest private sector employer, peaking in 1999 with around 3,000 jobs (2,200 of these permanent, the rest casual). Its struggling successor Soltai Fishing and Processing has continued to provide 600 jobs, mostly for women. A revitalized Soltai could employ 900 people and generate spin-offs including agricultural production for cash to supply Soltai and businesses in cleaning, security and transport. There are also smaller economic possibilities in small-scale fisheries and aquaculture, mostly in rural areas where few other economic opportunities exist.

9.3 DEVELOPMENT ASSISTANCE

A wide array of donors have been involved in fisheries and aquaculture over the decades. Japan has been a long-term donor for the rural fisheries centres and for projects supportive of the domestically owned and run pole-and-line fishery. Japanese fisheries aid also extends to support for Government presence at international meetings, such as the annual International Whaling Commission. In addition to direct Japanese Government assistance Japanese fisheries aid also comes through quango organizations like the Overseas Fisheries Co-operation Foundation (OFCF).[2] This organization supports Japan-based technical training for a range of fisheries related personnel in the public and private sector.

[2] www.ofcf.or.jp/access/index.html

NZAID is currently a major player in fisheries aid with its Solomon Islands Marine Resources Organisational Strengthening project, which has focused on the Ministry of Fisheries and Marine Resources (MFMR) since 2006.

The EU funded a long-term Rural Fisheries Development Project (RFEP) in the 1990s and 2000s, and has since funded two projects emerging from the RFEP, one on seaweed production and another on pearl farming.

Taiwan, through its funding of the Rural Constituencies Development Fund, indirectly funds rural fisheries in a piecemeal way, but it also has injected funds into specific fisheries activities over the years. For example it provided several million dollars to enable Soltai Fishing and Processing to reopen operations after having lain dormant for a year after the Japanese partner in Solomon Taiyo Ltd pulled out in 2000. Solomon Islands Government Development Estimates for 2007 included SBD3M from Taiwan (with SBD1.5M planned for 2008 and SBD250,000 planned for 2009) for 'support to rural tuna fisheries', including smoked tuna production and pole-and-line fishers (meaning Soltai).

In addition, Government has access to the Project Development Funds Facility (PDF) which comes from the US Multilateral Treaty money dispersed through the FFA. This, in addition to money from the central budget, has been used for small scale coastal fisheries development. In 2007 this budget was around

SBD2M for individual projects of SBD40,000 each for items such as small boats, outboard motors and cool boxes used to transport fish.

A multilateral source of fisheries aid is the EU funded Development of Tuna Fisheries in the Pacific ACP Countries (DevFish) project run through the FFA and SPC. DevFish has commissioned pertinent studies for Solomon Islands, such as the Artisanal Tuna Supplies Project (Stone 2008) for small-scale participation in industrial tuna operations based in Noro.

Several Non-Governmental Organizations (NGOs) are also active in Solomon Islands fisheries and aquaculture. The Worldfish Centre has hosted aquaculture research and provided hatchery functions for rural aquaculture for the aquarium trade; for over 30 years for giant clams. It also hosts small fisheries projects. Its aim has been to support rural livelihood activities and research that assists with sustainable development in nearshore areas. WWF and The Nature Conservancy have also been involved in Solomon Islands for many years, and both have projects involving Marine Protected Areas in tandem with livelihoods projects. The Foundation of the Peoples of the South Pacific International (FSPI) has funded investigations into the feasibility of Solomon Islands' aquarium trade achieving Marine Aquarium Council certification as being ecologically sustainable.

9.4 FISHERIES AND AQUACULTURE GOVERNANCE

Fisheries and aquaculture governance in Solomon Islands suffers a lack of capacity that inhibits Solomon Islanders from enjoying the full potential of their fisheries resources. The main difficulties are:

a Failure to meet obligations for ensuring sustainable tuna fisheries by collecting and reporting data on tuna catches in the Solomon Islands EEZ, cross checking effective observer data against fishing company data.
b Political involvement in directorship and management of Soltai Fishing and Processing inhibiting company financial viability thus restricting the economic benefits of employment and spin-off businesses.
c Failure to provide a macroeconomic and political environment that encourages private sector development.
d Failure to maximize revenue from fishing access agreements from international fleets
e Failure to work with communities for local level monitoring and enforcement for sustainable use of reef resources.
f Failure to provide rural communities with the political environment and infrastructure for education, communications, finance and transport that would enable more private sector development by villagers and reduce the necessity for patron-client relations in attempts for private sector development.

One of the chronic problems with MFMR capacity is a lack of effective information systems. There have been no properly published annual reports on the sector from the Ministry since the late 1980s. There have been *ad hoc* reports available upon asking from Fisheries staff, but these have not provided comprehensive and consistent annual snapshots of the sector. Reports to the Western and Central Pacific Fisheries Commission (WCPFC) Scientific Committee from Solomon Islands have provided some information about the tuna sector, but the Solomon Islands Government failed to provide the Scientific Committee with proper country reports in 2006 and 2007. Up until 2000 the fisheries information gap was to some extent covered by the CBSI Annual Reports, which included breakdowns of different kinds of tuna product exports (canned, frozen and smoke, which all have very different prices), as well as marine shell and sea cucumber exports. Since 2004, however, the CBSI Annual Reports include only 'fish' and the only price they usually mention is price for frozen tuna. In the absence of fisheries annual reports it is difficult to find production and export information about the sector to track progress. Furthermore, production figures for two of the main tuna companies, Soltai and NFD have been contained in the CBSI annual reports, but there is no information about the other large domestically based tuna company, Global. Technical assistance reports on fisheries and aquaculture even from the last few years were not kept in MFMR in hard copy or electronically (Lindley 2007).[3]

[3] This problem is not limited to fisheries. DTIS consultants found this to be the case across Ministries; current reports could be found in the relevant Ministry but previous reports were often unavailable and there was no central repository of development-related reports.

As well as internal information problems, fisheries and aquaculture have suffered from a lack of cross-Ministry coordination. For example, the 2008 draft Medium-Term Development Strategy (MTDS) had minimal input from MFMR.

The various scales of governance also present a challenge in fisheries and aquaculture. While the MFMR is quite dysfunctional, it has far more capacity than the Provincial level fisheries offices. Apart from ice provision from Fisheries Centres, there is no effective Government fisheries presence outside Honiara and the fishing port of Noro.

Notwithstanding the high turnover of Permanent Secretaries and MFMR inertia against SIMROS initiatives, there have been some improvements to MFMR since 2006. Better financial systems mean cheques can clear in days rather than weeks, computing systems can function without being paralysed by viruses, licensing and catch data is now accessible, and assets are traceable. There are monthly accounts and human resources records meaning people can be properly matched to their roles. Working conditions including salaries need to be attractive to recruit and hold appropriately skilled staff (Wilson 2007: 13–15). Improvements like these, and the plan to build a new fisheries building, should help improve morale and generate a more positive working environment.

9.5 OFFSHORE TUNA FISHERIES AND PROCESSING

9.5.1 Resources and resource management

Tuna fisheries within the Western and Central Pacific Convention area are monitored by the Western and Central Pacific Fisheries Commission (WCPFC) and its Scientific Committee.[4] WCPFC member countries (32 in total including Pacific Island countries such as Solomon Islands plus other coastal states in Asia and fishing states) provide information on fisheries in their Exclusive Economic Zone (EEZ, to 200 nautical miles out from the coast) to the Scientific Committee and are obliged to implement WCPFC fisheries management measures in their EEZ.

[4] www.wcpfc.int

Solomon Islands tuna fisheries, like that of other equatorial Pacific countries, has been made up mostly of surface fisheries (purse seine and pole-and-line) targeting skipjack, with some longlining. In the past this longlining targeted yellowfin and bigeye for the sashimi market, but in recent years there has been more albacore in the longline catch from the Solomon Islands' EEZ than any other species: 6,391t in 2006 (Wilson 2007). According to statistics staff at MFMR, tuna catches in Solomon Islands' EEZ have increased in the period 2002–2007.[5]

[5] For further details on Solomon Islands' tuna resources and those of other PICs see the reports for the Western and Central Pacific Fisheries Commission (www.wcpfc.int).

The skipjack fishery has been reliable enough to support two large domestically based fishing companies since the 1970s, but stock availability fluctuates within annual seasonal patterns, and across more long-term patterns. There are annual declines in catches in the second and third quarters of each year, and there are periodic declines in catches due to ENSO (El Niño Southern Oscillation) effects. During El Niño years, the highly migratory skipjack stocks are not available to surface fisheries in the far Western Pacific (in Solomon Islands) but are caught more further east around Kiribati. If climate change results in a permanent El Niño, it may not be viable to fish for skipjack in Solomon Islands. There are also, however, some more constantly available skipjack stocks in the Main Group Archipelago (MGA) area between the double chain of islands and reefs that make up the Solomon Islands.

The total value of the catch from the Solomon Islands EEZ including foreign and domestic fleets for 2006 was estimated to be USD143M (4.6% of the total for the WCP Convention area). Solomon Islands-registered fishing vessels' catch in the WCP Convention area for 2006 was estimated to be worth USD39M (1.4% of the total WCP Convention area catch) (Wilson 2007). In 2008 fishing prices rose, potentially increasing the value of the catch.

9.5.2 Offshore tuna fisheries management

Tuna resource management suffers a range of problems, including chronic underfunding and lack of human resource development. One of the main problems is that fisheries governance was initially structured to provide extension services, generally biological, to small-scale coastal fisheries. The development and management of offshore industrial tuna industries requires different skills and systems, such as economics and policy skills, but the staffing and systems necessary for tuna management have never been fully developed. Low levels of remuneration and an old, poorly maintained office building do nothing to boost morale. It is to be hoped SIMROS can turn this state of affairs around.

Resource management has been subject to corruption; data collection ad hoc and sparse; stakeholder consultation poor. However, skipjack resources are in good health so resource management has not yet been a major problem in terms of skipjack stocks (skipjack fisheries are contributing to bigeye and yellowfin overfishing). There has however, been a decline in bigeye and yellowfin stocks in the WCPO as a whole, which probably influenced the decision of the longline company Solgreen (which targeted sashimi markets) to cease operations in 2005.

The SIMROS project has the potential to turn around the performance of MFMR. Ultimately the success of this capacity-building exercise relies on: *(i)* the political will to make the necessary structural changes—some of which are under other Ministries, for example, public service recruitment procedures, *(ii)* ongoing commitment to allocate the funds necessary for a well functioning Ministry, and *(iii)* a policy of appointing management positions within the Ministry based on merit rather than political pressure.

9.5.3 Compliance/enforcement

MFMR mainly monitors tuna fisheries through the observer system. Fisheries observers are placed randomly on fishing vessels and keep records of species, sizes of fish, and catch weight. Observer reports should be checked against captain's logbooks recording the same data and supplied to the Ministry. Observers also attend transhipment of catches from fishing vessels to carrier vessels and collect the same type of data again (called 'port sampling'), which is also supposed to be cross-checked against vessel records of what they have offloaded. However this system does not work as it should, a situation is unlikely to improve while MFMR staff are paid badly and leadership is poor.

The main fishing-related compliance system, and the only Solomon Islands system to which the international ('distant water') fleets fishing in the Solomon Islands EEZ are subject, is the fishing license. This includes a range of conditions such as the obligation to report catches to the licensing government. It is not clear, however, that all of these conditions are enforced. The head of the Licensing Section said the only enforcement measure used is fines, but the list of conditions for purse seine vessels includes measures other than fines. It is also possible that not all fishing companies have these conditions attached to their licences. A condition-free license would enable a company to legally fish wherever they like, including in zones usually quarantined from industrial fishing for coastal fisheries, and not report anything about their operations, including catch data.

9.5.4 Data collection

Data collection and reporting have been mismanaged since the late 1980s. Catch data for Solomon Islands have been compiled and analysed for the purposes of the Oceanic Program of the SPC (since 2005 this has been the Scientific Committee for the WCPFC), but no catch data were submitted from Solomon Islands for 2006 and 2007. According to MFMR staff, there were no systems in place for reliable collection, storing and analysing of data. Part of the problem was inadequate staffing. For a period after the Tensions just one officer was responsible for this work, without adequate computing facilities.

Another problem is that although MFMR employs observers, and they are paid to go on vessels and to attend offloading for port sampling, observer reports have not been compiled and data from them cross-checked against catch data supplied by companies in a systematic way. In April 2008 port sampling was due to be revived under a new Observer Coordinator, but in July 2008 it was not clear this had eventuated.

To remedy the problem posed for regional management by the non-availability and questionable reliability of data, in 2007 the SPC installed the TUFMAN tuna management data system[6] and contracted several staff members to work in MFMR to enter and analyse data. By July 2008 data for 2007 was mostly up to date and ready to report on for the August 2008 WCPFC SC meeting. The staff members contracted by SPC were nearly at the end of their contracts and MFMR was supposed to be taking control of the system, but permanent staffing arrangements were not yet in place.

[6] In the TUFMAN system company-supplied data about catches and offloading is automatically checked against fisheries officer observer data.

9.5.5 Domestic tuna fishing companies

Before the Tensions, Solomon Islands had the most vibrant domestic tuna industry in the Pacific. The long-running Solomon Taiyo ran a fleet of 21 vessels. Other domestic tuna fishing companies included then Tulagi-based National Fisheries Development (NFD), which previously had a pole-and-line fleet but by the end of the 1990s replaced it with purse seine vessels, and Japanese-owned Honiara-based longline company Solgreen, which targeted sashimi tuna air-freighted by charter plane to Brisbane or Cairns for commercial flights to Japan.

In 2000 this picture changed dramatically. The Tensions made the business environment difficult, but two external events in global tuna industries were more decisive. Global inventory left over from record catches in 1998 meant that world tuna prices hit very low levels in 2000 and stayed there until 2002. Bangkok (world) prices for frozen skipjack in 1998 were USD980 a tonne. In 1999 they dropped to USD550 a tonne (CBSI 1999: 18).[7] At this price no profit could be made so NFD stopped fishing for a time until prices improved. When prices returned to levels that made fishing worthwhile, oceanographic effects related to the El Niño cycle reduced the availability of fish. The tuna catch stayed low until 2004 (see Table 9.2).

The other external event in 2000 was that Solomon Taiyo's most important market, UK supermarket chains, including Sainsbury's, stopped paying a premium for the high quality, ecologically and socially responsible Solomon Taiyo product (Barclay 2008).[8] The result of the loss of the premium price was that the Japanese company Maruha pulled out of a joint venture with Solomon Taiyo. Another factor that may have influenced Maruha's decision to leave was the erosion of trade preferences under the Cotonou Agreement that gave Solomon Islands processed tuna a 24% tariff advantage over Southeast Asian competitors. Slow Japanese economic growth also influenced Maruha's decision to withdraw from Solomon Taiyo.

After Maruha's withdrawal Solomon Taiyo started up again as the wholly Government-owned Soltai Fishing and Processing, but at a much lower level of production. Post-Tensions Solomon Islands' tuna industries are less diverse; concentrated mostly in NFD's purse seine fleet. As such they contribute revenue, but much less than in pre-Tension times in terms of employment, human resources development and spin-off businesses.

In 1999 the total tuna catch including domestic and foreign fleets was 72,000t. Of this 48,000t was caught by domestic fleets (CBSI 1999: 17). The domestic pole-and-line fleet had been around 21 vessels at this time, but from 2001 there have never been more than 10 domestic pole-and-line vessels operating (although sometimes more than 10 have been licensed, see Table 9.3) and as the fleet has aged fewer vessels have been used each year. The domestic catch halved after 2000 and has remained stable at between 20-30,000t annually (see Table 9.2).

[7] Tuna prices in the major markets for skipjack and yellowfin for canning are compiled monthly by FFA and distributed in an email newsletter. For an analysis of global tuna markets see Jeon, Reid and Squires (2008).

[8] According to Sainsbury's (1998) they were paying up to 10% more for products that increased customer loyalty (Sainsbury's 1997). It is possible UK supermarkets buying policy changed in 2000 because of increasing competition from budget supermarket chains such as Tesco.

TABLE 9.1 **Solomon Islander employment in domestic fishing companies 1999–2008**

Year	Solomon Taiyo/Soltai	NFD	Solgreen
1999	2,200	–	–
2001	748	45	85
2005	850	75	0
2008	600	120	0

TABLE 9.2 **Domestic tuna catch in metric tonnes by company, 2004–2007**

Company	2004	2005	2006	2007
NFD	20,312	18,803	22,343	–
Soltai	6,937	5,164	7,254	–
Solgreen	986	0	0	0
Total	**27,249**	**23,853**	**29,597**	**21 196**

TABLE 9.3 **Solomon Islands domestically-based fleet vessel types and numbers, 2002–2007**

Vessel type	2002	2003	2004	2005	2006	2007
Purse seine	2	3	3	3	4	5
Longline	11	9	8	5	0[9]	0
Pole-and-line	12	12	10	7	11	9[10]
Total	**25**	**26**	**19**	**13**	**13**	**14**

Sources: (Gillett 2003); Department of Fisheries and Marine Resources (interviews conducted 2005); Solomon Taiyo Ltd (interviews conducted 1999); NFD (interviews conducted 2005, 2008), Statistics Department, CBSI 2007: 112; CBSI 2004: 19; CBSI 2005: 15; CBSI 2006: 16.

[9] In 2005 the tuna longlining company Solgreen/Solco ceased operations. Global has a shark longlining operation, so there have been longliners (just not targeting tuna) in Solomon Islands' fleet in recent years, but these are not included in MFMR statistics.

[10] These figures are based on the numbers of vessels licensed. In 2007 not all of Soltai's nine pole-and-line licensed vessels were actually fishing.

Comparing the amount of money put into the domestic economy per tonne of fish caught, in 2006 Soltai spent SBD122M in the domestic economy and paid SBD1.25M to the Government (in taxes and fees), for a catch of 7,254t. In the same year domestic company NFD spent SBD62M in the domestic economy and paid SBD8.7M to the Government for a catch of 22,343t. In 2006 the largest foreign fleet (Korean) spent nothing in the domestic economy and paid SBD11.6M to Government for catching 32,000t (Wilson 2007: 8).

