Increasing the Participation of Women Entrepreneurs in the Solomon Islands Aid Economy
Acknowledgements and Disclaimer

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Executive Summary

International aid flows are equivalent to almost half of Solomon Islands’ economy, making it one of the most aid-dependent countries in the world. Around US$250 million of non-military aid enters the country, but only 15-20 percent of this amount is spent locally through local procurement or staff expenditure.

The World Bank undertook this study to explore the scope for, and potential impacts of, increasing the local economic impact of aid through increased local spending by donors. More specifically, this study examines the potential for increasing participation of Solomon Islands women entrepreneurs in relation to local aid-economy opportunities. The research is framed around four key questions:

1. What are the key characteristics of the Solomon Islands aid economy?
2. Why increase the participation of women entrepreneurs in the Solomon Islands aid economy?
3. What is currently constraining greater participation by women entrepreneurs?
4. What can be done to address existing constraints?

This research was primarily based on interviews and workshops with women entrepreneurs and analysis of women-owned businesses. Constraints to increased participation identified in this report are those cited as particular problems by women. But many of the constraints also impact on businesses owned by men, and some recommendations in this report would have a positive impact on Solomon Islands businesses operated by both men and women entrepreneurs.

1. What are the key characteristics of the Solomon Islands aid economy?

Existing businesses participating in the aid economy can be roughly categorized into three tiers, as shown in the following table.

<table>
<thead>
<tr>
<th>Tier</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A small number of large, international firms dominate procurement and supply opportunities, holding most major local donor contracts.</td>
</tr>
<tr>
<td>2</td>
<td>A larger number of family businesses, often owned or managed by long-term expatriates supplying a range of goods and services to donors and the expatriate community.</td>
</tr>
<tr>
<td>3</td>
<td>Very small businesses – mostly sole traders – providing goods and services on very small scales to expatriates, on a sole-source/shopping basis to donors or as subcontractors to the larger firms.</td>
</tr>
</tbody>
</table>

Women entrepreneurs in Solomon Islands typically operate very small businesses providing a very narrow range of goods and services. Few women-owned businesses provide goods or services to donors or expatriate aid workers. Those that have been contracted by donors are almost all within the third tier, supplying goods and services on a very small scale. The types of goods and services provided by women are gendered (food and personal services).

A range of existing aid-economy-related business opportunities are not being exploited by Solomon Islands women entrepreneurs. Women entrepreneurs should be able to break into supplying existing demand of donors, and increase the overall local economic impact of aid by supplying goods and services that are currently being imported, or are not supplied at all. Opportunities exist in information technology equipment, catering, gardening, landscaping, furniture-making, fresh and manufactured food, consultancy services, cleaning, drinking water and small scale construction.
2. Why increase the participation of women entrepreneurs in the Solomon Islands aid economy?

Increasing the local impact of aid expenditure in Solomon Islands through increased local procurement and expatriate expenditure can have important positive impacts on standards of living and private sector development.

Firstly, the skills and knowledge acquired by Solomon Island entrepreneurs and workers from increased participation in the local aid economy would expand Solomon Islands’ capacity for successful business activity more generally, and potentially build the skills and abilities required for growth in various new and existing export sectors. Secondly, increased local aid expenditure is likely to expand income-generation opportunities available to Solomon Islands in both rural and urban areas – with an important impact on poverty and living standards. Finally, increased local expenditure can lead to an expansion of Government revenues and the tax base, at a time when the Government is facing severe revenue pressures.

Internationally, women are more likely to use income for investments that benefit children and the wider community. Increasing the ability of Solomon Islands women to take advantage of aid-economy opportunities is an important step towards addressing existing gender disparities, and is likely to assist in translating the benefits of private-sector development into reductions in poverty and improved social outcomes.

3. What is currently constraining greater participation by women entrepreneurs?

Constraints to greater women’s participation in the aid economy can be categorized under five headings: security and stability concerns, information problems, skills gaps, procurement processes and business-environment issues.

   a. Security and stability concerns

Perceived continued risk of conflict and violence, and uncertainty regarding the continued presence of an international peacekeeping force, is constraining participation by women. Perceived risk of conflict may disproportionately inhibit entrepreneurship by women, given social and cultural expectations that women remain primary caregivers to children. Security concerns were not cited as a constraint during workshops with men.

   b. Information problems

Prospective women entrepreneurs lack basic information on the extent of opportunities within the aid economy. There was a clear lack of knowledge regarding the extent and probable duration of donor expenditure. Women involved in this research were often of the view that expatriates did not spend enough money locally to constitute a viable target market.

