



**ADDRESS BY THE PRIME MINISTER THE HONOURABLE  
MANASSEH D SOGAVARE TO THE MEMBERS OF THE  
SOLOMON ISLANDS CHAMBER OF COMMERCE AND INDUSTRY.**

**THEME:**

**“ENHANCING PARTNERSHIP FOR A PATHWAY TO RECOVERY”.**

**Salutation**

Hon. Minister of Finance and Treasury;

Hon. Minister for Commerce, Industries, Labour and Immigration;

Heads of missions and members of the diplomatic corps;

Chairman and the Board of Solomon Islands Chamber of Commerce and Industries;

Senior government officials;

Members of SICCI;

Business Houses;

Distinguished guests;

Ladies and gentlemen.

## **Introduction**

Good morning everyone and thank you for the warm welcome.

On behalf of the Democratic Coalition Government for Advancement (DCGA), I wish to thank the Solomon Islands Chamber of Commerce and Industry (SICCI) for inviting me to attend this morning's breakfast.

This occasions provides a space where we can discuss common but important issues and objectives that is pertinent to business development and overall growth in our country.

The current global pandemic underscores the important role that this kind of discussion plays in nurturing and strengthening the partnership between the government and the private sector in mapping out the appropriate policies, strategies and legislations to ensure economic recovery following the adverse effects of COVID-19 in 2020.

## **Solomon Islands growth path after RAMSI**

Following the period of civil conflict that ended in 2003, Solomon Islands economy grew at an average annual rate of 5.5 percent. This relatively strong growth performance masks five key problems.

First, growth has declined recently, averaging only 2.9 percent for the last four years, while the population continues to expand at about 2 percent per year. I note that average per capita incomes are still lower today than they were before the conflict began nearly two decades ago.

Second, the biggest driver of growth in the post-conflict period has been logging, which has occurred at a grossly unsustainable rate and is expected to decline sharply during the next decade. Solomon Islands thus faces a pressing need for new sources of growth, but these are highly constrained by the country's economic geography.

Third, poverty remains extensive, despite having declined considerably since the end of the conflict. Available data showed that about 25 percent of Solomon Islanders still live below the international US\$1.90 per person per day poverty line in 2011 purchasing power parity terms, and 56.7 percent live on less than US\$3.10 per person per day.

Fourth, providing access to basic services is extraordinarily challenging, given the small population scattered very thinly across this vast archipelago.

Fifth, there are major sources of fragility in Solomon Islands, particularly arising from the limited reach and effectiveness to deliver services and development that is very uneven across space and from climate change.

Ladies and gentlemen, the government fully realises that Solomon Islands is now at a critical juncture in its development trajectory. Furthermore, the country needs to embark on a transition from logging to a more sustainable source as the key driver of growth.

### **Addressing SI Development Challenges**

When the DCGA government assumed political office after the 2019 general elections, it recognised that many of the socio-economic development challenges that had beset the country since independence had not been successfully addressed. As a nation, we must learn from our past development experiences and plot a development path that is inclusive, workable, robust and transparent in its implementation.

Our development experience so far has given us two clear lessons. First, if Solomon Islands is to grow and develop into a society that is economically vibrant, sustainable and prosperous, then we must ensure there is a clear development strategy to guide our policy formulations and implementations. The National Development Strategy (2016-2035) fulfils this important requirement.

Secondly, there must be both political and macroeconomic stability, and a conducive business environment, whereby policies are implemented and applied in a transparent and level playing field.

However, the government acknowledges that the task of transforming our people's socio-economic challenges are immense. Our economy is small, highly dispersed and very vulnerable to international adverse developments.

Not only that but more than half of our population is young and not employed. These challenges are further exacerbated by emerging environmental challenges that pose serious threats to our people's livelihood.

### **Economic Performance in 2020 and Impacts of Covid-19.**

The economy was projected to grow at 2.8% in 2020, relatively lower than the average growth rate in the previous six years from 2014-2019.