A recent analysis of the aspirations of Pacific Island countries for their tuna resources showed that desires for domestic development have evolved over the decades, but remain strong. The Soltai model of state owned enterprise is now widely seen as outdated; the PNG model is seen as more effective, whereby the Government enticed foreign private sector investors to develop onshore processing by tying fisheries access to onshore investment commitments (Gillett 2008). Since PNG introduced this policy in the mid 1990s two large canneries and a large loining plant have opened and more are planned.

Soltai Fishing and Processing Ltd.

Until 2000 Solomon Taiyo had the last large pole-and-line fleet in the Pacific, with annual catches usually over 25000t (sometimes as high as 40,000t). In 2001, with Taiwanese aid, the Solomon Islands Government reopened the company as a wholly state-owned enterprise called Soltai Fishing and Processing.[11] The pole-and-line fishing vessels left by Solomon Taiyo in 2000 were over 20 years old. The high level of maintenance they required to be functional, and their low fuel efficiency compared to newer vessels, made them very expensive to run. In addition, sitting tied up at the wharf for a year 2000–2001 had caused a great deal of damage. Only 12 of the fleet of 21 were resurrected in 2001.

[11] The Investment Corporation of Solomon Islands retained its 51% shareholding, and gave Maruha's 49% to the Western Province Government.

The Government has used positions on the Board of Directors as a political 'perk', rather than appointing people with the commercial expertise to be able to direct Soltai effectively (Wilson 2007). As owner of Soltai, the Solomon Islands Government has not kept track of Soltai's financial situation or kept itself informed enough of relevant circumstances to meet the criteria of 'due diligence' (Wilson 2007). Furthermore, the Government was not in a position to provide capital investment, and Soltai's shore facilities were in urgent need of renovation. By 2004 Soltai was verging on insolvency.

The situation for the company as a whole was improved somewhat in 2004 when Soltai entered into a processing contract with NFD and its owner company multinational Tri Marine to provide loins for an Italian buyer (see the section on Onshore Processing). The fishing side of Soltai, however, continued to suffer. In 2005 the Japanese Government gave SBD70M to provide two brand new pole-and-line vessels, commissioned from a shipyard in Shizuoka. In 2007 Soltai had the two new vessels plus four of the old pole-and-line vessels were still active but by the end of the year three of the old vessels were retired due to fuel inefficiency and high maintenance costs. From early 2008 one of the new vessels (Soltai 105) and the old Soltai 6 fished until June.

In sum, by 2008 Soltai's pole-and-line fleet has all but collapsed, and its heavy financial losses have been reducing the viability of the processing side of the company. In the 1980s and early 1990s when NFD also had a pole-and-line fleet there were more than 30 vessels operating in Solomon Islands. The pole-and-line method is one of the most environmentally friendly of the industrial tuna fishing methods, and Solomon Islanders were able to crew these vessels and maintain them in-country. In addition their catch was of a very high quality.

In some EU (mainly France and Italy), Japanese and USA markets high quality skipjack and yellowfin products are differentiated from low quality canned fish, so it may be possible for Soltai product to attract higher prices than standard canned tuna in these markets. But even if Soltai could set up the trading networks for these markets, it is still not clear that Soltai can sustain the same kind of pole-and-line fleet it has had to date.

In late 2007 a high-level Government committee investigated Soltai's financial problems and options for salvaging the company and tabled a set of recommendations to the Board of Directors. By mid 2008 the recommendations had yet not been acted on, which meant the Government had to spend SBD18M in the first half of 2008 to enable the company to keep operating.[12] The best option seems to be to change the structure of the company, separating the potentially profitable processing section from the loss-making fleet, and to invite a private sector partner in to run the processing operation. There are two major issues to sort out before a private sector partner would agree to become involved. One is a credible guarantee that there would not be political interference in the directorship or management of the company and that Government policy toward the business would be stable and provide a competitive cost platform (in terms of duties, taxes and licence fees). This would require a fundamental change in the way the Board of Directors has operated, and indeed in the way Boards normally operate in Solomon Islands. The other major issue is to deal with Soltai's debt, as a private sector operator would not want to take this on. It seems unlikely that Soltai can maintain a functioning pole-and-line fleet, although possibly two of the remaining vessels can profitably supply *arabushi* production for some years to come.

[12] Asery Kukui, Soltai Personnel Manager, personal communication, July 2008.

National Fisheries Development (NFD)

NFD was started in 1978 as a joint venture between Solomon Taiyo Ltd and the Solomon Islands Government to conduct training and ship building activities, but as a commercial enterprise, Solomon Taiyo would not provide this training. NFD built and operated a fleet of ferrocement pole-and-line vessels, from 1988 two purse seine vessels, and in the early 1990s a couple of longliners under a Japanese aid program. While it was Government-owned, the company lost money and it was eventually privatised in 1990, first sold to British Columbia Packers, and later acquired by multinational Tri Marine.[13] NFD pulled out of pole-and-line fishing altogether in 1999 and has since only operated purse seine vessels.

[13] www.trimarine-usa.com/index.html

Although as a purse seine operation NFD employed far fewer people than it had in pole-and-line fishing (purse seine vessels are more mechanized and require less labour per tonne of fish caught), NFD was still contributing an opportunity for employment and human resource development (see Table 9.4). Purse seine vessels are very high tech compared to the pole-and-line vessels that many Solomon Islanders had worked on since the early 1970s, and there have been very few Pacific islanders with the training to be able to take up executive crew positions on these kinds of vessels. According to CEO Adrian Wickham, the philosophy of NFD is that it is easiest and most efficient for to have as many Solomon Islanders employed in the company as possible (it is difficult to find expatriates willing to be based in Solomon Islands, and they are expensive). So the company has trained local staff, and now has a Solomon Islander Fishing Master and a Solomon Islander Chief Engineer, one of the only purse seine companies in the Pacific to have locals appointed at this level. Other executive positions are still filled by expatriates from a range of countries.

NFD's fleet in 2008 was comprised of four vessels: two 'smaller' vessels with fish carrying capacity of 350t (weight of the vessels: 2,719grt [gross registered tonnage]) and two 'larger' vessels with fish carrying capacity of 475t (2,632grt). Although various costs are higher in Solomon Islands than in competitor skipjack fishing countries,[14] according to management, NFD is profitable and viable for the foreseeable future. NFD is in a vertically-integrated supply chain relationship with its owner company Tri Marine, which is one of the three major global suppliers of canned tuna. Therefore NFD's operations are mainly centred on catching fish, they rely on Tri Marine to get their fish up the supply chain to buyers.

NFD's vessels fish mainly in the Solomon Islands EEZ, but in the years when the fishing is not good in the Solomon Islands EEZ they go further afield in search of fish. One vessel, the Solomon Premier, was licensed under the FSM Agreement in 2008 but had only fished a little outside Solomon Islands' EEZ. With high fuel prices making transport expensive and the Solomon Islands Government 5% duty on exports of whole fish, it makes sense for NFD to offload its catch to the Soltai cannery at Noro, rather than sending it all the way to Thailand for sale. If the Soltai factory were to process at full capacity (see section on Onshore Processing) NFD could offload most or all of its catch in Noro.

[14] The costs of production and margin for domestic and foreign purse seiners operating in the Solomon Islands EEZ are slightly higher for domestic operators, mainly in maintenance and crew costs (Wilson 2007). Domestic companies pay more per unit of fuel but do not use as much fuel so the costs are about equal. Higher crew costs for domestic companies are mostly due to having to employ expensive expatriates, a situation that could be improved if the Government targeted training for executive level crew (such as Captains and Engineers). Import and export duties and goods taxes are significantly higher for domestic vessels than for foreign vessels (Wilson 2007).

Global Investment Ltd.

Global Investment Ltd. was first created in the mid-1990s as one of a spate of joint venture fishing companies with members of parliament that arose during the last administration of Prime Minister Solomon Mamaloni. The investors are from Taiwan. According to Department of Fisheries and Marine Resources staff interviewed in 2005, Global at that stage had two pole-and-line vessels licensed, four purse seiners, a carrier vessel and 31 longliners, (of which three targeted shark rather than tuna). Global had set up operations out of Tulagi, taking over NFD's old base after NFD moved to Noro in 2001, but by 2008 Global had moved to Noro and was based in the Baru residential district. The author was unable to gather any direct information about Global from MFMR during fieldwork in July 2008. An aside in another report describes Global as operating two or three small purse seiners with a catch of less than 2,500t annually, and that company profitability is linked to shark longline operations (Stone 2007: 11).

Mako

Mako has been considered 'locally based' and has had purse seine, longline, carrier and bunker vessels licensed in Solomon Islands. Mako is an agent company for the Korean distant water fleet. It has an office but no shore base.

9.6 INTERNATIONAL AGREEMENTS

International fleets, known as 'distant water', are an important part of Solomon Islands fisheries, both in terms of revenue they pay in the form of fisheries access and license fees, and potentially because they are a source of raw material for onshore processing. Solomon Islands has ongoing access agreements for purse seine, longlining and pole-and-line fleets from Japan, Taiwan, Korea, the EU and New Zealand (see Table 9.5 for types of vessels in each agreement, and the Appendices for the amounts and kinds of fees involved).

The fees paid by distant water fleets constitute an important source of foreign currency revenue. In 1994 distant water fees were USD1.5M, in 1998 USD1.9M, in

2004 USD3.9M (Barclay and Cartwright 2007: 214). In 2005 fees totalled SBD26M, and in 2006 SBD32M (CBSI 2006: 17). According to SIMROS manager Simon Tiller, improvements to the ways fees were calculated and the ways fees were paid to Government (reducing 'leakage') had increased access fees to SBD90M in 2007, and he anticipated it might reach SBD120M in 2008.

While domestic fleet catches have not grown in the last five years, catches by foreign fleets have increased. According to the Statistics Department at MFMR, this increase has been mostly fuelled by the Korean fleet, which accounted for over 44% of the total catch for 2002–2007 period. Catches by the purse seine fleets based in Pacific Islands countries with multilateral access under the Federated States of Micronesia Arrangement and USA fleets have also steadily increased. The Taiwanese fleet has recorded a relatively small proportion of the catch, and this has not grown over the five year period, yet the number of Taiwanese vessels licensed in Solomon Islands has grown, possibly because they fish in the Solomon Islands EEZ for only some months of the year.

TABLE 9.4 **Distant-water purse seine fleet catches (in metric tonnes) in the Solomon Islands EEZ by flag country 2003–2007**

Flag Country	2003	2004	2005	2006	2007
China [15]	–	–	–	–	–
Japan	4,335	13,755	13,303	12,449	8,382
Korea	6,146	24,525	18,216	24,817	35,830
New Zealand [16]	–	–	–	1,964	4
Taiwan	4,627	10,739	14,066	3,441	7,036
Vanuatu	–	–	–	10,548	6,080
FSM A [17]	8,218	13,132	10,404	13,262	–
USMLT [18]	7,736	8,071	2,248	7,542	–

Source: Solomon Islands Ministry of Fisheries and Marine Resources

According to the Statistics Department of the MFMR, most of the distant water purse seine vessels in the Solomon Islands EEZ were between 50–100 metres in length, with a fish carrying capacity of greater than 1,000t. A very small percentage of the Taiwanese purse seine fleet and about a third of the Vanuatu flagged vessels were shorter than 50 metres in length. About half of the Korean and Taiwanese fleets, despite being longer than 50 metres only had a carrying capacity of less than 1,000t. The Japanese fleet had the highest number of purse seine vessels (33) of greater than 1,000t fish carrying capacity.

[15] China is recorded as having six purse seine vessels licensed to fish in Solomon Islands waters from 2004-2007, but no catch data is available.

[16] Similarly New Zealand had four vessels licensed from 2004, but catch data is not available for 2004 and 2005.

[17] FSM A: The Federated States of Micronesia Arrangement is for multilateral EEZ access of PNA group member countries' domestically based purse seine fleets.

[18] USMLT: The US Multilateral Treaty was first negotiated in the 1980s and is for multilateral access to Pacific Islands EEZs, rather than to the Solomon Islands EEZ as such. The whole fee is administered by the Pacific Islands Forum Fisheries Agency (FFA), which splits it among participating countries.

TABLE 9.5 **Distant-water fleets: vessel types and numbers by flag country 2004–2007**

Flag country	2004	2005	2006	2007
Belize[19] Longline	–	–	–	5
China Longline	12	14	24	41
China Purse seine	6	6	6	6
Fiji Longline	3	3	18	12
Japan Longline	9	19	31	33
Japan Purse seine	21	32	26	34
Japan Pole & line	11	11	24	8
Korea Purse seine	28	28	28	28
Korea Longline	16	19	37	47
New Zealand	4	4	4	4
Taiwan Purse seine	29	31	33	33
Taiwan Longline	19	30	33	36
Vanuatu[20] Longline	11	11	10	10
FSM A Purse seine	5	3	31	34
USMLT	19	11	13	12

Source: Ministry of Fisheries and Marine Resources.

[19] Belize is a 'flag-of-convenience' country rather than a fishing state, so these vessels may be flagged in Belize but are really owned by companies in another country.

[20] Vanuatu is also a flag-of-convenience country.

9.7 ONSHORE TUNA PROCESSING

Processing has the potential to create hundreds of new jobs, mainly for women, as well as indirect economic benefits from increased activity in the cash economy. The financial viability of canning/loining, however, depends on a range of factors, including fuel (in fishing and transport costs) and fish prices and trade preferences. However it is clear that domestic processing almost doubles the value of the catch (Wilson 2007: 9). In 2006 68,000t of skipjack were caught in the Solomon Islands' EEZ. At the prevailing price for raw fish that year this was worth about USD68M. If all of the 68,000t had been loined, the value of the fish would have been USD113M.

Through Soltai and its predecessor Solomon Taiyo, Solomon Islands has a trained and proven workforce, and in Noro the infrastructure is in place. The main attraction for processing tuna in Solomon Islands is preferential trade access to the EU market. Solomon Islands products are tariff free compared to a 24% tariff on imports from competitor countries in Southeast Asia (see the section on Tuna Trade and Market Issues). Increasing fuel costs are making it more expensive to transport fish caught in the Pacific to Thailand for processing, so processing sites close to the fishing grounds are potentially more attractive. It is not clear that the costs/prices equation will add up to it being viable for fleets to offload in Noro, or that there will be a constant enough supply from fleets operating in the area to keep the factory operating at a viable rate (due to seasonal and climactic fluctuations).

On the other hand, Solomon Islands is a high-cost environment for tuna canning compared to competitor countries and is unlikely to be able to develop the economies of scale that would see it meet the production costs of competitor countries in the normal cheap canned tuna market. While Solomon Islands product has preferential access to the EU market it can compete, but this trade preference has already been eroded and may well erode to the point that Solomon Islands processed tuna is no longer competitive. The Government is also contributing to the problems facing onshore tuna processing:

1 Government handling of Soltai has seen it teeter on the brink of insolvency for several years, which does not inspire investor confidence;

2 The Government's propensity to adopt patron-client-style relations with investors rather than seek investors based on their potential benefits to the Solomon Islands economy may mean investors without long-term commitments are preferred;

3 The political desire to spread developments out geographically rather than consolidate them in hubs that can share infrastructure and generate economies of scale may further reduce their financial viability.

9.7.1 Soltai Fishing and Processing Ltd

The Solomon Taiyo Ltd cannery and *arabushi*[21] smoking plant was established in Tulagi in the 1970s as part of the conditions for the joint venture with Taiyo Gyogyo. Since 2000 the cannery has been has been averaging production of 30t a day (capacity is 80–100t and the cannery has to operate at 80t a day to break even). At full production the cannery would employ 900 people, rather than the 600 or so who have been employed in recent years. In 2006 Soltai spent SBD122M (USD17.5M) in the domestic economy and paid SBD1.25M (USD179 375) to the Solomon Islands Government in duties and taxes (Wilson 2007: 10).[22] If Soltai were to produce at capacity the loining plant could process NFD's entire catching capacity. This would mean NFD could avoid the 5% export duty on unprocessed fish, and the risks and costs associated with shipping fish to Thailand for processing. Tri Marine would have a reliable supply of high quality EU compliant product to sell in European markets, taking advantage of residual trade preference benefits.

TABLE 9.6 **Solomon Islands tuna production, 1997–2004 (in metric tonnes)**

Year	Total catch	Tuna Exports		Canned tuna (cartons)		*Arabushi*	Fishmeal	Cooked tuna loins
		Frozen	*Chilled*	*Total*	*Exports*			
1997	37,209	25,910	2,760	1,072,000	7,524	945	70	0
1998	41,158	37,292	2,153	0	1,446	149	118	0
1999	16,865	6,660	1,486	0	6,440	940	1,400	0
2000	4,680	670	804	0	2,349	504	353	0
2001	15,024	13,523	816	78,063	72	563	50	0
2002	11,283	7,750	1,385	254,224	72	1,480	596	0
2003	22,894	20,592	882	173,312	90	1,145	185	0
2004	27,496	23,331	1,116	262,144	215	574	225	2,035

Sources: Department of Fisheries and Marine Resources; Soltai Fishing and Processing Ltd; National Fisheries Development (NFD). According to NFD interviewees, NFD sold 5,282t of its catch to Soltai in 2004 for processing as loins. The difference between the amount of tuna exported as frozen and the total catch is less than this, so there is a discrepancy between NFD and Fisheries Department figures.

One reason Soltai remains in financial trouble is that production capacity was limited by equipment problems. One of the key problems was a lack of cold storage space, because for loining Soltai had to freeze not only raw fish waiting to be processed, but also the finished packed loins waiting to be exported (cans could simply be warehoused). Soltai's existing cold store was too small, and it was too old to function at a level necessary for passing certification for facilities producing food for export to the EU. As part of a move to review state owned enterprises and prepare them for privatisation the Solomon Islands Government apparently relieved Soltai of some of its debt, to increase the attractiveness of the company for investors. Subsequently Soltai signed an memorandum of understanding (MoU) with Tri Marine (Stone 2008: 14). After this Soltai started extensive upgrade works to onshore processing facilities. Tri Marine had European buyers wanting large catering sized cans of 1kg or larger, but that would mean new canning equipment Soltai could not afford to buy, so under the MoU Tri Marine supplied the catering sized cannery equipment (Stone 2008: 14). In 2007 Soltai did a trial production run of

[21] *Arabushi* is the smoke-dried loin that is then cured with mould to make it into *katsuobushi*. At the Noro factory fish is smoked then exported in freezer containers to Japan, where the final stage of mould curing is done.

[22] This ratio of tax to economic activity is quite low, so it is possible SIG has been exempting Soltai from taxes as a way of trying to alleviate the company's financial problems.

catering cans for Spanish buyers, but had not received any more orders from Tri Marine for catering cans as of mid 2008.

Others of Soltai's equipment problems were addressed through commercial bank loans for renovations. A new fishmeal plant was installed at a cost of SBD7M and was operating in 2008, giving Soltai an extra source of income. A new cold store, costing SBD26M was almost finished in mid 2008. Once it was completed it would finally enable the cannery/loining plant to operate at its full capacity of 80–100t of fish per day.

In 2007–2008 Soltai was suffering serious financial problems. The lack of cash flow meant Soltai could not buy the boxes, plastic bags and cans necessary for processing loins or cans. At the time of fieldwork in July 2008 the factory had ceased operating while waiting for a shipment of plastic bags so as to be able to recommence loin production. The OFCF Technical Advisor working at the Soltai cannery, Kimizaku Okamura, has experience managing canneries in various countries in the Asia Pacific region, including Solomon Taiyo in the 1990s. According to Mr Okamura, in current conditions the processing side of Soltai's business could be profitable if the cannery/loining plant were to operate at capacity, if the company were restructured to reduce overheads and costs, and if the loss-making fleet were separated from the processing arm of Soltai. 'Current conditions' a range of 'ifs': *(1) if* Solomon Islands meets EU food safety standards as an exporter, *(2) if* preferential trade access to the EU is maintained, *(3) if* fuel costs and fish prices reach a favourable balance, and *(4) if* the Government enables Soltai to be reformed into a financially viable concern. Some of the factors Government must manage for the viability of Soltai are outlined below.

9.7.2 EU Standards

Solomon Islands canned tuna must meet stringent EU food safety and quality standards. The quality of product from Noro has always been good. The Japanese shore technicians and Okinawan fishermen who established and oversaw the production procedures at Solomon Taiyo ensured that Noro processed tuna was of exceptionally high quality. Factory upgrades since 2006 were part of Soltai's commitments to ensuring that their facilities met EU standards. Now the Government must attain 'List One' status, which includes having a Competent Authority (as determined by the EU) to monitor the safety and quality of processed tuna exported from Solomon Islands.

9.7.3 Government ownership and private sector partnership

Government may need to rethink its approach to owning and directing Soltai and consider private sector tuna experts directing and managing it instead. There are various models for this in the Pacific. PNG's tuna factories are fully private sector owned and managed. PafCo in Fiji is owned by the Fiji Government, but is managed by US producer Bumble Bee and supplied by one of the big three global canned tuna supply companies, Taiwanese FCF Fishery Co. Ltd.[23] One logical option would be for Soltai to make a stronger relationship with Tri Marine, which has proved itself to be committed to long-term development of tuna fisheries and processing in the Pacific. Naturally, no private sector partner will be interested in committing itself to Soltai unless the Board of Directors is structured to ensure freedom from political interference, and unless the Government can give credible guarantees that it will not otherwise impede the financial viability of the company (through capricious taxation or licensing policies, for example).

[13] www.fcf.com.tw

While canning and loining are contingently viable, however, another form of processing at Soltai, that of *arabushi* production, is very well suited to Noro conditions. *Arabushi* production requires a large cement block shed, metal racks for fish, water, locally sourced wood for smoking, and labour to prepare the fish, all of which could be easily supplied and maintained in Noro. The production and sale contracts were independent of Maruha; Solomon Taiyo had been running *arabushi* production under a management contract to a small company called Soyo Sanso, a subsidiary of *katsuobushi* giant Yamaki. Yamaki bought Soltai's entire *arabushi* output in return for Soyo Sanso staff managing and guaranteeing the quality of production. This arrangement did not change with the withdrawal of Maruha from the joint venture. The contract with Soyo Sanso was simply transferred to Soltai. Production thus recommenced easily in 2001.

Arabushi may be an important export industry for Solomon Islands for years to come. As an industry that is not reliant on trade preferences, or subject to difficult food safety requirements, and for which the major inputs are easily sourced locally, *arabushi* is a more viable processing industry than canning or loining. With the popularity of Japanese food increasing globally, it is a growing market.

Fishing and processing at Noro and the international fishing and freight port that sprang up to support operations there have given rise to a range of social and environmental issues that have not been adequately addressed by the Government (see Barclay 2008). If tuna processing is to continue at Noro, it will be important to have cross-sectoral efforts to improve housing and social welfare services, such as sexual and reproductive health education and treatment. Of particular concern is the issue of internal migration, which in Noro is called the problem of the *lius* (Solomons Pijin term for unwaged migrants who come to Noro to stay with waged relatives to find cash work but who often remain unemployed). The Tensions episode shows how disruptive unresolved problems of perceived illegitimate internal migration can be. Internal migration is necessary to form labour pools large enough for industrial production, so if tuna processing is to continue and grow it is urgent for Government to address the problem of internal migration.

9.7.4 New cannery/loining plant

The Solomon Islands Government has long wanted to open one or more new tuna processing facilities due to the success of Solomon Taiyo, and the potential for success of Soltai. It has included this as a goal in the MTDS. In light of current uncertainties about the viability of canning/loining in Solomon Islands it would seem prudent to put these plans on hold until Soltai's position improves. If in the near future Soltai recovers then plans for a second plan should take the following factors into consideration.

Discussion about new loining/canning plants has been around greenfield sites, preferably on Malaita, such as Suava Bay or Bina Harbour, or Gojoruru and Taro Island in Choiseul. While geographic dispersal of industrial development makes sense in sociopolitical terms in countries like Solomon Islands, however, geographical dispersal will further reduce the already low viability of any new developments by substantially increasing production costs. Alternative solutions to the problem of internal migration should be sought.

Solomon Islands is only marginally feasible as a canning/loining location so the Government needs to reduce the operating costs wherever possible. The high cost environment mentioned in relation to Soltai's factory is largely a function of diseconomies of scale; the Soltai factory is the only large-scale industrial enterprise in that whole area and everything the factory needs, from utilities to human resources, to service and supply industries, had to be developed 'from scratch'. To make any new company also do this would be to place another cost on an already uncompetitive list of costs facing tuna processing in Solomon Islands. For new factories to be viable they need to be close to the fishing grounds, to international shipping routes, and to competitively priced alternative sources to diesel-based electricity, such as hydroelectricity (Wilson 2007: 10).While acknowledging that social problems from internal migration need addressing, establishing a new factory at Noro could create a 'hub' effect, similar to the development benefits found in special export zones in places like China, and which tuna company RD and the PNG Government are trying to encourage with the Marine Industrial Park in Madang. At the very least increasing the volume of freight coming in and out of Noro would boost the viability of Soltai and NFD.

A range of possible tax exemptions apply to fisheries and fish processing businesses, including the option for companies to apply for case-by-case exemptions on import taxes for inputs. It is important to think about Solomon Islands revenue base, whether the taxation regime encourages domestic value adding, as well as whether having the option to apply for taxation remissions on a case-by-case basis inculcates patron-client style relations between Government and businesses.

In addition to large-scale tuna processing into loins or cans, there is scope for smaller-scale processing of tuna and other fish into fillets or loins for fresh fish markets, and gourmet processing into cold-smoked products and tuna jerky. These are discussed in the section on Nearshore and coastal fisheries and aquaculture.

9.8 TUNA TRADE AND MARKET ISSUES

9.8.1 Preferential trade access to the EU for fisheries products

Preferential trade access to the EU is the key to the viability of onshore canning and loining operations in Solomon Islands while costs of production are higher in Solomon Islands than in competitor countries, and in the absence of connections to markets that will pay a premium for Solomon Island tuna products over those from competitor countries.

Solomon Islands' canned tuna has always been exempt from the EU MFN (most favoured nation) tariff of 24% protecting its domestic canning industries. Originally the preferential access was under the Lomé Convention and its successor the Cotonou Agreement as ACP (Africa Caribbean and Pacific) product.[24] Thai canned tuna exports to the EU declined 46% in the period 1994–2000 largely due to ACP countries' preferential access to the EU. The Lomé/Cotonou arrangements gave Pacific ACP countries an advantage (Campling 2006).

[24] Preferential trade access for former colonies was established as European powers decolonised in the decades following World War II.

In order to make preferential access to the EU market WTO-compatible the intention was to include it in Economic Partnership Agreements (EPAs) between the EU and ACP. From the end of 2007 Pacific fisheries products were supposed to be included under the Pacific EPA. Solomon Islands did not sign the Interim EPA so as a Least Developed Country (LDC) its fisheries products have instead maintained tariff exemption under the Everything But Arms (EBA) initiative.

The EU Generalised System of Preferences (GSP) regime (2005–2011) has three tiers (Campling 2008c):

- A standard GSP scheme for which most developing countries are eligible and which reduces the tariff on processed tuna from the MFN level of 24% to 20.5%.

- The Everything But Arms (EBA) initiative available only to LDCs under which the tariff on processed tuna is 0%.
- The GSP Plus scheme, which also has no tariff on processed fish imports, and which is available to non-LDC developing countries that meet a set of vulnerability criteria and have signed and ratified 27 international conventions on good governance, the environment and human rights.

Under the GSP, the Rules of Origin for fish used in processing are very strict, like those under the Cotonou Agreement. With just one processor in Solomon Islands, which has not been meeting its production capacity, this has not been a problem because NFD, which easily meets the Rules of Origin criteria, has been able to supply all the fish Soltai has been able to use.[25] However, if Soltai revives and produces at full capacity there may be problems supplying enough fish from the Solomon Islands EEZ in the years ENSO effects mean fish is not available to surface fisheries. Furthermore, if another cannery/loining plant is opened NFD will not be able to meet the demand for raw fish and this factory will need to be able to source from elsewhere.

The Rules of Origin for fisheries products for the IEPA agreed to in January 2008 were substantially reformed compared to the Cotonou Agreement, to stipulate that factories in countries that sign a Goods Agreement under the IEPA may utilize fish caught by any vessel anywhere without having to comply with the Rules of Origin necessary under the Cotonou Agreement and the GSP schemes (see Campling 2006, 2008c and 2008d). If Solomon Islands wants to grow its tuna processing sector, and indeed to meet Soltai's demands if it were to achieve production at its current full capacity in the seasons and years the fishing is not good in Solomon Islands' EEZ, Solomon Islands will need to be able to source fish from outside its EEZ. Signing the EPA may have the advantage of assisting with the development of onshore canning and loining.

[25] NFD management did, however, remark that the paperwork for meeting the Rules of Origin, including details on the nationality of every crew member for every shipment of fish, was an onerous bureaucratic task .

9.8.2 Erosion of preferential access to the EU market

Although the 24% tariff remains in place for Southeast Asian competitor countries and Solomon Islands tuna products have a zero tariff, this trade preference has been directly and indirectly eroded. In 2002, two South-east Asian tuna producing countries (Philippines and Thailand) requested WTO mediation to examine the extent to which the legitimate interests of these countries were being impaired as a result of EC's preferential treatment on canned tuna to ACP states. The matter was not a dispute within the terms of the Dispute Settlement Understanding of the WTO. A mediator was nominated to address the issue and an amicable outcome was reached among the parties based on the advisory opinion of that mediator.

As a result, since 2003 an annual quota 25,000t of Southeast Asian product may enter the EU with a 12% tariff. Even with a tariff Southeast Asian product is much cheaper than Pacific ACP product so the Southeast Asian quota is usually all sold within hours of the quota opening each year. The quota is due to be renegotiated soon, and it is likely the Southeast Asian group of countries will push for more market access (Campling 2006).

Another way in which Pacific ACP trade preferences in tuna have been eroded is that the GSP regime has since 2005 enabled several Latin American tuna producing countries to gain preferential trade access to the EU market. Latin America supplied 71% of EU loin imports in 2005. Many of these economies also have preferential trade access for processed tuna to the US under free trade agreements, so they may be able to generate economies of scale that reduce their costs to an internationally competitive level (Campling 2006).

Bilateral free trade agreements (FTAs) between Southeast Asian countries and Japan may relatively disadvantage Pacific tuna processors, who have no trade benefits in the Japanese market. At present those FTAs are under dispute by NGOs in Southeast Asia for potentially damaging local fisheries and/or fisheries sustainability (Campling 2008d). The stalling of the Doha Round of negotiations in the WTO means there will be increased emphasis on FTAs. FTAs between the EU and tuna processing countries in Latin America and with ASEAN are of particular concern for Pacific ACP tuna producers (Campling 2008d).

Another potential threat to Pacific ACP preferential trade access to the EU is that Southeast Asian developing countries are eligible for the GSP standard 21.5% tariff. This small drop from the 24% MFN tariff does not enable Southeast Asian producers to undercut ACP producers in the EU market, but ASEAN has indicated its intention to push for the GSP standard tariff to be lowered to 18.5% in 2009. With GSP Rules of Origin Thailand would not gain much benefit as they do not have a tuna fleet, but Indonesia and the Philippines have large fleets, and at 18.5% their product may undercut Pacific ACP product in the EU market (Camping 2006).

In light of the threats to Solomon Islands' trade preferences in the EU market, it is imperative for Solomon Islands tuna processing to reduce costs, and/or to find niche markets where Solomon Islands product can fetch a premium price over cheap Southeast Asian product for ethical and quality factors. Another solution may be to use resource sovereignty, as PNG has, to tie fishing access to onshore production. Solomon Islands could take this principle further and tie access not only to processing but to investment in Solomon Islands-based companies doing the more lucrative trading and marketing business further up the value chain.

9.8.3 EU food safety standards

Over the years the safeguards in place to ensure that food is safe to consume have been increasing in the most lucrative markets of the EU, Japan and the USA. The retailers in these countries, however, have shifted responsibility for ensuring food safety down the supply chain, often to producers in developing countries. Many of those same retailers have at the same time refused to pay more for the end product, so developing countries have ended up shouldering the costs of as well as the responsibility for food safety measures to protect the health of consumers in wealthy countries (Campling et al. 2007).

The EU has a bureaucratic government-based system for ensuring the safety of food imported to its markets, by which the exporter government is required to have an agency certified by the EU as a Competent Authority for monitoring the safety of food products. If the exporter government is unable to do this then all food from that country is banned for importation to the EU.[26]

Solomon Islands has been on the EU's List II as an exporting country. List I countries can freely export to any country in the EU, List II countries have only been able to export bilaterally to countries with which they had importing agreements. The EU has been funding technical assistance and training to help Solomon Islands attain List I status over the last few years. According to Ministry of Health and Medical Services Environmental Health Department, who make up the Competent Authority, they met many of the criteria for List I status during the last inspection by EU officials in 2007. But at that stage an AusAID-funded upgrade

[26] The International Trade Centre (UNCTAD/WTO) has published a short guide for exporting seafood to EU markets, including information about health certificates, the Food and Veterinary Office, official controls and guarantees and labelling (campling 2008a, see www.intracen.org/eqm)

to the Government laboratory for testing was not complete, so Solomon Islands remained in List II. List II is due to be phased out so Solomon Islands must become List I to continue to be able to export processed tuna to the EU. The standards necessary for attaining and maintaining List I status are demanding for a government like Solomon Islands with limited revenue, and which finds it difficult to maintain basic health services for its own population. Ongoing donor support may be necessary in the medium term. Creative ways to improve capacity would also be useful, for example, there could be staff exchanges between the Competent Authorities of Pacific Islands countries to share skills and systems. Soltai has addressed the criteria necessary for processing companies to be registered as safe for export to the EU through cannery upgrades, but if Government is unable to have its Competent Authority certified then it will be unable to export to the EU. If Soltai cannot export to the EU it is unlikely to be able to survive, as its exports to Japan and the US have no preferential trade access.

There are also retailer-driven food safety and quality initiatives, and the FAO, WTO and WHO also have food safety standards. It will be important for Government to keep track of these as they can constitute a non–transparent trade barrier but currently none of these are adversely affecting Soltai's operations.

9.8.4 Fisheries subsidies

Recent EU guidelines on fisheries subsidies allow member governments to give support to the EU distant water fleet for tax relief and labour costs for compensation for natural disasters and bad weather. In response to protests about fuel prices in 2008 France, Italy and possibly Spain have requested an increase in subsidies EU members can give to their fishing industries (Campling 2008f). Earlier this year New Zealand announced injection of NZD700M (USD471M) over the next decade into the seafood sector. It is difficult for countries like Solomon Islands to develop domestic fisheries industries in competition with wealthy countries whose governments can provide this scale of assistance to their fisheries industries.

In 2008 the WTO was negotiating a 'fisheries subsidies text' that is likely to serve as the basis for future negotiations (Campling 2008f). Various WTO members have different positions regarding each element of the text. PIC group is allied to two groups in this meeting, the Small and Vulnerable Economies (SVE) group and the ACP group. These have been focussing on three main sets of issues (Campling 2008b):

1. The need for flexibility in Special and Differential Treatment so that PICs can implement the kinds of subsidies that are realistic for the development of their fisheries;
2. The need for proposed conditionalities on 'sustainability criteria' to be based on realistic capacities for fisheries management in PICs;
3. The need for mandatory technical assistance to developing countries to help implement any fisheries subsidies disciplines required of them.

The ability of the SVEs and ACP states to continue to receive access fees from overseas fishing fleets could also be included as one of the issues for this group of countries in the negotiations.

Since the PICs have minimal bargaining power in the WTO they rely on moral arguments to do with the importance of fisheries to their export potential and food security. They also argue that PICs contribute little to the problems of overcapacity and overfishing, but fisheries are vital to their economic wellbeing (Campling 2008c).

9.8.5 WTO non-agricultural market access negotiations

Fish and fisheries products are classified in the WTO as non-agricultural products, under Non-Agricultural Market Access (NAMA) negotiations. If the NAMA negotiations had concluded according to previous suggestions this may have meant significant erosion of Solomon Islands' preferential trade access to the EU, because the EU would have been required to wind back its 24% tariff on processed tuna to between 6.1 and 6.6%. This would probably have rendered Soltai unviable. Some special treatment was proposed for countries that would be severely impacted by the NAMA trade rules, but it was only to give a seven year period to phase in the tariff reductions (Campling 2008b).

Another aspect of the NAMA negotiations that could have major impacts on Solomon Islands' tuna processing sector is a proposed Fish and Fish Product Sectoral initiative. These kinds of sectoral initiatives are non-mandatory, but if it came into effect and Southeast Asian processed tuna producers were part of it, Solomon Islands' preferential access to the EU market would disappear, and along with it Solomon Islands' processed tuna's competitiveness (Campling 2008b).

At the time of writing NAMA modalities (negotiation modalities for tariff cuts) were still under negotiation (the latest draft text is contained in the WTO document TN/MA/W/103/Rev.3). In that draft, a solution is being proposed as part of the NAMA modalities to address the issue of preference erosion. Under that solution, preference-receiving countries such as Solomon Islands would receive a 10-year adjustment period.

9.9 COASTAL AND NEARSHORE FISHERIES AND AQUACULTURE

Solomon Islands' coastal and nearshore fisheries and aquaculture activities are vital to the economic wellbeing of rural villagers, most importantly as a food source, but also as one of the few livelihood options in rural areas. It is unlikely large-scale economic growth can be achieved from coastal marine resources because opportunities are rare and those that exist area also being tried by other small island tropical developing countries. There is no guarantee that Solomon Islands will be more competitive than other island countries or that prices for commodities, such as cultured pearls, will stay high enough to make them viable (Lindley 2007).

Many fisheries and aquaculture products are perishable, so it is difficult to get the products from rural areas to markets. The marine products that have been most commercially successful are non-perishable, such as pearl shell, turtle shell, sea cucumber, trochus and green snail, but all of these have been over-fished and require effective resource management. This section briefly outlines some of the issues facing coastal and nearshore fisheries and aquaculture, although for reasons of space the discussion is briefer than the previous section. Important discussions on aquaculture governance, pump boats and small-scale pole-and-line fisheries can be found in the original report drafted for this chapter (available from the Solomon Islands Department of External Trade).

9.9.1 Governance

Coastal communities have themselves managed their resources to a certain extent.

This has varied from village to village, being more effective in places where local chiefs have strong social authority and less effective in places where migration, social fragmentation or breakdown in traditional politics have eroded the authority of local chiefs. According to ethnobiologist Simon Foale, who has worked extensively with coastal communities in Solomon Islands, the *tambu* system of traditional resource management is in any case not conservationist enough to effectively deal with cash harvesting (personal communication [email] 1 August 2008). Another reason community based resource management alone is not enough to effectively protect coastal resources is that villages are not singular communities with a coherent set of shared interests, but are politically-driven (see Schoeffel 1997).[27]

There has been very little systematic data collection on reef ecologies in Solomon Islands, so there is little scientific evidence of overfishing of reef resources. It has obviously happened near large urban areas, and has happened with some commercial species such as sea cucumber, trochus and green snail. Shark populations are possibly experiencing overfishing for their fins and from the Global longliners. Some rural fishers says that larger fishes are gone from the reef areas, and that they have to go further for longer but catch less. On the other hand some other fishers say there is 'lots of fish' (Lindley 2007: 16). Solomon Islands' population density is low, so compared to other parts of the world it should be having much less impact on coastal ecosystems, but extensive logging causing soil run-off into lagoons and increased populations along the coast creating pollution as well as fishing pressure mean that damage is being done. Climate change affecting coral health is also another potentially major influence on coastal marine resources (Foale 2008a).

[27] For example, most coastal villages in Solomon Islands are made up of the original inhabitants who are usually the customary owners of coastal resources, plus migrants from inland who moved to the coast when pacification under colonial rule and missionary settlements made the coasts attractive places to live. The migrants do not have customary rights over resources and thus have a clearly different set of interests to the original inhabitants.

The current Fisheries Management Bill appears to provide the legislative framework for coastal fisheries management, and it also establishes a Fisheries Management and Development Fund from fishing licenses that could potentially be used to fund the increase to Government services the above management regime would imply. These services could be provided directly by the MFMR, or Provincial fisheries officers could be contracted by the MFMR to provide them. In either case the capacity does not currently exist to do such work, so human resources development would be required.

9.9.2 Rural commercial fishing supplying urban areas

Despite the logistical difficulties and high fuel costs involved in getting fresh fish to market, Solomon Islands' rural fishers supply more than SBD5.5M worth of fish to the central market in Honiara a year (Lindley 2007). Provincial towns are also supplied with fresh fish from rural fishers. Solomon Islands is the only place in the Pacific where capital towns source fish from a such wide range of rural locations on a regular basis, and this generates significant cash income for rural families (Lindley 2007). Honiara central market is supplied by fishers from the Florida Islands and Marau using their own boats. Honiara-based fishers also do day trips to the western end of Guadalcanal to catch skipjack around FADs or by trolling through schools found by searching for flocks of birds fishing on bait being chased from below by schools of tuna. Fishers working around Lambi in west Guadalcanal send their catch to Honiara by road. Fishers from Malaita, Marovo and Isabel send fish to Honiara by commercial shipping and ferries. Gizo supplies ice to fishers in the area who bring fish to sell in Gizo. Auki does the same for fisheries around north Malaita (Lindley 2007).

Shipping is a major problem for rural fisheries, and services were particularly bad in the period 2003–2004. Since then services have improved somewhat (Lindley 2007: 34). Collection vessels to pick up fish from rural areas and bring it to market are often touted as a good service, but experiments with these have shown it is too expensive to cover all of the vast areas that would like such services them to visit. Five fisheries collection vessels have been provided by donors (OFCF, JICA, NZAID, UK bilateral assistance) over the decades but none were successful. Experiences in PNG and Vanuatu have been similar. It is better to rely on commercially available shipping and tailor activities to suit (Lindley 2007: 8).

9.9.3 Sea cucumber/*bêche-de-mer*

Sea cucumber is one of the private sector success stories in Solomon Islands' fisheries. The fishery targets the high value sandfish species, which are easy to catch and are then dried and thus can be stored without refrigeration. In 2001 sea cucumber exports were SBD4.79M, in 2002 SBD2.02M and in 2003 SBD2.26M (Lindley 2007, 16). This fishery has been an important livelihood for some of the most isolated island communities in Solomon Islands.

However, due to the lack of effective management the resources have been depleted. In 2005–2006 years the fishery was closed with an export ban, which allowed stock to recover. During the economic hardship in the Western Province following the 2007 tsunami the export ban was lifted, and stocks soon became overfished again. In April 2008 the export ban was reintroduced (CBSI 2007, 18–19). Greater Government involvement in managing this fishery could result in major improvements in making it sustainable in the long term, making it a more reliable rural livelihood activity.

It would be possible to use aquaculture methods in the sea cucumber fishery, whereby hatchery produced juveniles would be released into a natural habitat and allowed to grow out before being harvested. Worldfish Centre staff say this plan is possible but the difficulty is that sea cucumbers are very vulnerable when they are small, so the dispersal of juveniles into a natural environment would have to be very carefully planned, and even then the operation might result in nothing more than expensive food for local fish.

9.9.4 Aquarium trade: wild-caught and cultured

According to Ben Ponia of SPC, 800 families across 11 of the 22 SPC member countries gain livelihoods from the aquarium trade. As of 2003 Solomon Islands reportedly accounted for 4% of the international live coral trade and 12% of the international ornamental fish market (Kinch 2004a). It is possible, however, that the Solomon Islands' proportion of world trade is inflated by under reporting in other aquarium exporting countries. In 2006 the aquarium trade made up 20% of non-tuna marine export value (Lindley 2007: 22). In 2008 there were two Solomon Islands companies involved in buying, packing and exporting corals, other invertebrates (such as starfish) and fish for the aquarium trade; Solomon Islands Marine Export (SIME) and Aquarium Arts Solomon Islands (AASI). SIME was started first in 1995, by expatriate consultant and investor David Palmer and Solomon Islander Paul Saelea. David Palmer later left SIME to form AASI in 1998 with Solomon Islander Simon Gower. David Palmer lives in the USA and his business Aquarium Arts USA (AAUS), a wholesaler, is the main buyer of Solomon Islands aquarium exports (Kinch 2004a).

According to Lal and Kinch (2005) the annual turnover of the aquarium trade in 2005 was SBD5M, with profit for AASI and SIME estimated to be SBD1.8M

(32% of the FOB value). Villagers providing the animals were paid SBD639,000 of this. Operating costs in 2005 for the two companies together, including wages, power, water, telecommunications and rent, were around SBD1M. On average AASI sold animals for 6.6 times the price for which they buy them (Kinch 2004a). As well as profit this price difference must cover the considerable costs involved in their operation, such as equipment, power bills, staff wages, packaging and freight costs. AASI charged SIME 25% of the FOB value for packing, airport transfers and customs administration. By mid-2008, however, the profitability had reduced to the point AASI's owners were considering closing down.

From Western Province producers send animals to Honiara through Nusa Tupe via airfreight. Aquaculture for the aquarium trade in the West included six farmers doing shrimps and fish (post-larval capture and culture), eight growing corals on cement disks and 12 growing clams, with technical assistance and a transport service from the Worldfish Centre at Gizo (Lindley 2007: 15). WWF has also assisted with the aquarium trade in the Western Province as a Rural Livelihood Aquaculture project

9.9.5 Seaweed aquaculture

The Commercialization of Seaweed Production in Solomon Islands (CoSPSI) project is supported by the EU via the STABEX scheme, to diversify rural fisheries production for isolated communities, and to bring women into marine production projects (Lindley 2007: 10).[28] The project involves the *cottonii* variety (warm water red seaweed, *kappaphycus alvarezii)*, which is used in cosmetics. The prices for seaweed have been low relative to the amount of work to produce the seaweed and the cost of inputs, compared to wild catch fisheries, so unless prices improve dramatically seaweed farming is unlikely to be engaged in except by communities who lack other livelihood opportunities, such as those who lack reef or land rights (Lindsay 2007). Communities that have been involved including Wagina, North Malaita, Ontong Java, Reef Islands, Morovo and Marau.

[28] bluesquid.net/CoSPSI.html

Seaweed farming is not suitable in all areas. Rarumana in the Vona Vona Lagoon, had problems with sea animals eating the seaweed. Also, Rarumana's reefs were left raised high after the 2007 earthquakes, so the currents and water depths there are no longer suitable for seaweed aquaculture. Apparently disease has affected other areas (CBSI 2006: 17). Ongoing input costs for seaweed farming are also difficult for village producers to manage.

The EU project assists farmers with production and drying of seaweed, but the sale and export of the product is handled by the private sector; a Honiara-based businessman Antonio Lee. Agents in seaweed producing villages buy for Mr Lee and ship the seaweed to Honiara. In Honiara Mr Lee's business packs it and exports it to France. The first exports were in 2003, with 40t, climbing to over 200t in 2004 and over 300t in 2005 (CBSI 2004: 20; CBSI 2005, 16).

According to Mr Lee, the original price he paid farmers was SBD2 per kilogram of seaweed, which was quite low for producers. In 2005–2006 due to global oversupply Mr Lee dropped the price further to SBD1.50 and most of the villages stopped producing seaweed at this price. The seaweed price drop coincided with a reopening of the sea cucumber export market, so seaweed farmers preferred to spend their time fishing for the much more valuable sea cucumber. Only Wagina, whose inhabitants are migrants from Kiribati and thus have no customary land rights and therefore are economically disadvantaged compared to other villagers, kept going with seaweed. By 2005 nearly 90% of Solomon Islands production was coming from Wagina (CBSI 2005: 16). In 2008, in line with other global commodity prices, seaweed prices improved so that Mr Lee could offer SBD3 a kilo, and the sea cucumber export ban was resumed, revitalising production. They needed to restock with seedlings from Wagina because they did not maintain seedlings during the period they were not farming. According to Mr Lee, the seaweed export business has not been profitable yet because the scale has been too small. He does not anticipate making a profit until production exceeds 1,000t a year. The major producers are Indonesia (100,000t a year) and the Philippines (90,000t a year). Kiribati, one of the other producers in the Pacific, produces 2,000t a year. Thus far Solomon Islands production has not exceeded 500t a year and has fallen the last couple of years. As of July only 40t had been exported in 2008.

As prices have been low, and because there is only one buyer, there have been widespread suspicions that the buyer was in some way cheating farmers. This kind of attitude is common in business situations in Solomon Islands and may be based in negative stereotypes about 'foreigners' (Mr Lee is third generation Solomon Islander), rather than evidence of wrongdoing (see Barclay 2007). Two solutions are often proposed to combat the power of buyers over producers in Solomon Islands' rural production. One is for villagers to have access to information about end-user markets, so they know the end-user prices when negotiating with buyers. To some extent SPC has attempted to make information about the global markets for coastal fisheries and aquaculture products available,[29] but villagers in Solomon Islands rarely access this information. Most of it is web-based so requires an internet connection. Some villages (such as Rarumana) have a UNDP-funded PFNet (People First Network) internet connection. But to use this for information relevant to seaweed production would require someone with English (or French) language-literacy, as well as computer– and internet-literacy, to find this information and to disseminate it to interested producers.

[29] www.spc.int/coastfish/

A second solution often proposed is for the Government to intervene. For example, a draft Aquaculture Development Plan in 2007 called for the Government to negotiate better prices for shipping and to stimulate competition among exporters (Lindsay 2007: 26). As Lindsay points out, since seaweed production is undertaken by poorer people within Solomon Islands society, there is a role for Government support in this industry, but the MFMR does not have the expertise or resources to improve prices for seaweed. MFMR could play a role in facilitating communication between producers and buyers, and assist producers become more informed about the global supply chain for seaweed, perhaps encouraging farmers to attain and maintain rates of production that would make the industry more viable. As current rates of production are apparently not profitable for one exporter, it is hard to imagine how competition among buyers might be stimulated.

9.9.6 Trochus, Green snail

Along with other non-perishable marine goods like sea cucumber and turtle shell, trochus, green snail and pearl oysters have been fully private sector-driven relatively successful fisheries for many decades in Solomon Islands. Shells, particularly trochus, have often been the biggest fisheries export earner after tuna. However, all three have been over-fished, demonstrating the urgency of resource management to make them sustainable livelihood opportunities for rural coastal villages. Export bans and size limits for exports have been used, but a more comprehensive spread of consultatively established measures need to be put in place to enable sustainable development of these fisheries.

Trochus is sold whole as an ornamental shell or made into shell buttons. According to staff at the WorldFish Centre at Nusa Tupe, trochus is a resilient species that comes back quickly after fishing activity drops (see also Foale 2008a; 2008b). Green snail has a longer reproductive cycle, so it takes longer to recover from overfishing. Both species could be cultured to enhance the natural stock but for stock enhancement to be cost effective a workable resource management system would also need to be in place.

9.9.7 Crayfish

Numerous foreign investors have come to Solomon Islands to harvest lobsters or crayfish, but few have lasted long. According to rural fisheries expert Robert Lindley (2007: 31), this could be because the maximum sustainable yield for lobsters on tropical reefs is very low, so stocks are soon depleted. The ongoing crayfish producers have other businesses and catch crayfish when they are available but do not rely on crayfish as an ongoing commercial activity.

9.9.8 Shark

As mentioned in the section on Offshore Tuna Fisheries, Noro-based company Global apparently has longline vessels targeting shark but MFMR was unable to provide any information about Global's activities. Other shark longline businesses in the region, such as Neptune in PNG, sell shark meat to Taiwan (see Barclay and Cartwright 2007). Such companies do not specialize in shark fin per se, although presumably they sell the high value fins as well as the meat.

There is, however, also an export industry in shark fins from Solomon Islands. Many villages have agents who buy dried shark fins and sell them on to exporters. Small scale rural coastal fishers thus often kill sharks even if they do not intend to eat them, for their fins. In 2006 shark fin exports were worth SBD261,493 (Lindley 2007, 27). It is possible shark populations are suffering unsustainable levels of harvesting, but there is no stock assessment occurring and Solomon Islanders do not perceive sharks to be endangered, so no measures such as export bans have been used to curb shark fisheries.

9.9.9 Food aquaculture

Penaeid Shrimp

In the 1990s there was a fully private sector prawn farm outside Honiara, along coastal road towards Aruligo. It produced for export (food) markets in Asia. The farm was trashed during the Tensions and remains abandoned.

Tilapia, Milkfish and Rabbitfish

There is no significant ongoing aquaculture for food fish in Solomon Islands, although MFMR and Worldfish Centre often talk about the potential for farming food fish for the purposes of village food security and/or for sale, and for taking pressure off reef fisheries. Tilapia is a commonly farmed fish. Several species of tilapia have been introduced around the Pacific over the years. These have all escaped and established wild stocks, sometimes with great damage to ecosystems. Introduction of invasive non-native species needs to be very carefully considered. The GIFT tilapia species is apparently better than other species in terms of invasiveness, but still it is of questionable benefit to introduce a new species when some existing native species could be farmed for food and sale (Lindsay 2007).

Worldfish Centre staff are interested in the aquaculture of both milkfish and rabbitfish. Milkfish already exist in Solomon Islands, which means it would not have the associated problems that come with introducing new species (Lindsay 2007). Lindley (2007: 30), however, suggests that milkfish farming takes up large amounts of flat land, which is not available in many rural areas, so might only be possible on Guadalcanal. If one or more gourmet fish processing factories were to be opened in Noro to service artisanal tuna fishing fleets this could also be a value-added opportunity for aquaculturists if they were within a viable distance of Noro. Such a factory might also be possible near Honiara on Guadalcanal.

9.10 SPORT AND RECREATIONAL FISHING

Recreational and sports fishing is one of the biggest potential attractions for the tourism industry. Considering the amount of money tourists spend in country per number of fish caught, recreational fishing has perhaps the highest economic value of any fishery. A 2004 study of recreational fishing opportunities in Solomon Islands found it was limited by the factors inhibiting tourism in general; perceived health risks, expensive air travel and air connections not facilitating direct travel to areas of tourist interest, and bad publicity surrounding the Tensions (Chapman 2004) The factors that could increase the amount of recreational fishing undertaken by international tourists in Solomon Islands are therefore those needed for improving opportunities in the tourism industry.

9.11 CONCLUSIONS

In 1999 Solomon Islands had the most vibrant domestic tuna fishing sector of any Pacific island country. For a range of reasons including external factors as well as governance problems, however, parts of the sector have shrunk since 2000. In 2008 the pole-and-line fleet had three operable vessels, of which only one was fishing, and there was no domestically based longline industry targeting tuna. Solomon Islands' domestic purse seine fishery, on the other hand, is relatively prosperous. Domestic company NFD is profitable and has sustained production, and is employing increasing numbers of Solomon Islanders, including some who have been trained by the company to executive crew level.

The international fleet of vessels fishing in Solomon Islands' EEZ has grown in recent years, and under improvements in MFMR administration of fees from these vessels the amount of revenue generated by the international fleet has grown to more than SBD55M annually.

Solomon Islands' tuna fisheries have been failing to meet national and international data collection obligations. With help from the SPC and under the SIMROS capacity building project MFMR is improving in these areas, although more needs to be done.

Onshore processing of tuna into cans and loins for export to regional and EU markets, and domestic sale, has been suffering since the Japanese partner pulled out of Solomon Taiyo in 2000. Solomon Islands processed tuna has preferential trade access to the EU market, and Noro has the necessary facilities and a skilled workforce, so tuna loining and canning could be profitable. However the processing side of Soltai's operations have been dragged down by the losses by Soltai's pole-and-line fleet. The Government has insufficient funds to renovate the shore base and the Board of Directors does not have sufficient commercial expertise. Can and loin production for the EU market also depends on the Government's ability to attain and sustain a Competent Authority that will enable List 1 status for food safety.

Even if the Government does all it can to improve the situation of Soltai, however, canning and loining production is only competitive in normal canned tuna markets with EU trade preferences, which are being eroded and within a decade or so are likely to reach levels at which Soltai processed tuna can longer compete. Limited economies of scale mean that production costs can only fall a certain amount. Thus, efforts must be made to target premium markets that pay more than for normal cheap purse seine product. This can be done by marketing Solomon Islands tuna as higher quality, as well as socially and ecologically sustainable. For similar reasons, other tuna processing activities, such as smoke-dried *arabushi* loins for the Japanese *katsuobushi* market and fishmeal made from tuna wastes from the other processing industries, are both profitable and easy to sustain in current economic conditions.

Coastal and nearshore fisheries and aquaculture are unlikely to contribute as much to the cash economy as the tuna industry, but these activities are vital for economic wellbeing in terms of food stocks and cash earning opportunities for coastal villages, and for supplying urban food markets. Rural fisheries centres should continue to provide ice as a Government/donor service because they are one of the few Government services in rural areas that has continued over the last three decades and because they underpin the supply of fish from rural to urban areas. It seems unlikely that the rural fisheries centres can be made commercially self-sustaining, but as ice providers they cost the Government little compared to the economic benefits they generate.

Export commodities such as sea cucumber, trochus, green snail, pearl oysters and turtle shell have provided much-needed cash earning opportunities for villagers. These successes, however, have resulted in stock depletion. Communities, some with assistance from environmental NGOs, have attempted to manage their own coastal areas, but management could be greatly improved with Government input.

Cross-sectoral management of issues affecting fisheries and aquaculture businesses could also be improved, with the aquarium trade currently threatened by lack of airfreight capacity, high power costs, and the failure of Government to join an international regulatory body needed for exports to the EU.

All aspects of fisheries and aquaculture management and development in Solomon Islands could benefit from better management of information and improved information services. The MFMR would benefit from having a repository of technical assistance reports. Rural fisheries and aquaculture producers would benefit from being able to access relevant reports, check on international price structures for their commodities, and establish direct contact with potential buyers overseas.

CHAPTER TEN

Tourism

10.1 INTRODUCTION

This chapter begins with an overview of the tourism sector's development then makes an assessment of the current size and characteristics of the sector and its clients. A comparative assessment of the Solomon Islands tourism product is then presented—focusing on strengths, weaknesses, opportunities and threats. The discussion subsequently focuses on ways in which visitor yield can be enhanced—with a particular emphasis on poverty alleviation.

Yield-driven tourism strategies are now the norm in small island developing states (SIDS) around the world and Solomon Islands has an opportunity to focus future development in this area. Sustainable tourism policies have been espoused in recent regional, national and provincial strategies (SPTO 2003a; SIMCT 2006; SIMCT 2007a,b,c, 2008). The focus of Solomon Islands national and provincial strategies can be summarized as follows:

a To develop tourism in a way that promotes sustainable economic growth and social development, and to spread benefits spatially;
b To plan and manage tourism growth in a way that is environmentally, culturally and socially sustainable;
c To increase visitor numbers;
d To increase visitor spend.

The chapter argues that a 'mixed' and somewhat confused, focus on *both* rapid visitor growth and increased visitor spend (yield) has the potential to detract from the ability to achieve sustainable economic development for Solomon Islanders.

10.2 TOURISM PERFORMANCE AND POSITIONING

Solomon Islands has comparative advantages in international tourism, having pristine tropical ecosystems, beautiful scenery and diverse cultures. The industry is sold internationally based on these images. Most of the experiences marketed are found beyond Honiara. The Solomon Islands Government (SIG) has identified tourism as a key sector for generating economic growth and prosperity, especially in rural and outlying areas (SIMCT 2006). The sector is seen to provide great opportunities for sustainable local development. Unfortunately the industry's past performance has not been one of sustained growth and development. This has placed it at a competitive disadvantage within the region and particularly *vis-à-vis* its closest neighbour, and major competitor, Vanuatu (see Gay 2008).

The tourism industry is very much based in Honiara and the Western Province. The 2006 National Tourism Sector Strategic Plan highlights the ongoing importance of these two areas but also specifically mentions potential in Malaita, Makira, Temotu and Central Provinces. It is clear that the mix and diversity of cultures and experiences available to visitors is considerable—the challenge is really one of building the sector in these areas to an extent that it can support a sufficient critical mass of visitors to make operations sustainable.

10.2.1 Industry performance

Visitor arrival statistics provide the only reliable figures that can be used over an extended period in Solomon Islands. The tourism industry is very much in recovery mode following the recent crisis years. Visitor numbers in 2007 were 13,748, representing considerable growth from 2002 (4,000), but still below the peak of 18,000 in 1998 (see Table 10.1).

TABLE 10.1 **Solomon Islands arrival statistics and projections, 1997–2010**

Year	Total Arrivals	Visitor Spend ($m)	Defining Events
1997	15,390	–	
1998	17,586	–	
1999	9,208	–	Ethnic Tensions
2000	6,100	–	
2001	5,760	–	
2002	4,445	41.1	
2003	6,565	–	RAMSI (June)
2004	11,116	–	
2005	12,533	–	
2006	11,482	126.9	Riots (April)
2007	13,748	152.0	Tsunami (April)
2008	16,000	176.8	
2009	18,000	199.0	
2010	20,000–30,000	221.0	

Source: SIVB 2007a, Solomon Islands Statistics Office various.

The industry has also been hit by more recent political unrest (2006) with riots in Honiara. In April 2007, a series of earthquakes triggered a tsunami, swamping coastlines of the Western Province of Solomon Islands. Many tourism activities are located in the area and the event was a major setback. However, the hotels and tourism activities in the capital Honiara and other parts of the country were unaffected and the improving trend in visitors and tourists arrivals is expected to continue over the next three years (SIVB 2007a; SIG 2008a).

It is important to note here that the 2010 projection of 20,000 visitors by the SIVB (SIVB 2007) seems to be at odds with the projections provided in the SIG Medium-Term Fiscal Strategy 2008–13 and the 2008–10 Medium-Term Development Strategy which present a figure of 30,000 (SIG 2008a,b).

It is estimated that Solomon Islands received SBD152M from visitor spending in 2007. Using the same information source, it is estimated that Solomon Islands will generate SBD177 in 2008 and between 200 and 220M by 2010 (SIG 2008, SIVB 2008).

International visitation is dominated by Australians (Table 10.2). For the past five years Australia has accounted for approximately 45% of total visitor arrivals. This dominance is also clear in the leisure tourism market. Of the total of just over 4,200 leisure arrivals in 2007, 1,650 were Australian. The SIMCT/SIVB jointly produced International Visitor Survey (IVS) shows that around 20% of travellers were coming for recreational/leisure purposes, 9% visits to friends and relatives and 65% for business (SIMCT & SIVB 2008). The Australian leisure market is expected to grow considerably by 2010 with the SIVB estimating over 6,000 visitors (more than a twofold increase) as part of a broader expansion and growth of leisure travel (with total recreational visitor numbers estimated at up to 8,000 by 2010).

This optimistic forecast is predicated upon the strength of the Australian dollar and a predicted continued improvement of air services. There is also a feeling that growth from Pacific Island Countries, SE Asia, and the UK & Europe regions will occur during the period (SIVB 2007a; SIG 2008a).

TABLE 10.2 **Solomon Islands visitor arrivals by country of residence (% of total arrivals)**

Year	Australia	NZ	PNG	USA	Japan	UK
2003	42	7	9	8	4	3
2004	52	8	8	5	3	3
2005	47	7	9	6	4	3
2006	46	7	8	7	3	3
2007	43	8	7	7	4	2

Source: SIVB 2007a, SISO various

Seasonality remains relatively limited in contrast to many destinations in the region. There appears to be some slackening of arrivals in the December period and again around June, but flows generally remain quite steady through out the year—a reflection of the long-term/business nature of much of the travel involved and the fact that the limited holiday market reduces the impact of school holidays in Australia and New Zealand. The average length of stay is between one and two weeks—with approximately 10 days the figure most commonly used (SIMCT 2006; SIVB 2007a; SIMCT & SIVB 2008).

In 2006–7 a comprehensive visitor survey was undertaken (SIMCT & SIVB 2008). Key findings to emerge from the visitor survey include:

- Many tourists do not travel beyond Honiara and the island of Guadalcanal. It is estimated that about 68% of visitor nights are spent in Honiara—falling to 47% for recreational travellers;
- Most visitors are of working age with(62%) aged between 30 and 54;
- Business travellers tend to travel alone (57%) with recreation visitors more likely to be with others (60%);
- Diving is a key component of the market—26% of all visitors dive at some point during their trip with 6% identifying themselves as coming primarily for diving;
- While over half (53%) of total visitors have visited Solomon Islands at least once before, this falls to 35% for leisure travellers;
- The internet is of growing importance with one-third of visitors (33%) saying it was the main source of information they used in planning their travel;
- 37% of first time visitors felt they did not have enough information available to them prior to their trip;
- Business travellers are the least satisfied with value for money aspects of the destination (11% extremely good, 29% very good), recreational travellers are

more satisfied in this respect (15% extremely good, 37% very good). Divers rated the destination most highly in this respect (19% extremely good, 31% very good);

- Fewer than half (42%) of those surveyed are likely to be 'promoters' of Solomon Islands travel experience when they return home from their holidays;
- Average visitor expenditure per visit is $11,055 ($870.60 per day), with business visitors spending considerably more than those coming purely for a holiday ($802 per day);
- For travellers on a holiday, over 90% ($740) of their daily spend of $802 spend is allocated to accommodation and food and drinks.

Another important market is expatriate workers based in Honiara. An expatriate survey conducted in 2006 (TRIP 2006) focuses on those people that are non-residents but are based in the country for greater than one month and less than Three years—estimated to be a market of at least 600 people. This market has a high level of disposable income, they take short 'domestic' recreational trips while in Solomon Islands, and diving is an important activity for many of them. For some tourism businesses this market is, or has the potential to be, a supplement to more mainstream tourism revenue.

Data on the economic value of cruise ships to the Solomon Islands economy is very limited (SIMCT 2006). There is no doubt, however, that the increasing number of cruise-ships visiting remote locations injects relatively large amounts of cash into provincial economies (SPTO 2003b; see Gay 2008). The interviews highlighted that cruise visits have increased in 2007–8 but that this is a market that is still poorly linked to and understood.

The relative economic significance of the tourism sector to the Solomon Islands economy can also be viewed from a regional perspective. Although data sets are somewhat unreliable (SPTO 2005a) it is clear that Solomon Islands remains one of the smaller tourism industries in the South Pacific region (Table 10.3).

TABLE 10.3 **Tourism growth in the South Pacific, 2006–07**

Source: SIVB 2007a

Country	2006	2007	% Change
Cook Islands	92,082	97,019	5.4
Fiji	545,168	539,255	−1.1
French Polynesia	221,549	218,241	−1.5
Kiribati	4,406	4,709	6.9
New Caledonia	102,198	103,363	1.1
Niue	3,008	3,463	15.1
PNG	77,731	104,122	34
Samoa	115,882	122,250	5.5
Solomon Islands	**11,482**	**13,748**	**19.7**
Tonga	39,451	46,040	16.7
Tuvalu	1,131	1,130	−0.1
Vanuatu	68,179	81,345	19.3
TOTAL	**1,282,267**	**1,334,685**	**4.1**

The SPTO estimates that the role of tourism in the Solomon Islands economy is relatively limited in comparison to other nations in the region (SPTO 2005a). In 2003 tourism was estimated to account for less than 3% of GDP and less 2% of total employment (see Table 10.4).

TABLE 10.4 **Economic importance of tourism in Pacific island countries**

Source: SPTO 2005a

Country	Tourism as % of GDP	Tourism as % of employment
Cook Islands	47.0	–
Fiji	12.8	9.5
Kiribati	14.5	1.7
Niue	13.0	–
Palau	49.0	–
PNG	6.3	3.2
Samoa	9.5	10.0
Solomon Islands	**2.9**	**1.6**
Tonga	5.0	3.2
Tuvalu	3.0	–
Vanuatu	16.6	12.0

World Bank data show that as a proportion of exports of goods and services, tourism also ranks very low for Solomon Islands when compared to most other nations in the region (Table 10.5).

TABLE 10.5 **Tourism's contribution to exports**

Source: Pacific Islands Regional Economic Report, World Bank 2002: 10–11

Country	Tourism receipts as % of total exports
Cook Islands	–
Fiji	22.5
FSM	24.3
Kiribati	3.0
Samoa	50.2
Solomon Islands	**3.0**
Tonga	28.4
Vanuatu	33.1

The World Travel and Tourism Council argue that tourism will account for 4.9% of total exports of Solomon Islands, growing in nominal terms to 6.5% by 2015, while tourism employment is expected to provide 2.5% of total employment in 2005, growing to 2.9% by 2015 (sources: WTTC 2005, see also www.bjs.com.sb/climate.htm).

Estimates of the number of people employed in the Solomon Islands tourism industry vary widely. Figures range from 17,000 (WTTC 2005) to 3,000 (see SPTO 2005) to as low as 1,200 (SPC—resort sector only). The significance of tourism as an employer in Solomon Islands is again very limited when compared to other nations in the region.

TABLE 10.6 **2005 tourism employment estimates for Melanesian nations**

Source: WTTC 2005

Nation	Tourism industry jobs	Tourism industry jobs (% of total)	Indirect tourism-related jobs	Indirect tourism-related jobs (% of total)
Fiji	41,000	12	97,000	27.7
Solomon Islands	**5,000**	**3**	**17,000**	**8.0**
Vanuatu	9,000	16	22,000	38.3

TABLE 10.7 **Tourism employment in Solomon Islands tourism (accommodation)**

Source: www.spc.int/prism/country/sb/stats/Other%20Statistics/Industry.htm

	2003	2004	2005	2006
Male	527	534	561	597
Female	459	468	512	568
Total	**986**	**1,002**	**1,073**	**1,165**

When asked how the industry has evolved in the past two years a clear majority (over 80%) of those interviewed for this project felt that the industry was moving into a more positive phase. The general feeling was summed up by one quote from a hotel owner: "the industry is on an upswing."

This positive feeling is certainly mirrored by the Government's policy statements which set as a goal to increase tourist numbers to 30,000 by 2010 (SIG 2008a). SIG are committed to building a new international airport in the Western province, improving existing regional airports, building six new wharves for shipping, and build 100km of new roads and seal 100km for existing roads per annum. The Government will also actively market Solomon Islands in international markets and take steps to ensure that the aviation sector will be robust, reliable and cost-effective—with a focus on building competition The challenge will be to see how many of these projects can be completed in a very tight fiscal environment—it appears that plans for an international airport in the West tentative at this stage.

10.2.2 Competitive positioning

The key sustainable 'point of difference' of Solomon Island's tourism product is assessed by many to lie in the nation's island geography, pristine environment, traditional cultures, and connections with the diverse peoples that make up Solomon Islands. Much of the limited marketing material for the nation presents marketing images and messages around these themes.

There have been attempts to develop a range of tourism products, such as village life and culture, jungle treks, mountain climbs, alternative scuba-diving sites, surf tourism. However, the majority of these have not been supported by concurrent development of appropriate quality accommodation and other tourism services, or specific promotional campaigns (SIMCT 2006).

While there is no doubt that the experiences to be gained are unique and offer some forms of competitive advantage, the difficulties and costs involved in travelling to outer islands are significant relative to many competitors. The key strengths, weaknesses, opportunities and threats relative to competing destinations are outlined in the National Strategic Plan (SIMCT 2006) (see Table 8).

In a number of areas the industry is unable to meet its potential to generate livelihoods for local people. Some of these areas are touched on briefly here before being discussed further in later sections of the chapter.

TABLE 10.8 **SWOT analysis of the Solomon Islands tourism sector (abbreviated)**

Source: SIMCT 2006: 18

Strengths	Weaknesses
• World class diving & operators	• Ethnic and political tensions
• Unspoilt & unique environment	• Low return on investment, high risk
• Strong, diverse cultures	• Customary land tenure difficulties
• Tropical climate	• Low volume of tourists
• High quality beaches & lagoons	• Malaria risk
• World Heritage List—E. Rennell	• Low funding for SIVB, DoT
• WWII heritage & battle sites	• Environmental enforcement is limited
• Friendly people	• Cost & unreliability of air travel
• Growing overseas investment	• Infrastructure
• Good range of handicrafts	• Human resource skills
• Strong soft-adventure/eco markets	• High cost of goods/services
• Increasing indigenous entrepreneurs	• Limited industry coordination
• Govt. committed to tourism	• Limited accommodation base
• Donor support for tourism	• Low level of awareness of tourism

Opportunities	Threats
• Increase coordination of marketing • Co-ordinated development & distribution. Of provincial product • Improved effectiveness of tourism institutions • Improve industry training • Further develop dive product • Niche marketing & product development • Improved consistency application of investment incentives • Increased air access • Grow holiday component of business travel • Increase domestic tourism • Greater product packaging between hotels and airlines • Internet marketing • Environmental protection • Increase tourism awareness	• Environmental degradation from logging, fishing, intensive Agriculture • Ethnic and political tension • Low industry standards • Rising crime rate • Unmanaged tourism growth can damage culture/environment • Travel advisories/media coverage • Political instability affects ability to promote and sustain change • Growing global competition

BOX 10.1 **Perceptions of domestic travel by overseas visitors**

"You shouldn't have too much trouble flying internally in August and September as they are not local holidays. However the domestic planes are small, and often overbooked. Also, depending on the condition of the smaller airfields, planes often get cancelled without warning. So make sure you have insurance which will pay if a scheduled service is cancelled. Also, allow at least a week after your last internal flight to anywhere far from Honiara before your international flight out—I have been delayed that long."

Source: www.lonelyplanet.com

Airline services

Adequate and reliable international and domestic flight connections with major tourism source markets are very important for tourism growth in Solomon Islands. The current frequency of international flights to Solomon Islands appears to be adequate, however, higher airfare and tariffs, and unreliable domestic airline services is making Solomon Islands quite an unattractive destination for holiday travellers.

Domestic air travel is of particular concern—with arrival/departure unreliability being a factor that worries many of those interviewed and something that causes visitors to be very cautious with their travel planning. As the following segment from Lonely Planet's Thorntree blog shows, visitors are certainly being advised by those with knowledge of the destination to think and plan carefully before travelling to provincial tourism experiences that lie off the beaten track. Relative to major competitors it is clear that the industry is at a competitive disadvantage in relation to the frequency, reliability and cost of international flights and by continued unreliability in the domestic services. While Vanuatu also suffers difficulties in internal air transport they pale in comparison with those facing Solomon Islands.

Accommodation

There has been a definite upswing in accommodation construction and refurbishment in recent years. Pacific Casino Hotel which was burned down during the April 2006 riot is expected to be fully operational again by mid 2008. Construction work for a new five star hotel, Heritage Park, at the site of the old Government House is progressing well and is expected to be completed open for business in late 2008 early 2009. Renovation work has been undertaken on Honiara Hotel and Quality Inn last year and the Mendana's new convention area and ocean front rooms have also been completed

In the provinces, a number of new eco-lodges and village stays were built in Western, Malaita, Central, Renbel, and Makira during the period 2006–7 (see Appendix D). Western Province has the highest number of accommodation establishments at 37 followed by Honiara 24, Renbel 10, and Central 10 in 2007. The increasing availability of accommodation establishments, rooms and beds is expected to continue over the next three years—following growth in the 2005–7 period (Table 10.9)

TABLE 10.9 **Solomon Islands accommodation—available beds**

Year	Beds	% increase
2004	1,734	–
2005	2,306	33%
2006	2,324	1%
2007	2,533	9%

Source: www.bjs.com.sb/climate & www.visitsolomons.com.sb/solomons/export/sites/SVB/CEOUpdate/

Occupancy rate statistics are not consistent enough to allow for any long-term time series analysis and are not currently collected.

The range and quality of accommodation provided is very limited compared to other destinations in the region—especially Vanuatu and Fiji—two key Melanesian competitors. This places the nation at a competitive disadvantage which is not possible to over come through discounted pricing. A key issue here is that very few accommodation operators are linked into all-inclusive package type arrangements that can reduce costs for the traveller.

Safety

The restoration of law and order through the efforts of RAMSI has helped tourism growth. Nevertheless the core issue of safety and how it influences decision making by potential leisure visitors is one that continues to need to be addressed. The following piece from Thorntree shows the kind of issues that emerge—with, in this case, the negativity of the petty theft involved being somewhat outweighed by the visitors perception of the public response to the event.

BOX 10.2 **Perceptions of Solomon Islands**

From Today's Solomon Star: I am posting this because I had a similar experience in 2004.

Stolen tourist's wallet recovered Thursday, 24 July 2008

A TASMANIAN magistrate on holiday here got a first hand experience of Solomon Islands style of law and justice. Tom Hill and his wife arrived in Honiara on Tuesday.

The couple went into Ausmart Supermarket to shop yesterday morning when a teenage boy lifted his wallet and took off.

An astonished Mr Hill said that he witnessed for himself the very helpful attitude of Solomon Islanders and said this is truly the happy isles of Solomon Islands.

"In Australia, he would have got away, no one would bother to interrupt. I was amazed at the number of local people who helped out, fantastic," Mr Hill said.

Source: www.lonelyplanet.com

BOX 10.3 **Australian Government suggests exercising caution**

This Advice was issued on Tuesday, 15] April 2008, 14:01:52, EST

"You should avoid protests and large gatherings as they may turn violent. In April 2006, political tensions led to riots in the city centre, eastern Honiara and Chinatown and significant destruction of property occurred. We advise you to exercise caution in the Solomon Islands because of the risk of criminal activity. Pay close attention to your personal security and monitor the media for information about possible new safety or security risks. Criminal activity is of particular concern in Honiara and has sometimes involved violence. House and vehicle break-ins occur, sometimes targeting expatriates. There have been some isolated incidents of stoning of vehicles and blocking of roads, particularly at night. Domestic flights schedules are generally unreliable and subject to disruption."

Source: www.smartraveller.gov.au/zw-cgi/view/Advice/solomon_islands

Personal observations of law and order relayed by visitors are reinforced by government travel advisories and continued media coverage that is not always positive about the safety situation in the country. While there has been a downgrading of travel advisories from the high levels that appeared during the crisis and its immediate aftermath the Australian advisories continue to paint a somewhat negative picture:

The broader tourism product

The industry lies a long way behind its obvious competitor and neighbour—Vanuatu—in the array and quality of tourism experiences and products on offer. This is evidenced most clearly by the fact that visitor spend is so low on products outside accommodation and food and beverage. According to the results of the International Visitors Survey conducted in 2006–7, there is un-met demand for a range of culture and nature-based activities (SIMCT and SIVB 2008).

At present, Solomon Islands appears to have adequate accommodation facilities to meet current tourist demand. However, the lack of activities such as village tours, bush walking, traditional fishing, bird watching, traditional dances and music, kayaking, and wind surfing for visitors is noticeable.

During the period 2006–7, funding assistance from Government through the Department of Tourism in MCT has concentrated on the development of more accommodation facilities but very little funding assistance was directed towards the development of tourism activities for visitors. Nonetheless, it is encouraging that the SIMCT has taken stock of the situation and is determined to improve the spread of Government funding across priority areas from 2008.

The lack of product and experience available to the visitor is a reflection of the relatively nascent state of the tourism industry (only a fraction of the size of the Vanuatu industry, for example) and the fact that most operators have been focused on survival—rather than looking at innovative product development and networking solutions to the industry's needs.

One interviewee emphasized what he called the '7 'As' that currently constrain the development of the Solomon islands tourism industry when compared to regional competitors:

- Access (e.g. flights);
- Accommodation (e.g. limited in range, quality);
- Amenities (e.g. access to toilets, cleanliness of environment);

- Attractions e.g. (the need to preserve and highlight attractions);
- Activities (e.g. building an array of things for visitors to do);
- Awareness (community and visitor) (e.g. spending opportunities, cultural norms);
- Alliances (e.g. lack of co-operation (both formal and informal) in the industry).

10.3 STRATEGY AND POLICY

A number of common themes are featured in a range of tourism strategy and discussion documents (SIMCT 2006; SIMCT 2007a,b,c, 2008):

- The industry is a means of conserving Solomon Islands' unique cultural attributes, and its natural environment, while also having the potential to create sustainable economic development;
- Tourists should be attracted who appreciate the culture and environment of the country, and are willing and able to move beyond Honiara;
- It is essential to ensure adequate resources for tourism planning, development and marketing;
- Support local small scale tourism development but allow flexibility for foreign investors where larger amounts of capital or specialized skills are necessary;
- Spread the benefits of tourism widely—beyond the current focal point of Honiara.

The current National Tourism Sector Strategic Plan reviews and updates previous tourism strategies and develops sector action plans and required stakeholder interventions. The core objectives of the strategy are to:

- Promote strong economic growth through sustainable tourism development;
- Generate substantial foreign exchange, local income and employment;
- Promote balanced regional tourism development;
- Promote greater participation/involvement of local people;
- Sustain local cultures/customary practices;
- Promote greater community awareness of tourism benefits.

At the same time, the strategy focuses on:

- Reducing imbalances in regional tourism development;
- Minimising negative economic impacts (leakages);
- Minimising sociocultural impacts;
- Minimising degradation of physical environment;
- Maximising the socioeconomic contribution of the industry.

To achieve this form of sustainable tourism the strategy highlights the fact that the industry requires:

- Reliable access;
- Appropriate product development;

- Effective marketing (with expectations matching with reality);
- Sustainable resource management.

The industry's ability to respond to market opportunities and the pressures of regional competition will, in large part, depend on capacity and awareness building that can create a:

- Skilled and adaptive workforce;
- Receptive population;
- Entrepreneurial capacity;
- Stronger set of governmental institutions.

Discussion also turns to the need to enhance communication between local land resource owners, communities, business and Government and the importance of partnership formation between these stakeholders.

In addition to the national plan, there are Provincial tourism strategies and plans in place. The strategic objectives of the Provincial Strategies are closely linked to those at the national scale and a review of these documents (SIMCT 2007a,b,c, 2008) reveals the following common features:

- Encourage, assist and support the development of economically, environmentally and socioculturally sustainable tourism;
- Increase appropriate, culturally focused tourism;
- Create livelihood opportunities and develop skills;
- Enhance public awareness of tourism;
- Build a co-operative tourism sector;
- Developing product and human resources;
- Improve infrastructure and access;
- Market the destination effectively;
- Create an enabling institutional framework.

Some of the national strategy has been translated into Government plans and is featured in the Medium-Term Development Strategy 2008–10 (Table 10.11). While growth in visitor numbers and yield are both important, and need not be mutually exclusive, the figures and focus presented in the MTDS must be questioned. The strategy is focused on building numbers rapidly rather than focusing on growth in yield. Given the critical infrastructural constraints that face the industry this appears to be an unrealistic strategy to take to strengthening this important industry in the medium-term.

TABLE 10.10 **Government expenditure on tourism development 2008–2012 (in SBDm)**

Use of Funds	2008	2009	2010	2011	2012
Tourism product services development	6.0	15.0	20.0	20.0	20.0
Solomon Islands tourism law	0.1	2.0	0.5		
Anuha Island tourism redevelopment	1.0	3.0	0.5		
Tourism awareness	2.0	5.0	5.0	5.0	5.0
Industry training outreach	1.0	1.0	1.0	1.0	1.0
Hospitality school	2.2	13.0	5.0		
Program Total	**12.3**	**34.0**	**32.0**	**31.0**	**26.0**

Source: Solomon Islands Government MTDS 2008–10

TABLE 10.11 **Medium-Term Development Strategy (MTDS) 2008-10: tourism**

Design Summary	Performance Indicators & Targets	Monitoring Mechanisms	Assumptions & Risks
National Objective			
Shift emphasis to tourism, fisheries and marine resources	• Visitor spend increased from SBD135M in 2007 to not less than 200M by 2010	• International Visitor Survey	• Government commitment
Sectoral Objectives			
Improve tourism contribution to the national economy and rural development through private sector-driven growth in partnership with resource owners and Government	• Visitor arrival increase 13,232 in 2007 to 30,000 in 2010 • Tourist/recreational arrivals increase from 4,274 in 2007 to 12,000 by 2010 • Average length of stay for recreational visitors increases from 17 nights in 2007 to 20 nights by 2010 • Recreational visitor nights outside Honiara increase from 53% of total visitor nights to 60% by 2010 • Recreational visitor nights outside Honiara, Central and Western increase from 10% to 12% of total visitor nights by 2010	• International Visitor Survey • Quarterly and annual reports from SIMCT • SPTO annual report	• Political stability • Environmental quality sustained • Private sector-driven • Timely development of infrastructure including telecommunications
Outputs			
1. Increase range & standards of products and services	• Implement accommodation standards by 2010 • By 2010, five ecotourism sites implemented in each province	• International Visitor Survey • MCT quarterly report and workplan review	• Resource owners become 'team players' • Beneficiaries apply what they have learned
2. Strengthen regulatory and institutional environment	• Revised tourism law etc. • Private/resource owner/ govt partnership demonstrated by 2010		• Improved standard and quality of services • Acceptability of SICHE training by the industry
3. Increase quality/quantity of human resources	Improved training resources, completed hospitality school		
Activities			
1. Develop tourism products and services • Accommodation standards • Refurbish & expand community based tourism • Support ecotourism development • Increase and improve international marketing • Develop cruise market	Start 2008—ongoing	• International Visitor Survey • Ministry's Quarterly progressive report and work plan review	• Specific and standardized designs • Timely availability of funds • Visitors respond to promotion initiatives • Govt committed to implementation • Private sector support for training programs • Appropriate location of hospitality school
2. Develop tourism regulation & institutions • Review relevant Acts & laws • Co-ordinate tourism development • Anuha Island tourism redevelopment as a case for private/RO and Govt co-operation	2008–2010		
3. HR development • National tourism awareness campaign • Practical training in hospitality & service • Hospitality school at SICHE	2008–ongoing		

It is important to note that a great deal of focus is placed on a rapid increase in visitor arrivals. Indeed this is the one tangible area of measurement given that there is not discussion of funding a further IVS. At the increase projected in the mid-term strategy (more than doubling numbers 2008–2010) yield per visitor will actually reduce in simple terms—by 33% (using the projected spend of at least SBD200M—a growth of approximately 50%). It seems unrealistic given current infrastructure and transport difficulties to see the visitor figure more than doubling by 2010, mainly on the back of a significant increase in holiday visitor arrivals. In effect the mid-term development strategy is calling for a lower yield industry than currently exists.

The SIVB (2007a) estimate of 20,000 visitors and at least SBD220M in spend by 2010 is more realistic but would still see yield only increasing by less than 10% over the period. The question must also be asked as to why there appear to be two different yield and visitor arrival scenarios in circulation—one by medium-term planners and the other by the nation's chief marketing institution.

A clear vision is needed for the industry—one which focuses on building yield as well as achieving *realistic* growth in visitor numbers. It is essential that the growth in tourist numbers, especially in the outer islands, is able to sustain the environmental and cultural experiences upon which both visitor experience and resident quality of life depend.

10.4 KEY STAKEHOLDERS

National, provincial, public and non-governmental organizations all have an important role to play in the development and performance of the Solomon Islands tourism industry—and in developing/implementing the development strategy outlined above. The chapter now reviews some of the key players and the roles they play. In the case of those organizations dealing directly with tourism, feedback is also provided from the interviewees on the organizations overall performance.

Solomon Islands Visitors Bureau

The role and functions of the SIVB are outlined under the SIVB Act 1996 as: to encourage, promote, and develop tourism in Solomon Islands. The under-resourced Bureau focuses on marketing and promoting Solomon Islands as a destination for holiday travellers to the South Pacific (SIMCT 2006; SIVB 2007a).

Since 2005, the Visitors Bureau has been able to improve its bed levy collections and control its spending compared to previous years. The increased revenue and cost savings have enabled the Visitors Bureau to increase its marketing and promotional activities. Nevertheless the bed levy is generally underpaid and the SIVB will rely on growing support from Government grants if it is to meet the objectives outlined in its 2007–10 strategic plan. Given the current fiscal situation it seems perhaps unlikely that the SIVB will receive the full Government grants that are outlined in its revenue projections (Table 10.11).

TABLE 10.12 **SIVB revenue estimates 2007–10 (SBDM)**

Source: SIVB 2007a

Revenue Source	2007–8	2008–9	2009–10
Government grant	0.75	5.0	10.0
Hotel bed taxes	2.8	3.1	3.4
Other	0.027	0.029	0.033
Total	**3.6**	**8.0**	**13.5**

Under its three-year Strategic Plan 2007–2010 launched in September 2007, the Visitors Bureau is aiming to achieve its visitors' arrivals target of 20,000 by 2010. If achieved, this will bring estimated revenue of SBD200–220M into the country's economy.

One of the Visitors Bureau's key strategies is to upgrade its website and manpower skills in order to increase the use of its internet for marketing and promotional activities over the next three years. The SIVB will also continue to advertise in print, radio, and television. The Visitors Bureau will continue to promote Solomon Islands destinations and the tourism products and services the country offers at travel and holiday shows in Australia, Fiji, Asia, and Europe over the next three years—but is very constrained by budget.

Stakeholders interviewed for this report are very much aware of the limited budget that characterizes the SIVB. Many private sector operators are not positive about the 'value for money' that they receive from the SIVB. The key themes to emerge from the stakeholder interviews are:

- There are perceived to be some good staff at the SIVB, several of whom have a good knowledge of the industry;
- A marketing TA would be a valuable addition to the SIVB, especially in assisting the organisation to broaden the market base of the industry and in realizing the potential of the internet;
- There needs to be closer coordination and co-operation between SIVB, Industry and the Ministry of Culture and Tourism;
- Solomon Airlines exerts undue influence on the focus of SIVB;
- Funding levels remain insufficient given the relative importance of the tourism industry.

Ministry of Culture and Tourism

The Ministry of Culture and Tourism (and the Department of Tourism specifically) has a critical role to play in developing and implementing tourism strategy. Its core policy goal is: "That Solomon islands is a desirable South pacific tourist destination, and that our heritage is treasured, stored and promoted". The SIMCT has a number of key outcomes that it is expecting to achieve in the coming 2–3 years:

- Improved contribution of tourism to national economy and rural development through effective policy development in conjunction with the SIVB;
- To increase international visitor arrivals;
- To improve tourism services through training services (including the establishment of a Tourism Training Institute at the Solomon Islands College of Higher Education–SICHE);
- To develop appropriate and marketable tourism packages, create provincial plans, introduce accommodation standards, upgrade attractions, develop a national cruise ship strategy, undertake tourism market research, conduct tourism awareness campaigns, provide grant assistance to encourage locally owned eco/community run initiatives;
- To lobby and work with other Ministry's to develop and maintain effective infrastructure;
- To protect the cultural and artistic legacy of Solomon Islands (restore the national museum and build a new arts gallery);
- Create a national arts council and establish local cultural centres;

- Ensure Government records are properly archived and that war relics are protected.

These are ambitious goals—especially given that the SIMCT operates on what the national Tourism sector Strategic Plan calls a 'shoestring budget'. The Strategic Plan calls for a significant increase in funding and staffing.

Stakeholders interviewed in 2006 and 2007 generally felt that the SIMCT has a very limited budget but could improve its performance considerably. The key themes to emerge from the stakeholder communication are:

- Tourism development is a vital area and awareness/business development are very valuable areas for Government involvement and donor funding;
- There are good staff at the SIMCT but they could be more effectively co-ordinated with other key stakeholders;
- There is some feeling that the SIMCT should be working as closely as possible in the areas of awareness raising and training.

Provincial tourism capacity

The consultant was unable to visit the provinces of Solomon Islands beyond Honiara but it is clear from industry interviews and also the review of relevant literature that provincial resources that can be applied to the development of tourism are very limited. The National Tourism Sector Strategic Plan points out that even in the more developed regions of Western and Central funds are very limited.

While tourism strategies now exist at the provincial level it is clear that resourcing will need to increase for Provincial tourism offices/departments if they are to play an active role in helping to achieve the targets set for the overall industry. The National Strategic Plan highlights not just the human resources that are needed to build provincial tourism planning and development capacity—but also the important lack of resources such as transportation and dedicated computers. With the exception of Western province, the need is also identified for provincial tourism offices to improve and strengthen linkages with SIMCT, SIVB and the industry more generally.

Donor agencies and NGOs

The bulk of direct donor assistance to the Solomon islands tourism sector occurred in the period 1991–1998 when the EU allocated a range of funds through the Pacific Region Tourism Development Program (PRTDP) (Cleverdon et al. 2003). A number of projects were funded in Solomon Islands, including: training, statistics and product development work. In addition considerable funding was provided to facilitate participation in tourism fairs primarily in Europe. The PRTDP via the TCSP was also responsible for the development of the 1991–2000 tourism development plan.

From 1997 onwards the focus of much aid has been less directly on tourism and more in accordance with broader priorities, particularly in improving governance, capacity-building in central Government agencies, education, health and infrastructure development (ADB 1996; EU 2007; SIG 2008b,c).

Overall 2008 overseas development assistance is dominated by Australia (65%) followed by EU (11%), NZ (6%), ROC (6%), Japan (4%) and other (4%). Development estimates for the Ministry of Tourism totalled just over SBD12M for 2008 (budgeted) with only Australia (RAMSI) and ROC making significant direct contributions. The focus is largely on training and institutional building.

The following are the tourism-related development projects currently funded in Solomon Islands through the SIMCT (Table 10.13).

TABLE 10.13 **Tourism development estimates (SBDm)**

Donor	Description	Total project approval	2007 budget estimate	2007 estimate actual	2008 budget estimate	2009 projection
SIG	New Heritage Centre	8.2	8.2	0	8.2	0
ROC	Provincial Tourism Development	2.0	2.0	0.69	0	0
SIG	Ecotourism grants	2.0	0	0	2.0	0
SIG	Anuha Tourist Projects	1.0	0	0	1.0	0
SIG	Training for tourism—SICHE course	0.75	0.75	0	0.75	0
SIG	Tourism institutional strengthening & capacity-building	0	0	0.38	0	0
SIG	Strengthening Tourism—provincial offices and officers	0.86	0.86	1.05	0	0
Aust/ (RAMSI)	Economic Governance—Tourism support	2.3	0.28	1.79	0.25	0

Source: Solomon Islands Min Finance and Treasury 2008: 31-2.

A series of projects funded through other Ministries have important impacts on the tourism sector, indeed many projects related to education, sanitation and general infrastructure have long-term beneficial impacts for the sector.

The Small Project Fund Matrix also has some links to the tourism sector (SIG 2006). The matrix covers funds from AusAID's Community Sector Program, the Australian High Commissions Direct Aid Program, Embassy of Japan Grassroots projects, EU Micro-projects, NZ High Commission Head of Mission Fund, Republic of China (Taiwan) and also micro projects co-ordinated by the Ministry of Development Planning and Aid Coordination (MDPAC). Approximately 50% of projects by value and number are focused on Malaita and Guadalcanal, with Western receiving around 12%.

A breakdown of recent information for the SPFM does not provide anything very specific on tourism. The bulk of funds go to education (40%) followed by Housing and Communities (30%) (water supply, sanitation). The remaining projects are spread between health (9%), social protection (9%), economic affairs 7%. Only one of the listed projects appeared to have a direct focus on tourism: the NZ High Commission provided some funds (SBD2,500) to assist with a Renbel Tourism project (approved late 2006).

Many other projects listed in the SPFM bring broader benefits. For example Embassy of Japan funding for Rural Training Centres can have positive spin-offs for tourism, as can several rural water supply projects. EU funding to help revive the Honiara Botanical Gardens can add a useful new dimension to the tourism product. Likewise EU projects to help women into self-employment have potential spin-offs in areas like handicraft production.

AusAID's current Solomon Islands strategy does not feature the tourism sector as a direct area for targeted assistance, although funding for technical assistance and strategy development has been allocated. Most aid focuses on issues concerning Institutional strengthening, public and legal sector reform, police force capacity-building, health, and education.

The major focus of RAMSI's work has, more recently, been in strengthening and developing the capacity of the institutions of Government in three key areas: economic governance, law and justice and the machinery of government. RAMSI Economic Governance and Broad Based Growth have focused on providing Australian advisers within the Ministry of Finance and Treasury and in the Economic Reform Unit. RAMSI funded the International Visitors Survey in 2007 and also provided funding for the provincial tourism strategies that have appeared in recent years.

AusAID is also running a Bilateral Program *Community Development and Service Delivery*—AUD6.5M (2004–2007). The program, a partnership between AusAID and seven Australian NGOs, aims to respond to emerging development challenges in Solomon Islands.

The European Union's major in-country funding of relevance to tourism is through infrastructural and community development projects. It was also active in promoting tourism investment opportunities in partnership with local businesses for the Profit Pacific program run in 2004 and again in 2006.

In 2003, **NZAID** agreed a country strategy with SIG which was aligned with the priorities of the National Economic Recovery, Reform and Development Plan (NERRDP). This strategy ran until the end of 2006, when it was updated to reflect new realities. In 2006, in partnership with the Ministry of Infrastructure and Development, AusAID and the Asian Development Bank, NZAID provided substantial commitments to fund the rehabilitation of roads and bridges throughout Solomon Islands.

NZAID continues to support the development of small businesses through the Solomon Islands Small Business and Enterprise Centre. NZAID intends to have greater involvement in the development of a national Agriculture and Rural Development Strategy (ARDS) to promote rural development and livelihoods, including a particular focus on fisheries issues. It will also explore opportunities to address youth issues relating to employment generation and skills development.

Since joining the **Asian Development Bank** (ADB) in 1973, Solomon Islands has received 16 loans amounting to SBD79.31M, two Asian Development Fund (ADF) grants, amounting to SBD5.3M, and 58 technical assistance (TA) projects amounting to SBD16.65M. An ADF grant approved in 2006 succeeded in catalysing substantial bilateral grant co-financing for the improvement of rural roads. An ADF grant approved in 2007 is designed to address infrastructure damage caused by the April 2007 earthquake and tsunami. The loan and TA projects have ranged from support for agriculture and fisheries, transportation, infrastructure rehabilitation, finance, power, water supply and sanitation. ADB's medium-term country assistance strategy aims for rapid, pro-poor, private sector-led economic growth, and focuses on improving transportation infrastructure and services, and the enabling business environment.

The **World Bank** has focused on the Solomon Islands Rural Development Program (RDP) aiming to raise the living standards of rural households by establishing improved mechanisms for the delivery of priority economic and social infrastructure and services by the public and the private sector. The project consists of three components with the first being the delivery of local infrastructure and services. The second involves improving agricultural services. The final component consists of rural business development. This is designed to facilitate rural enterprise development through provision of an equity financing facility and associated training and technical assistance. The World Bank has also recently introduced its

> BOX 10.4 **Tourism training provider**
>
> "One of the main challenges we have is the lack of capital funding to begin with. We started our business without any asset or capital, hence our efforts to get a loan from the commercial banks were unsuccessful. Normally the bank would ask for 50% equity for a loan. Therefore I had to use 30% of my own personal social savings with the Solomon Islands National Provident Fund (SINPF) to secure a small loan of $50,000 to get office equipment. I had to get additional assistance from the Government's Bank Guarantee Scheme which normally covers 80% of the unsecured portion of the loan to complete the 50% equity required by the bank."
>
> —a *local tourism business operator*

Solar Energy Project Loan—with the involvement of the ANZ and Central Bank of Solomon Islands.

JICA has provided a limited amount of support for tourism development—mostly through broader infrastructural and human resource development. The **Commonwealth Secretariat** has also funded a review and update of the current tourism master plan.

NGO's and industry bodies also play a limited direct role in tourism development, but are important stakeholders in developing the broader environment for successful tourism. The **Women in Business Association of Solomon Islands** and the **Small and Medium Enterprises Council** have useful resources for some operating in the sector. **Solomon Islands Chamber of Commerce and Industry** (SICCI) does not currently have much of a link to the tourism sector but is planning to build this in the future. Of the NGOs **OXFAM,** with its focus on food and livelihood security has some of the closest links to tourism. Support for the Young Farmers' Program and the provisions of village-based livelihood training have relevance for the linkage of tourism and agriculture. At the same time OXFAM support for the Solomon Islands Forestry Program, which is implemented by the Environmental Concerns Action Network of Solomon Islands has some links to tourism through the development of forestry action plans with communities that decide not to pursue commercial logging.

10.5 SPECIFIC CHALLENGES

This section outlines some specific challenges for the tourism sector. Suggestions as to how to tackle these challenges can be found in the recommendations section at the beginning of the DTIS.

10.5.1 Access to finance and SME development

Problems in accessing finance have a negative impact on business start-ups. While many loan requests for tourism related activities relate to accommodation there are also instances where limited financial access can negatively influence tourism support sectors. The following example from the training sector shows the difficulties that face small operators.

In response to these challenges the SIMCT has introduced a tourism grants scheme aimed at locally owned SME and product. It is a competitive, merit based program with a focus on influencing the distribution of tourism benefits towards rural areas by increasing tourist visitation and expenditure.

Proposals must demonstrate that the project adheres to best practice sustainable tourism practices, is environmentally and culturally sustainable and economically viable. The program categories include:

- Individual business;
- Special event of provincial or national interest;
- Attraction/destination development (e.g. WWII, museum, interpretive centre, boardwalk);
- Development of niche market or new activities.

It must also be remembered that World Bank-led initiatives in solar electricity generation and many small business training initiatives directly benefit tourism, even if their focus is not explicitly on the industry.

Expatriate owners of small businesses often highlighted difficulties they faced with the Foreign Investment Board. Problems included: long time lags in the processing of applications and a lack of clear instructions on the process to be followed. Larger businesses also tended to highlight government instability and a lack of consistency and transparency in the implementation of tariffs. The average applied tariff rate in 2007 was 10.4%. The country is ahead of the tariff reduction schedule under the Pacific Island Countries Trade Agreement (PICTA), nevertheless concern was expressed about a lack of clarity in some areas of tariff implementation/reduction—several interviewees felt that 'favours' were provided for some businesses ahead of others. There was also concern expressed over the timing of, and application process for, post-tsunami tax/tariff breaks.

Future success of the industry will depend not only on the ability of small business to access funds but also on enhanced networking and co-operation between organizations. The recent formation of the Solomon Islands Tourism Industry Association creates an additional lobbying force for tourism—something highlighted as significant in the recent tourism strategy. This may avoid the problem of too many unco-ordinated initiatives leading to the continuation of a fragmented industry voice

The lack of tourist expenditure on areas other than accommodation and food/beverage highlights the major problem of a lack of marketable developed product. Networking is vital to enable the creation of a multi-faceted industry that can entice visitors to spend more money while they are in the country. The ability to add value to dive based experiences, work focused travel and genuine resort based leisure travel was stressed as important by the bulk of those interviewed—and yet there is still very little co-ordinated product available to the visitor.

10.5.2 The internet

The internet offers the consumer opportunities to customize experiences and businesses the chance to reach those with specific interests. Even if only small numbers of niche experiences are purchased their combined total represents a very significant market, especially for communities and provinces that have received limited tourism in the past. At the same time the internet offers unprecedented opportunities for businesses and communities to develop their own content and information for visitors. This can enhance visitor sense of place and culture and also potentially ensure a reduction in negative impacts associated with the industry.

Any focus on the internet as a key marketing tool means that there is a need to analyse and fine tune the web presence of the tourism industry, to evaluate ways to enhance access of the businesses that can be drivers for economic development and the critical issue of content development. Interview respondents raised some important issues here:

- The current Solomon islands official website (www.visitsolomons.com.sb) is felt to lack a lot of the information that is required by a potential visitor who has limited prior knowledge of the destination;
- The overall performance (industry-wide) of Solomon Islands in terms of presenting valuable information on the internet is lacking.

A website audit completed in the middle of 2008 by the consultant found that the tourism sector (with the exception of some smaller operators) is reasonably 'wired' in terms of internet sites being available but that most sites operate in an isolated fashion with limited links to other experiences/products. Relatively few sites provide a 'sense of place' or provide opportunities for pre/post visit relationship building. There are some excellent initiatives such as www.worldhotel-link.com but there is still considerable work to be done.

The emphasis on the internet also brings into focus the relationship between the tourism industry and the telecommunications sector. The following critical issues were raised by interviewees:

- Many smaller indigenous operators in outlying regions often don't have telephones or computer access;
- Reliability of telecommunications is an issue—especially in the outer islands;
- The monopoly status of telecommunications provision leads to high costs;
- The availability of ATMs is critical to tourism growth as is the ability to use Visa or Mastercard in bank branches—especially in those provinces that are in the earliest phases of development.

10.5.3 Information and awareness

Unfortunately little is known about community attitudes towards and awareness of tourism. A recent SICCI study (Kaczan and Tuhanuku 2008) looks at community attitudes towards tourism in the Western province and also Honiara. While the sample used is small and very localized it does show that there is support for well managed and controlled tourism development. It is important to note also that awareness is a 'two-way' street. Communities have knowledge, information and customs that Government, industry and tourists can tap into in appropriate ways, it is important that all stakeholders view communities not just as impediments to tourism development, but as integral and active participants in strengthening the tourism product.

Considerable money is to be spent on awareness campaigns—they are vital but how can these be sustained in a more cost effective manner? How effectively is tourism awareness being integrated into school curricula and is the industry/ SIMCT encouraged to engage with curriculum developers?

Visitor awareness is also vital. Unless a visitor is provided with sufficient information pre– and post-visit they cannot be aware of the experience that awaits them or feel as confident to make recommendations when they return home. A lack of pre-trip information means that budgeting can be difficult to manage and in a place where cash is often the only means of doing business, this can lead to lost sales.

There is also a lack of information about what is available for tourists to do in Honiara and through the broader country after they arrive (TRIP 2006). It is vital that Solomon Islands begin to provide a richer array of content about available experiences—this is one very effective way to build yield—by telling the stories and providing the 'sense of place' that encourages a visitor to spend more time and more money.

To this end it is not realistic to expect other third party groups to promote Solomon Islands. Traditional marketing and distribution agents (wholesalers and travel agents) are largely ignoring Solomon Islands as there are few packages available to potential tourists. Even 'alternative' travel guides such as the Lonely Planet Guide provide very limited information on Solomon Islands, as one writer to the Thorntree blog recently discussed:

> Despite earlier promises that "we've listened to readers' feedback and added twice more coverage of the Solomon Islands", the new PNG and Solomon Islands guide still only has a pitiful 36 pages on the Solomons, just nine pages more than the previous edition. It still only acknowledges the existence of Guadalcanal, Central, Malaita, Renbel and Western Provinces—about half the country.
> I wonder what they have against the Solomons—OK, it may not be teeming with tourists, but it's still one of the largest and most diverse countries in the South Pacific and would surely deserve more than this!

Source: www.lonelyplanet.com

A key element in the development of a broader array of information about Solomon Islands is the development of local content—content that enables tourists—in small numbers in many cases, to plan, undertake and then later discuss a customized travel experience in the Islands.

Some businesses are doing this very successfully. The Wilderness Lodge (www.thewildernesslodge.org/biodiversity_conservation) not only provides information on its tourist product—but also on the broader experience it is providing for the visitor—and how this is benefitting local communities and wildlife. In simple terms the site becomes more that just a 'push' marketing tool and evolves into something that communicates with the potential client the broader vision of the company and the linkages that it has to the surrounding economy, culture and environment.

Communities, regions and localities are also able to develop networks of existing sites or to build a rich resource of information about local tourist destinations. The Tetepare site (www.tetepare.org) is a very good example of an online resource that enables the visitor to not only learn more about a potential experience to add to their visit but to also gain a deeper understanding of the place they are visiting. There is little question that a deeper connection to a place increases the willingness and desire to spend money on souvenirs, local foods and other items that help to entrench memory and build a sense of place.

For many visitors interaction with local staff will be one of their few potential opportunities to learn something directly about the people of Solomon Islands. An audit of tourism websites conducted for this report shows that very few highlight the people that work in establishments, why they like/value their job or what they do to enhance the visitor's experience. The critical issue here is to educate workers and managers about the fact that they are all active parts of the visitor experience—and that workers are not simply there as passive task providers—they are part of the current tourism assets.

10.5.4 Linkage creation and development

One area of tourism linkage that has perhaps the greatest opportunity to create economic spin-offs around the nation is the agriculture sector. With over 80% of the population residing in rural areas, agriculture remains the mainstay of the economy.

Some of the positive outcomes of the links between tourism and agriculture that have been highlighted in the literature include (Mason and Milne 2007):

- Stimulation of new agricultural development;
- Increased profitability of agricultural production;
- Creation of new market opportunities;
- The provision of increased or supplementary income for farmers;
- Opportunities for economic diversification;
- If used effectively local produce can provide a unique (and potentially cost effective) competitive advantage for hotels, restaurants and retailers.

Evidence shows that enhanced linkage to fruit and vegetable production will, for example, *(i)* encourage import substitution; *(ii)* diversify exports; *(iii)* encourage smallholder involvement and *(iv)* stimulate the private sector provision of extension services (Mason and Milne 2007). Solomon Islands also has a fishing sector that has considerable potential to be better linked to the tourism industry.

An example of how the vital dive sector links into local agriculture is provided by an operator who has been in business in Solomon Islands for 20 years.

The company makes relatively good use of its website (www.bilikiki.com) to highlight some of the links that exist between it and the places it visits. The fact that it has built close links enables the company to highlight this as a marketing tool—attracting visitors that are looking for a more authentic and development focused travel experience, or simply those that want to have a richer cultural experience beyond their dive time.

BOX 10.5 **Bilikiki Cruises**

Bilikiki Cruises have been operating since 1988—providing live aboard diving trips of between 7 and 14 days duration—they also do occasional shorter trips from Honiara. They focus on the Morovo Lagoon, Russell and Florida islands. They have a deliberate policy of building links to the local economy as they feel it increases both the community and client experience. They purchase seeds for vegetables that they will want to purchase on future trips (lettuce, tomato, cabbage) and then drop them off to villages to raise and be ready for future visits—they are then paid for the produce. The company also attempt to purchase fish locally. Links are also strong with Morovo carving villages and they will also on occasion give villages the opportunity to provide custom dancing for their guests. Some guests also bring things for the community to use such as books and the vessels themselves can be used to ferry important parcels etc.

Of course it is also possible for the agriculture sector to build links to tourism. In most cases this will take the form of farmers selling produce directly or through intermediaries to hotels and restaurants. There are, however, opportunities for large-scale export crop producers to also create niche market opportunities from the tourism sector.

BOX 10.6 **Virgin coconut oil**

A large-scale virgin coconut oil producer has developed a small range of boutique products—virgin coconut oil and soap—that is sold through retail shops (pharmacies, craft outlets, cafés). The pharmacies buy 100 bottles of oil on a monthly basis, while other shops buy smaller quantities. Oil is exported to company headquarters in Canberra, Australia where they distribute worldwide to their buyers. Lower-grade oil is used to produce soap which is sold in bars of 50grms (AUD3), 100grms (AUD4) and 125grms (AUD4.50) at the same outlets.

Discussions with craft shop owners indicated that these products are selling in small but steady amounts and that they represent a low pricepoint option for visitors who may also be unsure about some of the biosecurity risks associated with bringing wood, weaving and shell-based products back to their home countries.

10.5.5 Human resource development

There is currently one private enterprise providing Tourism and Hospitality training in the country. They are currently engaged by the Ministry of Culture and Tourism to run national training programs. The current training landscape will change significantly within 1–2 years when the proposed tourism training school is at the Solomon Islands College of Higher Education completed.

With the implementation phase of tourism studies/school program due to commence soon, curriculum is already being developed. The first year intake of students is likely to be in the vicinity of 30. A major challenge will be to get the physical site ready in time for a projected start in late 2009 or potentially as late as 2011. In addition it may be difficult to source competent staff to teach on the one year certificate program that will be offered.

A further area of direct relevance to HRD in the tourism sector is the AusAID funded Australia-Pacific Technical College (APTC), which aims to deliver vocational training across the Pacific to a standard accredited in Australia—this has particular relevance to Solomon Islands as one of the key centres of training is at the Vanuatu Institute of Technology in Port Vila and is closely linked to EU funded training facilities.

It is important to remember also that there are also several skilled jobs in the industry that are difficult to fill and may require specialist training in overseas institutions. Several dive operators noted, for example, that there are quite unique skill sets required of their staff—especially given the fact that engineers or skippers will often need to interact with passengers in a live-aboard situation.

Finally there is clearly a need for up-skilling of management level staff and SME owners. Running a business in the rapidly changing tourism industry requires business people to keep abreast of trends and developments. Important questions remain as to how these key stakeholders can continue to grow and develop as individuals so they can expand their businesses. This is particularly critical for SME start-ups and those going through early expansion. Small Business training initiatives are providing some useful support (SME Council of Solomon Islands, Solomon islands Business Enterprise Council and also the MASA Business Service Centre) but it does appear that there is a need to provide more tourism specific information and training to back up existing online resources (www.pacifictoolkit.org) and tertiary training options (SPTO 2005b).

10.5.6 Transport and infrastructure

Poor conditions and inadequate tourism infrastructure throughout the country represent a major challenge. At present, Honiara International Airport is the only port of entry for international flights. While the international airport runway and facilities are adequate, most of the airport runways and facilities in over twenty airline destinations throughout the country including the Honiara domestic airport terminal are poorly maintained and equipped.

Due to the poor conditions, some of these runways are often closed temporarily by the civil aviation authority causing cancellation or rerouting of domestic flights. Support from donor partners is critical for navigational aids and a greater commitment to maintenance at airline destinations, including passenger facilities, is essential.

If numbers of tourists in the outer islands are to grow, even in a limited fashion, it will be important to develop some form of improved air/sea-based transport. The ongoing importance of the cruise sector requires further analysis if benefits are to be generated for host communities and regions. Likewise the internal land-based sector requires further development and review (taxis, buses etc)

10.5.7 Research and decision support

The interviews reveal that the problem of limited statistics is most keenly felt in the outer islands. Lack of data on visitors constrains lobbying but more importantly makes it hard to make informed business decisions—both for local people and for overseas investors. The Statistics department is poorly resourced and cannot dedicate many staff to the entry of arrival card data, this makes it difficult to provide statistical updates in a timely fashion.

The visitor survey conducted in 2007 provides a useful base to work from but has a number of inadequacies and information gaps that need to be improved upon in the future. The critical question remains as to how this study will be updated in a meaningful way to measure progress towards yield enhancement. While the IVS is mentioned in the Medium-Term Development Plan as a key tool to measure progress there is no budget item to run the IVS. There should also be ongoing research—especially focused on the outer island experiences that receive so much attention in the policy documents.

Another area that requires research in the future is linkage creation and network development—this is vital if we are to get a better understanding of the downstream impacts of tourism and how industry partnerships can be formed more effectively as the basis for packaging product dimensions.

10.5.8 Global climate change and sustainability

It is unfortunate that none of the policy documents reviewed on the tourism sector specifically make mention of the potential impacts of global climate change, or closely related issues such as the growing scarcity of oil. The area of climate change was also rarely raised in the interviews—but was identified by a small number of individuals as an issue that is likely to create difficulties in the future. It is important that the industry become more aware of both its own vulnerability and necessary adaptive dimensions.

One key issue for the industry is its own environmental performance. Tourist awareness of environmental issues is often heightened by policies in their home country—for example recycling programs, emissions regulations and reductions in plastic bag use. Poor environmental performance on the part of the tourism industry has a negative impact on visitor satisfaction and also on the broader environment.

10.5.9 Land

There were numerous examples provided by the interviewed tourism operators of tensions between the tourist industry and custom-owned terrestrial or marine resources. Dive operators talked of difficulties in taking clients to well know dive spots close to Honiara—focusing on the random increases in charges that are levied—especially extra charges placed on equipment such as video cameras.

> a place might be fine for 10 years, and then suddenly a new person comes along, someone that may not even be the real owner… but what do you do—especially given the fact you've got clients with you.

Indeed it was often the negative impact on clients of having to witness this 'haggling' over resource use, that was raised as the single most significant impact of these tensions.

It is difficult to organise a system that works for payment of fees and there was often concern expressed by interviewees about how money is eventually distributed among the local people.

It is clear that there needs to be improved awareness and understanding between groups. As one of the more experienced operators noted, it is important to remember to "do everything you can to keep people happy"—in other words making sure that benefits flow back to the community—not just in monetary terms but also through up-skilling, infrastructure investment, transportation assistance and other helpful (often small) gestures.

10.5.10 Institutional structures and industry vision

The Department of Tourism and the broader SIMCT need to communicate more effectively with the industry—especially with regards to initiatives that influence long-term training outcomes. It is also critical that SIMCT enhances knowledge and understanding about the sector in other Government Ministries so that a 'whole of government' approach to tourism begins to take shape.

It is important that the Ministry builds on the synergies and links between tourism and culture as it is in this linkage that much of the prospect for future yield enhancement lies. While the Sector Strategic Plan focuses on the need to have discrete tourism and culture departments and streams and the SIMCT strategic plan largely splits tourism and cultural functions, there is a clear realization that these areas must work hand in hand. Culture can be an active agent in building visitor experience and yield, just as tourism can be an active force in raising the profile and monetary value of heritage or cultural dimensions that are in need of protection.

The future vision of the industry needs to be focused on yield—developing product and spend not increasing visitors at potentially unrealistic rates. The current strategy is very much based on a rapid increase in visitor numbers and will, in effect, reduce yield. Such an approach runs the risk of working against the development of a locally controlled, community linked tourism industry that spreads its benefits across sectors and provincial boundaries.

Culture, music and locally produced handicrafts and souvenirs represent important areas for the building of linkages to the tourism sector. No accurate information on the number of people involved in producing and selling handicrafts is available. There are a small number of retail handicraft outlets in Honiara—villages and resorts also sell handicrafts. A limited amount of one-to-one bartering between tourists and local producers will also occur on some occasions. There are also a small number of companies and individuals that export handicrafts.

The following case studies highlight some of the issues facing the sector:

BOX 10.7 Tourism case studies

Case Study One: carving and crafts export

Interviews were held with two individuals who currently export carvings and bags to Fiji on a small scale. They buy from relatives and Renbelese at a slightly cheaper price for bulk orders and organise their own export. One of them normally travels himself to Nadi to sell his carvings, mainly to a single retailer and a handful of interested individuals in Nadi and Suva. He has been doing this business for almost five years. The other person does not travel but exports via DHL air cargo. She has been exporting for about a year. The main challenges that both face are:

- **Lower selling price for crafts overseas.** Overseas buyers purchase the crafts for a slightly cheaper price than the local price in Solomon Islands. Considering the expenses incurred to freight the crafts overseas, the interviewees would rather sell the products back home if they had the market —this is where greater links to the tourism market would be very beneficial.
- **Lack of experience in negotiation and selling skills.** The overseas buyers always bargain for greater discounts although the price had already been reduced. It is extremely important that exporters have experience in negotiation and selling skills to be able to negotiate good deals with buyers overseas. Again there is a strong desire to be able to sell to individual tourists who are considered by those interviewed to be easier to deal with than overseas buyers.
- **Quality standard of crafts as required by buyer.** Overseas buyers have their own standards and expectations for the products. Often the local exporter is not really aware of these expectations until he reaches the destination.
- **High Export costs.** It is expensive to export crafts from Solomon Islands. There are a number of permits required to export. These include Quarantine, Customs, Solomon Airlines or relevant airline, documentation and handling on the side of the exporter—this is time-consuming and has cost implications.
- **Quarantine regulations.** Current processes and procedures for quarantine can sometimes deter fast export of handicrafts. Interviewees argued that there need to be a more user-friendly and easy-to-understand forms for handicraft exporters that give clear and specific instructions on export procedures.
- **Lack of Government recognition and support.** There is a lot of potential for the export of crafts, however most people are reluctant to do it due to a lack of support from relevant Government bodies particularly the SIMCT.

Case Study Two: Mendana Handicrafts Centre—Renbel carvers and weavers

The Rennell and Bellona Province, commonly known as Renbel, is the southernmost province. The Renbel carvers and weavers in Honiara have been occupying a small leaf/wood hut in front of the Kitano Mendana hotel for over 30 years now. The small leaf hut is used free of charge and is a centre for the Renbel people's culture and livelihood in Honiara. This is the place where they come to meet relatives and check their mail from the island, share new experiences and skills, gossip and even argue about things that concern them.

The main market for the Mendana carvers and weavers are guests of the Mendana hotel. However, they also get expatriate residents every now and then. Also tourists who get word by mouth from tour guides and friends visit the hut for carvings and baskets. Sellers are mostly individuals who are unemployed and it is their only means of income to sustain their families. Therefore the leaf hut plays a very significant role in the lives of the carvers and weavers and that of their families.

One of the challenges for the carvers and weavers is the cost of materials. The women buy the pandanus leaves or 'I' from other people for the price of SBD200 for 10 leaves. This can make up to four baskets. The men also have to buy the wood from their friends and the cost varies for the type of wood used. For instance, ebony wood is more expensive at SBD1,000 whereas Kerosene wood and Rosewood costs SBD500 per cut of one metre.

The other challenge is the upkeep of the hut. The building is made of local materials and thatched roof. Normally it would cost the carvers and weavers $6,000 to replace the old leaves for the roof. However, a full repair of the house which normally happens after three years can cost up to SBD20,000. When asked whether they want a permanent house instead to avoid the repair costs, they responded no because they like the traditional look of the hut. According to their spokesperson, the Government has never helped them repair the house although SIVB has helped once before. Normally a collection is made from all of the sellers to pay for these repairs. Another challenge is lack of marketing and promotion. The group would like to see their products marketed overseas on the internet or in the newspaper for the local market.

10.5.11 Other handicraft operators

Visits to two larger handicraft retailers raised some important themes. Since the crisis the number of handicraft producers has increased significantly. In simple terms there is an over supply of handicrafts and not enough demand. On one recent day the store manager of one retailer said she received visits from nearly 50 separate handicraft producers looking to sell her products.

Handicraft retailers tend to buy from a large number of suppliers. Some retailers focus on the more 'authentic' end of the market—stocking little in the way of small dolphin carvings and ear-rings—others operate across a number of price points. Mark-ups from the price paid to the producer to that charged to the customer range from 35 to 200% depending on the type of product.

The production of fake, cheaper crafts appears to be growing as larger numbers of semi-skilled artisans try to enter the market. More expensive material costs are also driving some producers towards lower end goods and cheaper woods. The cost of transporting products to the retailers is also growing due to rising fuel costs.

Some retailers are also involved in the export trade. One of the largest operations estimates that it has a 65/35 revenue split between local retail sales and exports respectively. This mix of markets can be a very effective way to ride out downturns in the tourism sector.

10.6 CONCLUSIONS

Tourism is one of the most promising areas for future economic diversification. It is still at a nascent stage, meaning that future growth has high potential. It avoids problems associated with the 'resource burden' that has plagued logging and which may challenge the mining industry. If planned on a scale which can involve local people as owners and drivers of the industry, it can be a useful tool for poverty alleviation.

The DTIS calls for innovative approaches and perspectives rather than the repetition of 'tried and true' areas of discussion. The array of issues facing the sector in its attempts to improve performance and create sustainable livelihoods for the people of Solomon Islands is great—and for that reason no one area can be focused on in great depth at the expense of others. This chapter outlined some approaches that will enable yield to be enhanced across the tourism sector. Underlying the discussion are two key assumptions:

1. That Solomon Islands should attempt to increase the yield of all tourist markets and tourism segments—from accommodation through to dive operations, and from indigenous SMED through to larger operations that may involve foreign investment or expertise;
2. That yield can only be increased in a sustainable sense by enhancing *both* visitor and host experience of tourism.

As would be expected in a situation where tourism is at such an early stage the recommendations focus on information provision, human resources, product/business development and the need for research. Certain areas, such as environmental factors, that have not made it into the final action matrix, are by no means insignificant. As the tourism industry struggles to recover from a very trying period the areas outlined in the matrix represent critical building blocks that need to be put in place before other broader concerns can be addressed.

Technical assistance is required in all of the recommended action areas outlined and will account for the bulk of the funding requested. In many cases it is anticipated that further funds will be generated from donor sources once these projects are completed—which will enable sustained progress in this important sector.

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