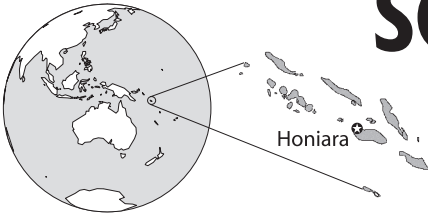


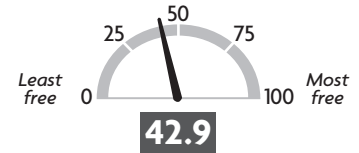
SOLOMON ISLANDS



World Rank: **170**

Regional Rank: **38**

Economic Freedom Score



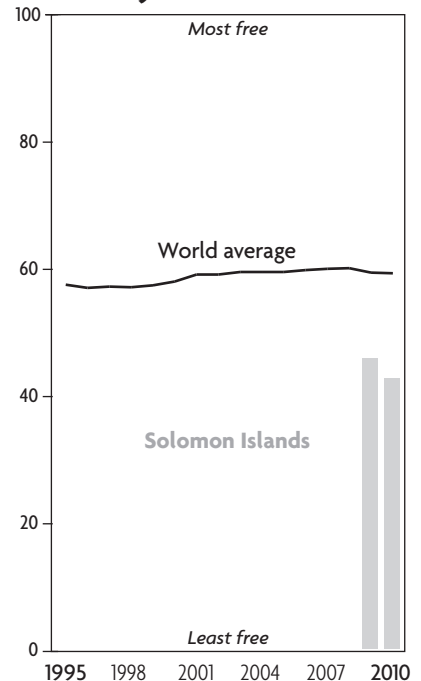
The Solomon Islands' economic freedom score is 42.9, making its economy the 170th freest in the 2010 *Index*. Its score has decreased by 3.1 points since last year, reflecting reduced scores in six of the 10 economic freedoms. The Solomon Islands is ranked 38th out of 41 countries in the Asia-Pacific region, and its overall score is well below the world average.

The Solomon Islands has a very narrow productive base and lacks basic institutional capacity essential to development of a strong private sector. The efficiency and overall quality of government services remain very poor. Reflecting the lack of economic dynamism, the agricultural sector continues to be the most important source of employment, although it accounts for less than 10 percent of GDP.

Despite recent economic growth, the economy of the Solomon Islands continues to face a number of serious challenges. Poor governance has played a significant role in ethnic conflicts and political instability. Regulations are inconsistent, and burdensome tariff and non-tariff barriers undermine overall trade freedom. A non-transparent and inefficient investment regime, combined with underdeveloped financial infrastructure, creates a hostile environment for investment growth. The judicial system, in addition to lacking independence and capacity, suffers from widespread corruption.

BACKGROUND: The Solomon Islands is a parliamentary democracy and one of Asia's poorest nations. Australia has intervened several times in recent years to defuse ethnic conflicts and stabilize the economy. Most of the islands' populations live in rural communities, and three-fourths of the workforce is engaged in subsistence farming and fishing. Economic growth depends largely on logging and exports of timber. Political tensions have subsided since 2008, and renewed foreign investment has led to strong economic growth.

Country's Score Over Time



Quick Facts

Population: 0.5 million

GDP (PPP): \$1.3 billion
 7.4% growth in 2008
 7.2% 5-year compound annual growth
 \$2,610 per capita

Unemployment: n/a

Inflation (CPI): 18.2%

FDI Inflow: \$76 million

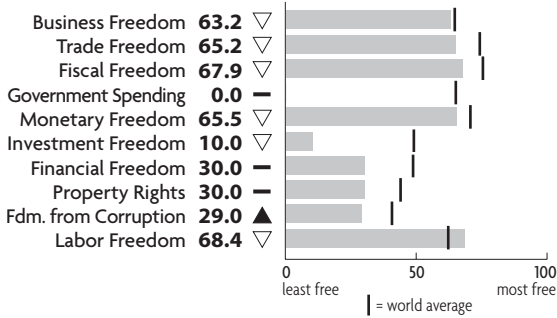
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

SOLOMON ISLANDS' TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 63.2

The overall freedom to start, operate, and close a business is limited under the Solomon Islands' regulatory environment. Starting a business takes an average of 57 days, compared to the world average of 35 days. Obtaining a business license takes less than the world average of 18 procedures and 218 days. Bankruptcy proceedings are fairly simple but costly.

TRADE FREEDOM — 65.2

The Solomon Islands' weighted average tariff rate was 12.4 percent in 2008. Some high tariffs, import restrictions, import and export taxes, import licensing, non-transparent sanitary and phytosanitary regulations, inefficient customs implementation and inconsistent customs valuation, problematic enforcement of intellectual property rights, and limitations on regulatory and trade capacity add to the cost of trade. Ten points were deducted from the Solomon Islands' trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 67.9

The Solomon Islands has a relatively high income tax and a moderate corporate tax. The top income tax rate is 40 percent, and the top corporate tax rate is 30 percent. Non-resident companies are subject to a 35 percent tax rate. Other taxes include an excise tax on beer and tobacco, an insurance tax, and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 26.7 percent.

GOVERNMENT SPENDING — 0

Total government expenditures, including consumption and transfer payments, are extremely high. In the most recent year, government spending equaled 63.0 percent of GDP.

MONETARY FREEDOM — 65.5

Inflation has been high, averaging 15.0 percent between 2006 and 2008. The government controls the prices of petroleum products and influences prices through regulation and state-owned enterprises and utilities. Ten points were deducted from the Solomon Islands' monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 10

Investment is screened and requires government approval.

Several sectors are reserved for small-scale domestic investors. Investment-related laws can be non-transparent, and bureaucracy is burdensome and prone to corruption. Underdeveloped private markets, inadequate infrastructure, and political uncertainty also deter investment. Government approval is required for the importation of capital; repatriation of capital; transfer of profits, dividends, interest and royalties; borrowing of overseas funds; settlement of intercompany accounts; transfers overseas of the proceeds from sales of Solomon Islands assets; and direct investment overseas. Foreign investors may lease but not purchase land.

FINANCIAL FREEDOM — 30

The Solomon Islands' financial system is small and not fully developed. Banking dominates the financial sector, and limited access to credit constrains business development. The government has tried to ensure that banking services are available to the rural population. The three commercial banks are the key providers of financial intermediation for domestic and foreign clients. The National Bank of Solomon Islands was sold to the Bank of South Pacific of Papua New Guinea in 2007, and all three commercial banks are now branches of foreign banks. To encourage more Solomon Islanders to participate in entrepreneurial activity, the government reintroduced the Small Business Finance Scheme in 2007. Bank credits to the private sector have increased in recent years, growing by over 30 percent in 2008.

PROPERTY RIGHTS — 30

Land ownership is reserved for Solomon Islanders. Generally, land is still held on a family or village basis and may be handed down from the mother or father according to local custom. Islanders are reluctant to provide land for nontraditional economic undertakings, and there are continuous disputes over land ownership. Strengthening property rights is fundamental to improving development prospects. The protection of intellectual property rights is a relatively new concept in the Solomon Islands.

FREEDOM FROM CORRUPTION — 29

Corruption is perceived as widespread. The Solomon Islands ranks 109th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. The law provides criminal penalties for official corruption, but implementation has not been effective, and officials often engage in corrupt practices with impunity. The Regional Assistance Mission to the Solomon Islands, a multinational police-centered force organized by Australia, arrived in 2003 at the government's invitation to assist in restoring law and order and rebuilding the country's institutions.

LABOR FREEDOM — 68.4

The Solomon Islands' labor regulations are relatively flexible. The non-salary cost of employing a worker is moderate, and dismissing an employee is not costly. The formal labor market is not fully developed.