The nature of opportunities within the aid economy is not well understood. Women often cited or demonstrated a lack of familiarity with the tastes and requirements of expatriates.
Price and cost structures are opaque. The smallness of the private sector limits sharing of and exposure to vital business information. Potential entrepreneurs often lack knowledge regarding the costs of establishing and operating a business, and production volumes required to attain sustainability. Often, women did not know how to assess the potential viability of a business idea or take the initial steps towards establishing a business.

c. Skills gap

Existing business-support programs are subject to fragmentation and lack of coordination. The existing range of support programs has evolved on an ad hoc basis over time. There is no overriding strategy guiding the provision of assistance to women entrepreneurs, and existing support programs show gaps and overlaps.

Assistance can be difficult to access. Awareness of existing programs is limited among entrepreneurs, and few have been able to access available assistance. Accessing business mentoring assistance is difficult and there are not enough mentors to meet demand.

There are gendered barriers to women accessing scholarships. At present there are no scholarship schemes designed to increase the number of women studying business. Women may be discouraged from applying to some scholarship schemes because of the absence of adequate assistance for family members.

Existing support may reinforce culturally-based perceptions regarding appropriate roles for women entrepreneurs. Current emphasis on rural livelihoods and very small-scale service business operations within certain donor and NGO programs may foster a continued reliance on the same business ideas, models and customer base, and inhibit development of more innovative business ideas and strategies.

Entrepreneurialism is impeded by a lack of technical skills required for maintaining competitiveness and reducing the costs of doing business. Women entrepreneurs reported a lack of options for gaining specific skills and familiarity with technology required to operate certain businesses without travelling overseas.

d. Procurement practices

Sole-sourcing reduces transparency and restricts the number of women who can participate as suppliers. The common donor practice of consistently approaching a single, established sole-source supplier for small contracts reduces opportunities for entry of new participants, and may also increase costs for donors by inhibiting competition.

Donors are not making best use of social responsibility provisions in procurement guidelines. While almost all donor procurement policies promote the participation of small business, only two promote principles of gender equality and social inclusion. Donors that already have gender provisions could make greater use of them to create opportunities for women entrepreneurs, and women more generally.
Women lack experience in applying and preparing tenders. New entrepreneurs often lack familiarity with standard contracting processes, and do not have sufficient knowledge to complete tender documents to the standards required by donors.

Liquidity requirements and international standards impose unnecessary barriers. For some contracts, donors require businesses to be registered and able to demonstrate financial capacity to cover the cost of the contract. Donors often also apply international quality standards. Most of the small businesswomen involved in this research were unable to demonstrate sufficient financial cover or to meet international product quality standards.

Government procurement practices are not always transparent and sometimes seem arbitrary. Some of the aid provided to the Solomon Islands flows through Government procurement systems. Government tenders are perceived as arbitrary and non-transparent, and entrepreneurs are seldom aware of the criteria used by the Government in awarding contracts.

e. Business environment issues

Regulatory barriers, although not binding, are often time consuming and difficult. Rules and regulations are often non-transparent, and personal connections and lobbying are often required to acquire necessary permissions and approvals, as well as to access available Government business-support programs.

High rents and land registration processes restrict the expansion of women’s businesses and the ability to use land as collateral. Costly, time-consuming and risky processes for land transactions, including the registration of customary land, both increase the cost of land in Honiara, and impede the use of customary land as collateral by prospective women entrepreneurs. High rentals and a lack of access to finance are both key issues cited by women entrepreneurs.

Access to financial services is limited for women wanting to start a business. Women entrepreneurs have trouble acquiring access to finance for start-up or business expansion. Commercial banks are averse to lending to support innovative business activities, and are also generally unable to provide loans of small amounts, as often required by small-scale woman entrepreneurs.

Immigration policies could be better suited to local business needs, and currently restrict the participation of expatriates in the creation and development of new markets and opportunities. Current Government policy deters people from retiring in Solomon Islands. Acquiring a working visa can also be difficult and time-consuming, preventing entrepreneurs from easily employing workers from overseas.
Workshop findings regarding potential differences in barriers experienced by men and women entrepreneurs

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Possible gendered difference in perceptions and experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security concerns</td>
<td>Considered a major concern and disincentive to investment by women, but dismissed by men entrepreneurs as irrelevant.</td>
</tr>
<tr>
<td>Regulatory barriers</td>
<td>Women found to be very difficult to negotiate, requiring the right personal connections. Men considered only a minor impediment.</td>
</tr>
<tr>
<td>Exchange rate policy</td>
<td>Mentioned only by men, possibly reflecting higher representation of male entrepreneurs within the tradables sector.</td>
</tr>
<tr>
<td>Skills barriers</td>
<td>Basic financial literacy and business sense mentioned as a constraining skills gap by women, whereas men considered the primary gap to be in access to training in more technical areas.</td>
</tr>
</tbody>
</table>

4. What can be done to address existing constraints?

Actions by donors and Government could go a long way to addressing many of the constraints to greater participation of women entrepreneurs in the Solomon Islands economy. Possible actions are presented in the two following tables.

Prioritization analysis identifies the following five actions as immediately implementable and likely to have a high-impact in improving the participation of women entrepreneurs in the Solomon Islands aid economy:

**Five high-impact, immediately-implementable actions**

1. **Donors** update external website and produce other communication materials to ensure that accurate information on procurement practices is easily accessible.

2. **Government and/or donors** provide additional financial support to existing training institutions or business associations to strengthen business mentoring services.

3. **Donors support business associations** in establishing an online publicly accessible database, listing:
   a. All upcoming donor procurement opportunities;
   b. Relevant donor processes, links and contacts; and
   c. All Solomon Island businesses that have previously supplied, or would be interested in supplying, donors on a sole-source basis.

   Donors support business associations in disseminating this information in hard-copy to businesses that cannot access the internet.

4. **Donors** offer training to businesses in preparing tenders for their contracts.

5. **Donors and Government** commission and support a gender review of existing scholarship and business training programs, and implement recommendations arising from the reviews.

A more complete set of possible actions is outlined in the following table under five headings: security and stability concerns, information problems, skills gaps, procurement processes and business-environment issues. The recommendations are categorized using a “traffic light” system in terms of their ease of implementation and likely impact.
### Summary of recommendations

<table>
<thead>
<tr>
<th>General Recommendation</th>
<th>Specific Actions</th>
<th>Impact</th>
<th>Ease</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Security and Stability Concerns</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Build confidence in ongoing peace and security.</td>
<td><strong>Solomon Islands Government and donors</strong> enter into an explicit and well-publicized agreement regarding the nature and duration of an international security guarantee.</td>
<td>Med</td>
<td>Hard</td>
</tr>
<tr>
<td><strong>Information Problems</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Address confusion regarding donor intentions and policies.</td>
<td><strong>Donors</strong> update external website and produce other communication materials to ensure that accurate information on procurement practices is easily accessible.</td>
<td>High</td>
<td>Easy</td>
</tr>
<tr>
<td>Provide integrated and ongoing business mentoring to entrepreneurs.</td>
<td><strong>Solomon Islands Government and/or donors</strong> provide additional financial support to existing training institutions or business associations to strengthen business mentoring services.</td>
<td>High</td>
<td>Med</td>
</tr>
</tbody>
</table>
| Strengthening brokerage services between suppliers and potential buyers. | **Donors** support technical advisory programs run through the Government or NGOs to facilitate communication of the needs of purchasers to rural and urban suppliers, while providing technical assistance and extension services to assist producers meet those needs.  
**NGOs or business associations** establish informal platforms – such as newsletters or regular meetings – for sharing information on potential areas of unmet demand and available goods and services between expatriate families and Solomon Island women entrepreneurs. | Med    | Med  |
| **Skills Gap**                                      |                                                                                                            |        |      |
| Offer new courses to meet key skill gaps.           | **Training institutions** broaden business training courses to include entrepreneurial skills and more specific technical skills such as market analysis, and research and development.  
**Solomon Islands Government and donors** shift the balance of existing scholarships towards technical and vocational training, possibly in environments more similar to Solomon Islands.  
**Donors** offer scholarships for apprenticeships or study-tours to businesses operating in developed or other developing countries. | Med    | Med  |
| Undertake gender review of scholarship and training programs. | **Donors and Solomon Islands Government** commission and support a gender review of existing scholarship and business training programs.  
**Donors and Solomon Islands Government** implement recommendations arising from reviews. | High   | Med  |
<table>
<thead>
<tr>
<th>Procurement Practices</th>
<th></th>
<th></th>
</tr>
</thead>
</table>
| **Establishment of a database for all procurement and suppliers.** | • **Donors support Business Associations** in establishing an online publicly accessible database, listing 1) all upcoming donor procurement opportunities; 2) relevant donor processes, links and contacts; and 3) all Solomon Island businesses that have previously supplied, or would be interested in supplying, donors on a sole-source basis.  
• **Donors support business associations** in disseminating this information in hard-copy to businesses that cannot access the internet. | High Easy |
| **Greater use of socially responsible procurement through activation of gender or social clauses in procurement guidelines.** | • **Donors** review existing procurement procedures and processes with the intention of maximizing local economic impact, promoting improved gender outcomes and increased opportunities for women entrepreneurs. | Med Med Easy |
| **Tender-writing training.** | • **Donors** offer training to businesses in preparing tenders for their contracts. | Med |
| **Improve Government procurement practices, and more consistent application of formal standards.** | • **Donors support Solomon Islands Government** in establishing programs to improve capacity and systems within procuring ministries to increase the extent to which Government procurement guidelines are applied, and improve transparency and understanding of requirements for suppliers. | Med Hard |
| **Consider alternatives to and relaxation of international standards, and room for flexibility in their application.** | • **Donors** review the necessity of currently applied international standards, with consideration of the relative risks and potential development impacts of relaxing these standards to facilitate participation by Solomon Island suppliers. | High Hard |

### Business Environment Issues

| **Give priority to regulatory and business environment reforms that will have a major impact on women entrepreneurs attempting to access aid economy opportunities.** | • **Solomon Islands Government** ensures representation of women business owners during ongoing regulatory reform processes, including the Business Licensing and Administration Reform Committee.  
• **Donors** ensure that a gender perspective is taken in ongoing assistance to the Government in improving the business enabling environment. | High Hard |
SECTION 1: Introduction
1. Introduction

Solomon Islands is currently highly reliant on logging for export receipts, Government revenues, and employment. But existing stocks of natural forest logs are expected to be entirely exhausted by 2014. The Solomon Islands Government approached the World Bank Group to identify alternative sources of revenue, foreign exchange receipts, and employment in the absence of logging. In responding to this request, the World Bank Group has undertaken extensive analytical work examining short- and medium-term prospects for economic growth in Solomon Islands, under the Sources of Growth project. This report contributes to the Sources of Growth work, and is informed by its findings.¹

A key conclusion arising from Sources of Growth analysis is that aid is likely to remain a key part of the Solomon Islands economy for the near future. The existence of an international security guarantee, backed by the presence of an international peacekeeping force, is paramount for security, and investment certainty. In the absence of clear or certain alternatives to logging, and in the context of rapid population growth, current levels of service delivery will continue to depend on high levels of aid expenditure.

Given the inevitable ongoing importance of aid to the Solomon Islands economy, the World Bank Group is interested in exploring how international aid flows can lead to direct, sustainable local economic benefits through the local supply of goods and services to donors and expatriate aid workers. This report provides some answers to these questions, specifically relating to the potential for increasing opportunities for women entrepreneurs in relation to the aid economy.

1.1 Structure of this report

The report is structured around the four key research questions that this work was intended to address:

- Section 2: What are the key characteristics of the Solomon Islands aid economy?
- Section 3: Why increase the participation of women entrepreneurs in the Solomon Islands aid economy?
- Section 4: What is currently constraining greater participation by women entrepreneurs?
- Section 5: What can be done to address existing constraints?

Appendix A includes the Detailed Methodology for the research. The Financial Analysis of Potential Business Opportunities is presented at Appendix B.

1.2 Scope, definitions and methodology

This analysis was intended to identify policy measures to increase the positive impacts of international development expenditure on the welfare of Solomon Island nationals residing in Solomon Islands. Any businesses that generate employment and income for Solomon Island nationals were included in this analysis, rather than just businesses providing an entirely new product or service. Similarly, while this analysis focused on women entrepreneurs, many of the

¹ The final Sources of Growth Discussion Note, *Solomon Islands Growth Prospects: Constraints and Policy Priorities*, is available at http://go.worldbank.org/17KBS2XCI0.
recommendations would benefit entrepreneurs in general. Accordingly, the following definitions and assumptions are applied throughout this report:

- A Solomon Islands business is any business owned and operated by a Solomon Island national, and providing goods or services in Solomon Islands;
- An international business is a foreign-owned business, operating in Solomon Islands and employing at least some local staff and subcontractors;
- A foreign business or firm operates from another country, is not owned by, and does not employ Solomon Island nationals;
- A Solomon Island entrepreneur is any resident Solomon Island national who starts and/or owns a business; and
- The aid economy encompasses businesses and individuals supplying goods and services directly to donor agencies and expatriates, or those dependent on demand created by donor funding of other Solomon Island agencies and salaries.

The research was focused on Honiara because of the concentration of donor procurement and expatriate expenditure in the capital city. The focus on Honiara does not, however, mean that implementation of recommendations would only benefit those living in Honiara. This and other recent World Bank research has demonstrated the extent to which development of businesses in Honiara can bring benefits to rural areas through increased demand for rural produce.

The research was conducted using qualitative and quantitative methods, including focus group discussions, surveys, interviews, quantitative analysis and business modeling, and desk reviews with a wide range of stakeholders and women entrepreneurs in Honiara. The research team identified approximately 90 women entrepreneurs. The majority of the findings are drawn from an analysis of data from a smaller sample group of approximately 43. Information from a small sample of men entrepreneurs was also used for comparative purposes. Information from other stakeholders including contract holders, donors, Government officers, bankers, business associations, and representatives from programs and initiatives aimed at promoting business also informed the analysis. (Appendix A provides a detailed outline of the methodology).
SECTION 2: What are the Key Characteristics of the Solomon Islands Aid Economy?
2. What are the key characteristics of the Solomon Islands aid economy?

This section maps the current extent of opportunities for, and participation of, Solomon Island women entrepreneurs in the aid economy. Recent figures regarding total aid-flows to Solomon Islands are reproduced and estimates of the proportion of donor funding that is spent locally are presented. Basic local procurement practices of major donors are outlined and a three-tier typology of the types of local business that are currently participating in aid-economy opportunities is developed. The section concludes with a description of the part played by women entrepreneurs within the local aid economy, and shows that existing viable business opportunities for Solomon Island woman entrepreneurs are not being exploited.

2.1 A small proportion of reported aid enters the local economy

Reported aid flows to Solomon Islands are amongst the highest in the world; both as a proportion of GDP and in terms of Official Development Assistance (ODA) per capita. ODA from all sources reached 40 percent of GNI in 2008 and totaled US$229 million. Around 75 percent of ODA is from Australia, with New Zealand, the European Community, Taiwan (China), the Asian Development Bank, and the World Bank Group also significant donors. A large part of international aid is channeled through the Regional Assistance Mission to Solomon Islands (RAMSI) – a regional peacekeeping and recovery operation, with activities in policing, security, economic governance, and other areas. More than 700 expatriates currently live in Honiara, with a large majority employed by donor agencies or private firms supplying donor contracts.

Various estimates from the Peace Dividend Trust, World Bank, and Central Bank of Solomon Islands, suggest that less than 20 percent of reported ODA is being spent within the local economy – either through direct procurement of donors or expenditure by expatriate staff. The vast majority of expenditure is either used to directly purchase imported goods and services from foreign companies, or is repatriated in the salaries and expenses of staff and consultants.

This low proportion of domestic aid expenditure is not unusual. It is relatively high compared to other peacekeeping operations around the world – where operations are often designed to minimize disruptive local economic impact – but low compared to more typical general civilian aid programs.²

²The Peace Dividend Trust estimates that the average local economic impact of several UN peacekeeping operations was around 7 percent of total reported expenditure.
The proportion of local aid expenditure in Solomon Islands reflects the nature of the economy, the sectoral allocations of aid, and the modalities that are used. As a small, undiversified economy, a large proportion of overall spending is on imports both within and outside the aid economy. While aid to security and governance sectors serves a valuable economic purpose in providing the necessary conditions for market activities, high security expenditure is typically associated with low local impact, as is international technical assistance provided in Government ministries. Direct budget support is little-used in Solomon Islands, but it typically leads to the greatest local economic impact.3

Box 2.1: Employment and growth in the Solomon Islands economy

There are substantial gaps in data and information regarding participation in the Solomon Islands economy. Labor force data is not systematically collected. There has not been a recent labor and employment survey.

Rapid economic growth (averaging 7 percent per annum between 2003 and 2008) has led to the creation of many jobs. Growth, however, has been concentrated in unsustainable extractive logging and the aid-reliant service sector. In 2009 the economy contracted by 2.2 percent, due to the impacts of the economic crisis on demand for logs and other agricultural commodities. Future growth prospects remain uncertain, and Solomon Islands is likely to become increasingly reliant on uncertain mining prospects as natural forest stocks are exhausted.

The National Provident Fund records 48,385 formal sector jobs, with 72 percent of these taken by males. The logging sector accounts for the largest number of jobs overall, while the education sector is the largest employer of women. The vast majority of the population remains primarily engaged in small-scale agriculture, with women playing a very active role in all stages of the production process.

Recent World Bank research suggests endemic unemployment in urban areas. Small surveys of those aged between 15 and 30 in Honiara settlements indicated an unemployment rate of nearly 70 percent. These surveys also showed a substantial wage differential between men and women, with women earning approximately 8 percent less than men with this difference resulting both from differential pay for similar work, and over-representation of men in well-paid jobs.

2.2 Donor procurement practices influence the nature of local participation

The extent to which aid expenditure has a local economic impact is strongly influenced by the procurement practices used by donor agencies, and by Government agencies administering donor projects. These practices influence the types of opportunity available to Solomon Island businesses. Donor agencies use three distinct procurement practices, and businesses participating in the aid economy can be loosely categorized into three types.

2.2.1 Donors use three types of procurement

Donor agencies typically follow standard policies that prescribe procurement mechanisms according to the value of a contract. Typically, policies allow three methods of procuring goods and services: 1) open competitive tender – national or international advertised tender opportunity; 2) closed tender – a limited number of tenders are invited to submit proposals; and 3) sole sourcing or direct approach – three quotes are sourced from local suppliers. The value thresholds for procurement vary depending on the donor. Value thresholds for sole sourcing or direct approach are between AU$20,000 and US$50,000 depending on the donor. Figure 2.2 provides typical value thresholds taken from the New Zealand aid program procurement guidelines.
While thresholds are substantially lower, the Solomon Islands Government’s formal procurement processes closely resemble those of donors. Government guidelines require an open tender process for amounts in excess of AU$5,000. Periodically, RAMSI tenders internationally for four large contracts to procure a range of services and goods. Three Australian companies – GRM, SKM (Sinclair Knight Merz), and HK Logistics – hold these contracts. GRM holds two large contracts: the RAMSI Governance Support Facility (RGSF) and the Law and Justice Facility. This research focused on the RGSF, which manages the recruitment, logistics, housing, and vehicles for RAMSI staff and approximately 90 advisors. The RGSF contract is AUD$106 million. The facility has spent approximately AU$25 million per year since 2005, making it the largest aid contract in Solomon Islands. SKM works directly with the RAMSI Infrastructure Unit and holds additional contracts for security upgrades, maintenance, and construction with AusAID, RAMSI and the Solomon Islands Government. HK Logistics has only recently won a large contract to provide accommodation and catering for the participating police force at Guadalcanal Beach Resort (GBR).

Winning a bid advertised by foreign donors through an open tender process is beyond the capacity of most local businesses, because of their small size and limited production range. Small value contracts are more within the range of local entrepreneurs. These can be offered either by tender or direct selection and are usually awarded on a value for money justification. The contracting process requires only the provision of three quotes. Some donors use local tender processes to offer small value contracts, but small numbers of local suppliers mean that this process is often not used, with donors often awarding contracts directly to a preferred and established supplier. While this is convenient and saves time, a small number of companies come to dominate aid economy contracts. Bidding for and winning a Government tender is more realistic and offers the best prospects for most Solomon Island entrepreneurs.

*Figure 2.2: Examples of procurement thresholds (NZAID)*

<table>
<thead>
<tr>
<th>Value of goods or services</th>
<th>Method of procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than NZ$20,000</td>
<td>No tender is required</td>
</tr>
<tr>
<td>Between NZ$20,000 and NZ$100,000</td>
<td>Closed tender required</td>
</tr>
<tr>
<td>Greater than NZ$100,000</td>
<td>Open tender required</td>
</tr>
<tr>
<td>Management Services Contract</td>
<td>Multi-stage open tender required</td>
</tr>
</tbody>
</table>

While thresholds are substantially lower, the Solomon Islands Government’s formal procurement processes closely resemble those of donors. Government guidelines require an open tender process for amounts in excess of AU$5,000.

Periodically, RAMSI tenders internationally for four large contracts to procure a range of services and goods. Three Australian companies – GRM, SKM (Sinclair Knight Merz), and HK Logistics – hold these contracts. GRM holds two large contracts: the RAMSI Governance Support Facility (RGSF) and the Law and Justice Facility. This research focused on the RGSF, which manages the recruitment, logistics, housing, and vehicles for RAMSI staff and approximately 90 advisors. The RGSF contract is AUD$106 million. The facility has spent approximately AU$25 million per year since 2005, making it the largest aid contract in Solomon Islands. SKM works directly with the RAMSI Infrastructure Unit and holds additional contracts for security upgrades, maintenance, and construction with AusAID, RAMSI and the Solomon Islands Government. HK Logistics has only recently won a large contract to provide accommodation and catering for the participating police force at Guadalcanal Beach Resort (GBR).

Winning a bid advertised by foreign donors through an open tender process is beyond the capacity of most local businesses, because of their small size and limited production range. Small value contracts are more within the range of local entrepreneurs. These can be offered either by tender or direct selection and are usually awarded on a value for money justification. The contracting process requires only the provision of three quotes. Some donors use local tender processes to offer small value contracts, but small numbers of local suppliers mean that this process is often not used, with donors often awarding contracts directly to a preferred and established supplier. While this is convenient and saves time, a small number of companies come to dominate aid economy contracts. Bidding for and winning a Government tender is more realistic and offers the best prospects for most Solomon Island entrepreneurs.

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*www.nzaid.govt.nz last sourced 2 July 2010.*

*New financial and procurement instructions are soon to be gazetted.*

*These three companies participated in this research.*
2.2.2 Three categories of business participate in the aid economy

A cursory appraisal of business providers and core suppliers to RAMSI, the Solomon Islands Government, and other donors demonstrates three groups of entrepreneurs dominate the aid economy. These three tiers of suppliers within the aid economy reflect the three methods of procurement.

The first tier comprises a handful of international firms who hold direct major procurement contracts with RAMSI, offering a range of goods and services under a single arrangement, and typically subcontracting various contract components to Solomon Island or other international suppliers.

Suppliers within the second tier consist of locally based family businesses, often owned or managed by long-term expatriates. These businesses supply a range of goods and services including drinking water, personal security, hardware, small-scale construction, some furniture and fittings, human resources, swimming pool maintenance, information technology equipment, some fresh and manufactured produce and vehicles and maintenance. Typically, these contracts are issued annually through a closed tender or by directly approaching sole suppliers. Silentworld is a local company, owned by an expatriate. Silentworld is contracted to maintain generators, remove rubbish, and provide logistical support. BJS, another expatriate owned company, offers a range of services such as international movers, customs clearance, induction training, and human resource management.

The third tier encompasses Solomon Island businesses, usually sole traders who provide small value goods and services. The opportunities available to these groups are limited to real estate, catering, cleaning, flowers, consultancy, manufacturing of soft furnishings and uniforms and office supplies, and services such as photocopying. Becoming a supplier at this level is comparatively easy due to a perceived lack of competition and more lenient contracting procedures. While opportunities within the first and second tier are only available to registered suppliers, most donors do not require sole traders for small value contracts to be registered. However, opportunities available to the third tier of suppliers are for ad hoc orders, which are not widely publicized. Becoming a regular supplier within this tier is more likely if the trader has an existing personal or professional relationship with the Government, donors, or larger companies.
2.3 Women entrepreneurs currently play a constrained role within the aid economy

Women entrepreneurs in Honiara generally operate small businesses, in a relatively narrow range of sectors, with very limited access to donor contracts.

The majority of women entrepreneurs in Solomon Islands operate very small businesses, or work as sole traders. The expatriate market provides the greatest opportunities for women entrepreneurs. About half of the 90 businesses involved in our research serve an expatriate customer base. These businesses supply real estate services, beauty services, food, administration assistance, handicrafts and retail services. Notably, at least ten women entrepreneurs included in this research have diversified their business portfolio by entering the rental market as landlords in Honiara. Expatriate women own ten of the businesses supplying the expatriate market including in childcare, ice-cream shops, gift shops, drinking water, boutiques, and a bakery. A number of expatriate women also provide tuition and coaching in music, sports, art, and cooking from home.

Some women entrepreneurs are participating in subcontracting opportunities. The four large RAMSI contracts provide a range of sole source opportunities for women entrepreneurs. Four women hold regular contracts as suppliers of milk, security services, groceries, and catering services. Many others receive occasional orders for catering, cleaning, office supplies, or manufacturers of soft furnishings or handicrafts.

Participation in direct procurement is very limited. Only 25 out of the 90 women surveyed for this research had experience as suppliers in the aid economy. The women in this research who are suppliers within the aid economy tend to access opportunities described in the third tier – sole traders providing small value contracts for goods and services. Less than 10 women included in this study have experience applying for tenders. Only three of these women were successful: one national and two long-term expatriates. Often small contract opportunities were tapped by coincidence, through word of mouth or a personal contact. None of the casual suppliers hold formal supplier contracts. Instead, they operate on an order-by-order basis.

Women tend to base business ideas on observed successful businesses. Women also referred to a Ministry of Commerce list of business opportunities “reserved” for Solomon Island entrepreneurs for business ideas, despite the fact that such reservations have never been effectively monitored or enforced.
A range of quantitative and qualitative evidence suggests that a number of unmet business opportunities exist within the Solomon Island aid economy – opportunities for women entrepreneurs in supplying Honiara’s expatriate population and participating in direct donor procurement. Detailed quantitative analysis suggests that many of these businesses could be profitable.
2.4.1 Business opportunities targeting the expatriate market

The high inflow of aid has seen the expatriate population in Honiara grow to approximately 700. Expatriates with high disposable incomes have created a new market segment and increased the potential for new businesses in Honiara. Interviews and workshop results suggested that unmet potential business opportunities targeting expatriates include:

- Expanding recreational opportunities, such as kayak hire, hiking, and water sports;
- Bars and cafes, including fresh juice bars;
- Services providing a larger range of fresh food, fruits and vegetables, and imported specialty items;
- Casual cleaning and domestic help;
- Childcare and children’s tuition, and recreation activities; and
- Services providing delivery of goods and services, such as beauty services conducted in the homes of expatriates.

2.4.2 Business opportunities supplying donor agencies

Donors, private businesses, and the Government mentioned the need to expand opportunities supplying donor agencies beyond the contracts currently held by major suppliers. This could be achieved through 1) breaking up existing large contracts; 2) sub-contracting to major contracting firms; or 3) opening up new supply opportunities by outsourcing additional roles. Specifically cited opportunities include:

- Individual Solomon Island consultants or Solomon Island consultancy companies to provide professional and administrative services;
- Provision of centralized cleaning services to major agencies;
- Provision of laundry / dry cleaning services to major agencies;
- