

Solomon Islands Chamber of Commerce and Industry

submission to the Minimum Wage Review 2019

22 February 2019

Solomon Islands Chamber of Commerce and Industry
Honiara, Solomon Islands

Contents

| | | |
|------|---|-------------------------------------|
| I. | Introduction | 2 |
| | The Solomon Islands Chamber of Commerce and Industry..... | 2 |
| | The minimum wage review process | 3 |
| | The 2019 review into the minimum wage | 4 |
| | SICCI consultation process | 4 |
| | Overall Position..... | 5 |
| | Recommendations | 5 |
| II. | Feedback from SICCI membership | 6 |
| | A. Due process..... | 6 |
| | B. Important parallel considerations..... | 6 |
| | i. The anticipated impacts on Soltuna Company Ltd. | 7 |
| | ii. The anticipated impacts on GPPOL Company Ltd..... | 7 |
| | iii. The anticipated impacts on a medium-sized local business. | 7 |
| | Other considerations | 8 |
| | C. Balancing views in the submission-preparation process | 8 |
| III. | Conclusion..... | 8 |
| | References | 9 |
| | Appendix. List of respondent Companies/Businesses | Error! Bookmark not defined. |

I. Introduction

The Solomon Islands Chamber of Commerce and Industry is a key voice for business interests in the country. It is the peak representative organisation for private sector and has 220 plus members across all major sectors. The membership comprise micro-small businesses through to multinational companies - its membership composing 60% of small- to medium sized businesses. The Chamber is an organisation that works on behalf of members and the broader private sector to realise economic growth in the country.

The Solomon Islands Chamber of Commerce and Industry (SICCI) therefore welcomes the opportunity to provide this submission to the Labour Advisory Board (the LAB) on the review into the minimum wage as part of its responsibilities under the *Labour (Advisory Board) Rules 2012*.

The Solomon Islands Chamber of Commerce and Industry

The SICCI vision is a vibrant private sector that leads to better lives for our people.¹

It does this by being a member-driven organisation that champions policies for jobs and growth, and delivers services for member companies to expand. Advocating on core business concerns, it ensures that it bring fully-informed perspectives based on the collective wisdom of its membership. In meeting needs of its diverse membership, the Chamber strives to be relevant in its offerings, and mindful too of the diversity in size, sector, and location.

SICCI therefore represents its members on local and national issues that matter to its membership and the larger business community. Its consistent focus is to advocate positions that are in the best interests of Solomon Islands business and the country as a whole.

An important part of this equation in being a representative organisation as well as service-delivery organisation, is the Chamber's relationship with Government. The Government is integral to business concerns being addressed, providing an enabling environment for private sector to continue to provide jobs. The Chamber is an inclusive partner for growth in this regard. All interfaces with the Government machinery are canvassed as thoroughly as possible.

As a trade union, the Chamber objectives² are to

- a) Promote commerce and industry throughout the Solomon Islands;
- b) Encourage the principle of the development and maintenance of good relations between employers and employees;
- c) Encourage the observance by employers of fair conditions of employment;
- d) Promote the interest of members in relation to the foregoing stated objects;
- e) Initiate, promote and support the development of young entrepreneurs in Solomon Islands;
- f) Promote and encourage consultation between and amongst members on matters connected with, relating to, affecting or likely to affect such interests;
- g) Collect, collate and circulate amongst members statistics relating to or affecting such interests;

¹ SICCI Strategic Plan 2019-2023

² SICCI Constitution (2019)

- h) Provide information and advice on matters relating to such interests;
- i) Initiate, promote, support or endorse legislative and other measures affecting or likely to affect such interests;
- j) Represent and advocate the views and policies of the Chamber to the Solomon Islands Government and other authorities, especially to promote sound legislative and administrative practices to ensure the growth of stable commercial development of the Solomon Islands and advocate on behalf of its members for legislation and regulations which promote investment and commerce in Solomon Islands;
- k) Amalgamate, affiliate or co-ordinate with any other organisations or subscribe to or become a member of any organisations the objects of which are altogether or in part similar to those of the Chamber;
- l) Co-operate with any organisation and industry, local, international or otherwise whose main objects are similar to those of this Chamber or become a member or affiliate thereof;
- m) Form such branches, local committees or other bodies as may be deemed desirable;
- n) Promote, encourage and provide for joint consultation between members on matters of mutual interest or difficulty;
- o) Develop the general public's interest in commerce and industry and its promotion through free enterprise and the development of entrepreneurial skills by disseminating information on all matters pertaining to the Chamber's activities, and by publishing or circulating such notices, newsletters, papers, circulars and publications as may be deemed necessary for this purpose;
- p) Promote engagement with private sector organisations; and
- q) Do all such things and other acts as are or may be conducive or incidental to the attainment of the above objects or any of them.

It is especially the objective as in Clause 2 (j) that the Chamber sees as crucial to this exercise.

The Chamber sees a logic in its representative capacity for private sector and especially its member companies to collate and advocate views that will promote legislative, and in this instance, administrative practices and rules that will bring about stable economic growth, promoting investment and adding to growth in commerce in the country.

The minimum wage review process

The minimum wage review is allowed for under the Clause 4 (1) (f) namely the function to "advise the Minister on fair minimum rates of wages in accordance with the exercise of the Minister's power to fix minimum wage rates under the Labour Act".

There is further condition as in Clause 10 that in carrying out this role, the Labour Advisory Board shall consult actively and invite submissions from employer representatives particularly those within sectors, occupations and areas with the lowest wages, including relevant information and analysis from the Commissioner of Labour, interested parties. This generally encompasses those affected to access data and information including from employers as well as workers likely to be impacted by minimum wages to act as advisers.

And that in its deliberations, it references data and information on cost of living and effects on real value of minimum wage, compensatory social protection measures, the difference between minimum wage earners and

other workers, and “*information of a financial and economic nature either at the national level or in relation to an industry, sector or geographic area*”.³

The Labour Advisory Board therefore would assess the needs of workers and families accounting for all these and economic factors including the “requirements of economic development, levels of productivity and the desirability of attaining and maintain a high level of employment”.⁴

And that the Labour Advisory Board carries out its function as above stated, annually and at least every two years.

It should be noted that the last minimum wage change was ten years ago in 2008 when then Minister for Commerce, Industries and Employment, Sir Francis Billy Hilly approved a revision to minimum wage for all sectors to \$4 per hour and \$3.20 per hour for the Agriculture and Fisheries sectors.

That decision was made following an open and consultative process including stakeholders, relevant Government ministries, Central Bank (CBSI), the private sector and other interest groups.

The 2019 review into the minimum wage

A new rate for minimum wage was announced in Parliament by Caretaker Minister of Commerce, Industry, Labour and Immigration (MCILI), Hon William Marau in December 2018.⁵

Prior consultation as in the 2008 review did not take place before this announcement.

The Chamber has been party to two meetings of the Labour Advisory Board since the confirmation of its membership of the Board in 2016.⁶ At the second (October 2018) LAB meeting, there was discussion of reviewing the minimum wage however no set rate was nominated nor endorsed by the members.⁷

The December 21st meeting of the LAB noted therefore and in retrospect, the announcement made by Minister. The SICCI representative and women in business representative asked for consultation with its stakeholders to which the Board agreed. This consultation would allow their stakeholders to make their views known on the announced increase, which would then be considered as a submission at the next LAB meeting.

SICCI consultation process

The Chamber reached out to all its members over a period of two weeks. Spanning Christmas and New Year’s shutdown period, and the first weeks of the new year, it has received submissions and verbal communication describing general views firstly on the minimum wage review and secondly, commenting on the announced increased rate of \$8/hour.

The process has involved communications therefore by email, by phone and by personal contact.

It has been comprehensive as possible within the short timeframe.

All communications received from member companies in this process coordinated by the Chamber, are condensed into this submission.

³ *Labour (Advisory Board) Rules 2012 11(5)*

⁴ *Ibid*

⁵ December 2018 National Parliament sine die session

⁶ Solomon Islands Gazette No. 40 (2016).

⁷ Verbal communication former SICCI CEO on 21st December 2018, Honiara, Solomon Islands.

Overall Position

SICCI supports a review into the minimum wage.

SICCI supports an increase of the minimum wage.

SICCI requests that the increase as large as that already announced of 100%, is phased in over a period of time.

SICCI requests that the increase is further tiered according to industries. That is, maintaining the differentiation in minimum wage applicable to i) agriculture and fishery sectors versus ii) all other sectors.

Along with the various considerations that the LAB must take into account, we ask that the LAB ensures it gives weight to factors such as, the high mobility of the workforce in contrast to the high numbers of working age-individuals; the high unemployment rate in the country; rising operational costs for small business; and the small size of the base of business investments in the country's economy.

This submission focuses on issues specifically relating to the Solomon Islands business community, to provide the LAB with a clear view of how their businesses experience adjustments to the minimum wage, and specifically the impact on their operations.

Recommendations

That the Labour Advisory Board undertakes and completes a review into the country's minimum wage informed by business' perspectives and considers presentations on effects on companies especially those of agriculture and fisheries sectors.

That the Labour Advisory Board weighs all the identified macro and micro themes identified in this submission, and accepts the SICCI recommendation to phase in the 100% increase over a period of time of no less than 12 months.

II. Feedback from SICCI membership

Of the respondents, 100% supported a review and increase to the minimum wage.

Of the respondents, 40% further thought that an increase would have no impact on their operations if implemented immediately; However, all of this subcategory of respondents recommended a process of consultation with all businesses or sectors at the least.

Of the remaining 60% although flagging immediate adverse impacts on their business such as associated spill-over effects as will be explained in C. (3) below; letting go workers; and reduced profitability overall, they nevertheless all supported a phased-in approach over a period of time.

As identified during our short consultation process, the following were the issues raised by the SICCI membership.

A. Due process

1. There is strong support that it is timely for the current minimum wage rate to be reviewed since its last change 10 years ago. But there is also a need for consultations to be done first with the private sector before any decisions on how much and mandatory date of effect can be made.
2. Some employers will not be affected given that they are paying above \$8.00 per hour. However, this does not take away the fact that large and important employers in the country will be severely affected such as Soltuna Company Ltd and GPOL Company Ltd. These are sectors that have to be considered due to their economic importance within the country's primary sectors of agriculture and of fisheries.
3. All or 100% of the respondents requested that the process is consultative and done regularly instead of after long periods of eg. 10 years as this would give ample timing for businesses to make adjustments to comply. In the feedback period, the SICCI Secretariat received suggested timeframes of at least 6 months to up to 3 years for any new minimum wage rate to be phased in.

B. Important parallel considerations

1. If the current minimum wage rate should be increased by 100%, then it should not be done in isolation, but must be done with a review of the income tax threshold. Given that the minimum wage is a 100% increase, the tax free threshold should be increased by 100%, and follow on changes with the successive brackets. The tax regime is one of the harshest in the Pacific, and there should be some relief considered both for employers and for the workers by the Government. An analysis commissioned by the Chamber found that increasing the non-taxable threshold from \$15,080 to \$30,000 would increase Government revenue by \$1,036,695,000 per year. This increase to revenue would be through spending by individuals captured by the Government in other taxes. This amount (\$1,036,695,000) is approximately 50% higher than what is currently collected.⁸
2. The minimum wage should not be considered as if in a vacuum or absence of voluntary incentives. The majority of SICCI member companies incorporate annual performance reviews and bonus-systems that mean that workers receive higher than the current minimum wage and in some cases, higher than the proposed increase. The Chamber recognises that all organisations that seeks to attract high-calibre staff and retain them, factor this into their plans and priorities.
3. Benefits that are not inclusive in wages are paid separately to workers. At the moment, some companies pay for benefits including accommodation or housing allowance, school fee assistance. These are provided as separate to the wages. A potential impact is that employers will pursue the inclusion of benefits provided to workers into the calculation for basic minimum wage.

⁸ SICCI Tax Position Paper (2018)

4. There are also other flow-on effects that compound any increases that should be kept in mind such as PAYE payable to Government, provident fund contributions, associated increases in tiered benefits.
5. If the current minimum wage rate is reviewed and increased by such a substantive margin then it should not be done in isolation, but also consider a review of other Government regulatory frameworks impacting on business. Firstly, reviewing regulatory framework of sectors of business such as in fuel retail is strongly encouraged. It was highlighted that an impact on fuel retailers' Gross Margin Profit that results from mandatory wage increase is considered. In such a heavily-regulated sector where all service stations sell at the same price regardless of location, this begs the question of relooking the regulations that have never been opened up for negotiations. Something that should be done as a matter of course, on a regular basis matching market forces.

Secondly, the definition of minimum wage is recommended for review. It should capture alternative forms including being defined as productivity-based payments instead of waged-by-the-hour work. SICCI member companies are considering productivity-based payments for its workers or catch-based pay, that is supplemented by fortnightly pay in long periods of low or no catch to factor in cyclical supply of materials and season-based demand.

6. There is a ripple-effect related to poor planning and poor communication such as the announced 100% increase. Companies particularly those associated with national icons such as Soltuna, as much as possible, absorb costs to maintain privileged position as a domestic market leader. Costs are passed on to service-users or customers to reconcile for the impact. Businesses forecast for medium- to long-term planning and financial reporting to Boards and to shareholders. Also, senior management of companies face potential increased scrutiny due to not being able to foresee such increases impacting on income and revenue.

There are three specific examples which spell out this ripple effect.

i. The anticipated impacts on Soltuna Company Ltd.

SolTuna employs around 2,000 (+/-) people which varies from month to month. In 2018 SolTuna's minimum or starting wage for permanent employees moved up to \$5.00 per hour, except for short term casuals who are on \$4.41. In addition to the normal wages earned by the employees, SolTuna provides employees with benefits (see appendix/attachment). The financial impact for SolTuna if the BMW of \$8.00 is implemented across the board will be \$14.3 Million straight out of the bottom line. **Instead of a modest profit in 2017 and expected for 2018, both years would have resulted in losses. To maintain some uniformity in dividends, SolTuna management would have to absorb this through cutting other costs, or to pass on to consumers of products.**

ii. The anticipated impacts on GPPOL Company Ltd.

GPPOL is one of the largest employers in the country with a current workforce of 1291. As of December 2018 there are 1113 paid under the proposed minimum wage rate of \$8.00 per hour. Since 2008, the wages of GPPOL has increased by 6.4% annually since 2008. The financial impact on GPPOL if the minimum wage rate is increased to \$8.00 is approximately \$5 million annually.

iii. The anticipated impacts on a medium-sized local business.

Smaller companies such as security services will face a huge loss or go out of business. A higher minimum wage rate will mean an increase in the cost of their services to their clients. This can drive clients away. From the Security Firms' point of view, if there should be an increase in basic minimum wage rate, it should be in the range of \$5.00 to \$6.50 per hour. Anything more than that will result in substantial decrease in profit margins within already-negotiated contracts. For eg. contracts are locked in for multi-year periods, and the increase in minimum wages was not factored into these contracts. If companies do not approve an increase in operations component of the service contract, security company will consider closing or significantly downsizing in personnel.

Other considerations

The Board should consider this SICCI submission together with information including that of financial nature, and of economic nature which is broken down into impacts by national level, at industry level and by sector and by geographic area. The below are some which the Chamber believes are relevant for this review process. The list is not exhaustive.

- 1) Compliance monitoring by Government departments continues to be a weak function. What is the assurance of a level playing field for all industries, and businesses across the country?
- 2) Consideration of impacts of increases as there is recent national literature that a spike in the minimum wage will increase inflation and unemployment.⁹
- 3) Consideration of impacts of increase on other segments of employees i.e the spillover effect this increase will have on other employees or groups of employees. This is where the 100% increase catalyses negotiations for increases to other workers' remuneration within the organization.
- 4) Economic modelling is one important aspect that is not explored substantively in this submission. SICCI is of the view that the Labour Advisory Board should commission expert bodies including the Central Bank of Solomon Islands, as well as the country's professional body of economists to make submissions including commenting on the economy and the wider (economic) impact of a range of recommended minimum wage rates including the 100% as announced.

By triangulating all possible information sources, the Labour Advisory Board meets its core functions, specifically that referred to in section 11 (5) of the regulatory framework that governs its work.

C. Balancing views in the submission-preparation process

SICCI believes in acknowledging the diversity in needs and composition of its membership. There was fairness in the submission process, every opportunity was made to give all member companies of the Chamber, the opportunity to provide their comments, views and recommendations. Feedback was provided through email, in-person and phone communications.

III. Conclusion

The SICCI submission into the review of the country's minimum wage was conducted in very short timeframe. The recommendations and feedback from its membership over a period of 1 month, has informed this submission.

The collective view of SICCI member companies are that the review is one long overdue, and should be conducted regularly so that substantial increases such as 100% increases are not necessary. An incremental approach to minimum wages in the country ensures that companies factor in costs and impacts into their annual budgets and workplans across multi-periods.

The review should also consider interlinked aspects of the country's waged employment system such as incentives and performance-based benefits.

Any final decision of the Labour Advisory Board should consider the economic impact of increases to the minimum wage rates.

⁹ Remuneration Survey (2018)

Jay Bartlett

Chair, Board of Solomon Islands Chamber of Commerce and Industry

References

1. SICCI Strategic Plan 2019-2023
2. SICCI Constitution (2019)
3. Labour (Advisory Board) Rules 2012 11(5)
4. National Parliament, December 2018
5. Solomon Islands Gazette No. 40 (2016)
6. Verbal communication, former CEO of SICCI
7. SICCI Tax Position Paper (2018)
8. Remuneration Survey (2018)