The DCGA government was fully prepared to implement its policies and programs after the passage of the 2020 Budget. However, just when the government was ready to implement its policies and development programs, the unexpected COVID-19 struck. As a result, the economy contracted by 3.6% at the end of 2020.

However, the contraction could have been much higher, had the government not intervened in mid-2020 and took the necessary corrective measures through its Policy Redirection Strategy.

Ladies and Gentlemen, the adverse impacts of COVID-19 is felt by everyone, and I think this is one thing we can all agree on. Globally, the pandemic has spread with alarming speed, infected millions and brought economic activity to a near-standstill as countries imposed tight restrictions on movement to halt the spread of the virus. Based on latest IMF economic reports, the global economy contracted by 3.5% in 2020.

The human disruption and economic damage the COVID-19 had done to us represents the largest economic shock we have experienced in decades since independence. The pandemic had a considerable negative impact on Solomon Islands economy. It affected all sectors. The most affected were tourism, private sector

businesses, air transport and government services, where activities have considerably slowed or in some cases come to a standstill.

Being a small open economy, Solomon Islands international trade was also severely affected in 2020. All commodity exports were badly affected, resulting in drastic declines in export incomes and production as global demand plummeted to record low.

The coronavirus had also severely affected both retail and wholesale businesses, manufacturing, utilities, and governments operations as revenue fell during the year. The pandemic also led to a decline in employment opportunities over the year. Provisional employment data from the National Provident Fund (NPF) showed that the total number of people employed also declined significantly.

Ladies and gentlemen, the overall downturn in economic activity as experienced in 2020 had indeed reversed whatever progress we as a nation have made in previous years. Putting the economy back on track is a great challenge which needs a combined concerted effort by the government and the private sector.

The need to work together has never been greater than now. We owe it to our country, people and future generations to ensure that our efforts to keep our economy afloat is strategic and inclusive.

## **Importance of the Private Sector and Government Policies for Recovery**

The Government acknowledges that the private sector is the engine of growth, primarily because real economic growth hinges on the creation of and earnings from goods and/or services. As the world “motors” out of the pandemic, private sector development will be vital, especially since many sectors will emerge decimated.

The government agrees that for sustained economic development, the private sector needs space to unleash its entrepreneurial potential through creativity and flexibility for innovative solutions.

In this regard, it is only right that the private sector, government, and civil society, with crucial assistance from international development partners, proactively participate in accelerating and strengthening the recovery process.

The government took several major policy decisions in 2020 as a result of COVID-19. I seek your indulgence to briefly discuss these policy decisions.



## **Ensure Macroeconomic Stability**

The impact of the global pandemic is massive, affecting both demand and supply factors of the economy, and caused both human and economic disruptions in the country.

Based on this view, government had reasoned that macroeconomic policy should not be restricted to conventional measures, but should work in unison with other complimentary policies in social protection, public communication, financial and the goods market. In other words, a whole of government approach should be adopted to face both the health and economic emergency posed by COVID-19.

The first policy decision was to ensure macroeconomic stability. This was done by reviewing the 2020 budget estimates in the second half of the year, based on the economic and fiscal outcomes in the first six months. The review exercise showed that there would be a shortfall of more than \$450 million in total revenue or even higher, if the adverse effects of the pandemic persisted.

The second policy action was that government reprioritized the 2020 budget expenditures across the whole of government. This fiscal exercise was absolutely necessary in order for government to fund its COVID-19 Preparedness and Response Plan.

The savings that resulted from this exercise were derived from a 50% cut in all discretionary and non-essential line items in the recurrent budget and other charges line budget, and a 15% reduction in all ministries development projects. The only exceptions were projects in the economic and productive sectors.

Government had also tightened its expenditure controls during the year. This also included ensuring that all procurement of goods, services and contracts were formalized under the appropriate procurement rules and regulations despite the emergency.

### **Supporting businesses and stimulating economic activities**

To help protect jobs and reduce the economic impact of COVID-19, the government also announced an Economic Stimulus Package (ESP) in May.

The DCGA continues to support private sector development through productive sector re-direction policies. Investment opportunities crafted under the re-direction policies enables small and medium enterprises to mitigate the negative effects in the pathway for recovery and sustainable growth of the economy for better well beings and livelihoods. The Government re-affirms its support to provide safe environment for business developments and continue to support businesses to recover and stabilize cash flow in the economy.

As such, the government will assist exporters to increase export volume in 2021 and beyond through well-coordinated and monitored subventions and credit line incentives and the existing small business loan guarantee scheme. The government will also -

- a. Support marketing value chain and logistics to meet international quality assurance standards on local export commodities such as cocoa, copra, sawn timbers, fish, noni and agricultural roots crops.
- b. Explore and promote international export niche markets for high valued domestic products for small and medium enterprises to generate better returns and foreign reserves.
- c. Enables manufacturing industries with the capacity to increase production in value adding and downstream processing that involves: local soap, kava processing, noni juice bottling, coconut virgin oil, crude oil, poultry, cocoa powder/chocolate, fish filleting and other viable processing products.

In term of fundamental reforms the government is working on the -

1. Enterprise bill – (SME) - that is intended to encourage, facilitate and strengthen national economic growth by encouraging private sector participation in business investment and entrepreneurship.

2. Special economic zones (SEZ Bill) - Provide incentives to increase investment opportunities and attract Foreign Direct Investment (FDI)

### **2020 GDP Outcome**

As said earlier, the government had expected real GDP growth of 2.8 percentage in 2020. Despite the unprecedented economic downturn, the country emerged stronger against the negative impacts of the COVID-19 crisis and ended the 2020 financial year with a revised GDP outcome of -3.6 percent; relatively less compared to the -4.3 percentage contraction forecasted in June 2020.

The economic outcome reflected the gradual pickup in both forestry and agriculture sectors where activities gradually improved sooner than expected.

### **2021 Growth Outlook.**

Real GDP is projected to grow at 1.0% in 2021. Based on recent economic trend observations, both the services and industry sectors are expected to contribute 0.5% and 0.6%, respectively to GDP growth in 2021. Primary sector production, on the other hand, is projected to remain relatively weak in 2021, attributable to the expected fall in log output in the near term.

Overall, nominal GDP growth is forecast to rebound to around 4.2% in 2021, from -3.6 per cent in 2020, consistent with expected recovery in overall economic activities. However, revenue growth is not expected to keep pace with nominal growth over the medium term. This is primarily the result of the expected slowdown in collections of export duties from round logs.

As said earlier, the global slowdown has markedly affected the Solomon Islands economy, resulting in a sharp decline in major commodities exports (particularly fish) and tourism, which is also expected to negatively impact the economy and produce a weaker external position.

The current account deficit was around 4 percent of GDP in 2020 and will continue to widen in 2021. In response to the threats of COVID-19 on tourism, exports, and domestic demand, the IMF had disbursed funds to the Central Bank of Solomon Islands in June 2020 to help cover the urgent balance of payments needs.

Despite the lingering external vulnerabilities, logging and other key exports have been relatively strong throughout 2020, while further falls in import oil prices are expected to provide support in 2021.

The impact of continued decline of logging activity and the expected importation of heavy infrastructure projects in the pipeline will place significant pressures on external foreign reserves over the medium term.

In 2021, total exports are forecast to slowly pickup in line with projected recovery in the global economy and domestic activity. External demand for all categories of exports, except for round logs are forecast to rebound.

Looking ahead, total exports are projected to expand by 6.5% in 2022 due to positive contributions from increased agricultural exports, minerals and fish exports. Total imports, on the other hand, are also forecast to rise because of increased importation of machinery and transportations equipment.

### **Strategic vision for a vibrant recovery through Economic Reforms.**

Looking forward, governments policy response need to change from crisis management to macroeconomic stimulus, though the two are connected. Government knows that beyond the relief measures it had taken in 2020, it is crucial that policies to ensure long-term sustainable economic recovery are implemented.

And since some policies to stimulate demand act with a lag, policies can be formulated and implemented now in the hope of boosting demand later.

### **Policy Redirection.**

The Governments Policy Redirection is to prioritise budget spending on specific targeted objectives in all sectors, with specific focus on the productive and resource sectors. The aim is to support the economy in response to negative impacts of COVID-19, while maintaining a continued long-term focus on developing Solomon Islands into an economically strong and vibrant nation and advance the livelihood of our people.

The government had decided to redirect its policy after thoroughly reflecting on our past drawbacks and using this experience to set the basis for future growth and further development in our country. Actual government spending on investment projects in both the productive and resource sectors had drastically declined over the last three years.

For example, in 2018, government spent \$557.5 million on investment projects in both the productive and resource sectors. This further declined to \$412.5 million in 2019 and to \$355.5 million in 2020.

This downward trend is a concern to the government. Both the productive and resource sectors are important pillars of the economy. If Solomon Islands economy is to grow and provide jobs for the growing population, then adequate financial resources must be allocated to both the productive and resource sectors. This explains why government has increased budget allocations to both sectors to \$580.2 million in 2021.

### **Tax Reforms**

The government is aware that the country's current tax system is complex, expensive to administer, includes distortionary exemptions, and relies on high rates applied to a narrow base, which discourages compliance. Getting the tax system right is important as the government seeks higher levels of productive investment to support job creation and sustainable growth.

Prior to COVID-19, the government embarked on a tax review to deliver a fair, simple, and broad-based tax system. There are plans to introduce a value-added tax to replace various goods taxes, sales tax, stamp duties, and customs duties that currently have multiple rates of tax, and different rules and procedures.



In 2020, government had intended to introduce the Tax Administration Bill 2020 in Parliament, but this had to be delayed for 2021 as a result COVID-19 disruptions in the country. The government looks forward for the passage of this Bill as it would greatly strengthen its revenue administration capacity to support the economic recovery process.

Furthermore, the Government is fully aware that the delays in the payment of goods and services has a direct impact on the private sector. As a result, the Government plans to introduce a new payment system called the National Payment System infrastructure. This will be an automated transfer system. This should help in the timely Government payment to all suppliers of goods, services and infrastructure projects.

### **Addressing barriers to business growth.**

The government is aware that reinvigorating economic growth and ensuring its resilience, sustainability and inclusiveness are important. Meeting this objective requires adjusting structural policies to tackle pre-existing weaknesses and those arising from the pandemic.

Ultimately, it is private sector investment that will drive economic growth – not only by adding to the capital stock, but also by

increasing entrepreneurial capacity. The government knows that good macroeconomic and fiscal performance in itself may not be adequate if action is not taken to tackle problems that exacerbate the problems of economic size and geographical situation.

In this regards, the government has resolved to tackle the underlying problems of, law and order, and corruption; infrastructure deficit; developing appropriate financial services; reforming the legal and regulatory systems; and working with the private sector to build dialogue and capacity.

## **Conclusion**

Ladies and gentlemen, before concluding allow me acknowledge and thank the platinum and gold sponsors of Solomon Islands Chamber of Commerce and Industries. I note that SICCI's operational budget is dependent on these sponsors. I urge all SICCI members to continue to support SICCI. The government has a partnership with SICCI which is governed by a Memorandum of Understanding and the government will continue to engage with the private sector through SICCI.

On that note let me reassure you all that the government values and is committed to this partnership and as a testament to this commitment the government will now support SICCI as well. As such, the government will now provide budgetary support to SICCI by

including this in each year's national budget under the Ministry of Commerce, Industry, Labour and Immigration. (This statement is optional. Platinum sponsors give \$33,000 and Gold sponsors give \$16,500 each years. Currently there are 11 platinum sponsors and 9 gold sponsors. SICCI depends on this sponsorship for its operational cost. I think SICCI needs to be reassured of the government support and genuineness. Such commitment will build trust between the government and the private sector. I leave it to your discretion to include this in the speech.)

Ladies and gentlemen, 'umi Tugeda for a pathway to recovery'.

May God Bless SICCI.

May God Bless Solomon Islands from shore to shore.

Thank you for your attention.