

CBSI 40th Anniversary

Theme “Celebrating past successes, inspire a Vibrant Future”

Topic: “How has economic policies affect productivity in the private sector over the last 40 years, and how can we improve economic policies so that they can improve private sector productivity”.

Minister for Finance and Treasury, Hon Snyder Rini,

Governor, Central Bank of Solomon Islands, Mr Denton Rarawa,

Permanent Secretaries, Senior government officials,

Members of the diplomatic Corp, Distinguish Guests, Ladies and Gentlemen.

Good morning, today I have been asked to provide a private sector perspective on two things:

- First, on how economic policies have affect productivity in the private sector over the last 40 years, and
- Secondly, to provide some suggestions/on how we could improve economic policies so that they can bring positive changes to private sector.
 - o I will provide some commentary on the former but will not provide a detail discussion; rather, I want to explore the latter – that is, suggestions on how to improve productivity in the private sector.
 - o However before I start proposing or make suggestions I think it will be proper for me to highlight the challenges that the private sector faces – which I think will give us an idea into the huge tasks that lies in front of us, and why understanding theses challenges is key to any policy actions.

Economic policies & growth:

To begin with, let us look at the Solomon Islands growth over the years.

Although our economic performance has been positive at times, we have also had periods of negative growth – most pronounced during the ethnic tension period and low growth in other years.

But one thing is clear, our economic policies if I may, have reflected the stage of development our country went through.

Every economy goes through transition periods of always trying to find the right balance between encouraging growth, but at the same time raising revenue to funds services – Education, Health, infrastructure, national security.

I think to be fair, our economic policies over the last 40 years have produced mix results. Which I must say, are largely shaped and influenced by our: context, culture, geography, political economy; and our **smallness**.

When I say **smallness**, I am referring to our:

- geographic dispersion,
- our narrow economic base,
- our limited manpower,
- our capacity and capability, and
- our isolation from the rest of the world.

I think 30 - 40 years ago, the view on private sector may have differed from today's perspective. Economic policies during those times were aimed at '**what matters most**' during those days, which was the provision of goods and services by the public sector. **The public sector was driving the economy.**

[Example: In the 80/90s, Government was heavily involved in the shipping industry. Today the private sector is leading and the Government is now able to focus on other important areas.]

Over the past decade, we have seen the country's macroeconomic conditions improved and significantly strengthened. The Central bank's prudent monetary policy has contributed to that.

We have also seen structural and economic reforms undertaken by the government.

We have also seen infrastructure development and the push for more decentralisation of activities into the rural areas.

All of which, were possible because of political will and through the support we as a country have received – either through our Donor partners, International Financial Institutions, and of course the NGO and Civil society.

Going forward, we can only learn from our past in our fight to shape the future. The question I would like to pose and offer no answers to it, is – **what have we learnt?**

Fast forward 40 years, and today we are in the 21st century where trade and economic integration with other countries has reached new heights, and remains an integral part

of our growth. But you would agree with me that some, or if not most of the challenges our country face 40 years ago are still around, **but are now even more complex.**

Some of these challenges are inherent, mainly because of our geographic context. For instance, our geographic dispersion – scattered across around **30,000** Sq Km from east to west, north to south.

But perhaps, our biggest challenge as a country is our ability to create employment/jobs for our future generation, and continually ensure growth – particularly growth per capita.

The National Statistics Office indicated that by 2025 our population growth would reach more than 700,000. Our current population growth rate is around 2.3%, which is high in the region and globally. If we look at the numbers we would see that in the space of 10 years we would have more than 100,000 additional people.

What does this mean for the economy?

If we think of a situation where there are no new jobs, no infrastructure development, no extra nurses and teachers, no new schools and facilities, and no new beds at the hospital.

Ladies and gentlemen, I think we all know the impacts - there will be huge pressure on the economy, huge demand for goods and services, schools will be overcrowded, and hospital beds will no longer cater for everyone who seeks medical attention. That is, if we do nothing.

Our challenge, therefore, is to be able to provide employment for the future generation and ensure sustainable growth into the future.

For the record, it would be remiss of me to say that we have done nothing because we have, **but we should be doing more. We should build on what we have achieved.**

This is where the role of the private sector is important. The private sector has a very fundamental role to play in the economic development of this country.

These include:

- the contribution towards job creation,
- economic growth, and
- taxation necessary for the Government to maintain fundamental services to the people.

The importance of the Private Sector:

But why focus on the private sector – the answer is simple. The public sector does not have the resources, capacity, skills and capability to provide all services that the private sector is really good at.

Put it this way, there are things that are best left to the private sector to provide and compete through competition with other businesses, spurring innovation and creativity.

This allows the Government to focus its efforts on the provision of necessary public/social goods - such as education, health, and social infrastructures and core services provided by our SOEs.

In a nut shell, both the public and private sector need each other, to be able to enhance growth in the country. They complement each other.

The government needs the private sector to function, to be able to create jobs, produce goods and services and contribute through taxes as revenue to government.

Likewise, the private sector needs the government to provide a conducive investment environment for businesses to continue to grow and prosper.

Dialogue and Policy consultation:

This means, that dialogue has to happen between the government and private sector.

Policy discussion must take place, issues must be explored, probed, and critically analysed. More importantly, solutions must be tailored to fit our context.

The Solomon Islands Chamber of Commerce and Industries (SICCI), as the peak body representing the private sector could not agree more that meaningful consultation and policy dialogue with the government and relevant stakeholders **is a must**.

There is no secret to success – partnership is the key word here.

When stakeholders are part of the process, it encourages willingness to participate meaningfully, building trust and good relationships, but more importantly instilling ownership. SICCI looks forward to participate more with the government.

Challenges for the private sector:

So what should we focus on to increase productivity in the private sector?

The private sector thrives on a good business environment, where there is a level playing field and where competition, innovation and entrepreneurship are encouraged. This also includes stable macroeconomic settings to create a stable environment for business activity.

But what makes up a good business environment? Today the private sector still faces huge challenges, allow me to highlight some of these challenges that need to be the focus of future policy actions:

- **The Taxation regime:** Our current tax structure is too costly, constraining economic growth and limits the pace of development. All these costs – high tax rates, complexity, unfairness and opportunities for evasion – make it difficult for businesses to operate on a level playing field.
- The tax burden is spread across a narrow base. When compared to our neighbouring partners, our tax burden here is high. There is the need to review the current tax system and simplify so that we can allow businesses to thrive and stimulate growth.
- Reforming the tax system will have impacts in the short term, but valuable gains are possible in the medium to long term, this is because of the increased economic activity that occurs and the increased investment in the economy. **Perhaps, this is how we should look at it.**
- **Infrastructure development:** there is the need to access quality infrastructure such as roads, wharves and bridges. They are critical to ensuring the timely delivery of good and services, and good quality infrastructure also reduces transport costs for businesses.

Land/property rights: Our land tenure system makes it difficult for private sector to fully participate because everyone owns the land and we do not know who the landowners are. Land disputes and difficulty to settle ongoing land issues means we miss out as investors move to countries with easy access to land.

- **Business Regulation:** while improvements have been made to reduce the time taken to register a business. Businesses still have to spend large amounts of time visiting different pay points to pay for different licenses and fees. This also includes when seeking information from various departments.
- A better approach would be to introduce a one stop shop, such as in Samoa, where all key people in regards to business regulation are housed in the same place – this makes it easier for everyone and dramatically improves the environment for doing business.

- **Access to finance:** For Small Medium Enterprises (SME's) access to finance and micro credit remains a challenge, especially for businesses beyond Honiara.

Addressing some of the challenges I have identified, will go a long way to improving the environment for private sector, and will allow businesses to become more productive.

I note that the Government is progressing reforms aimed at some of these challenges, and SICCI looks forward to actively participate in these efforts. We want to be part of these discussions.

However, as I mentioned earlier, as these important initiatives and reforms are progressed, dialogue has to happen between the government and private sector. There needs to be active, two-way engagement to ensure benefits of these reforms are achieved.

Encouraging growth is a challenging task that the government alone cannot address. It requires reform, actions and commitment from all stakeholders. Economic growth does not just happen: financial resources, technical capacity and political will are all necessary ingredients for growth.

Thank you.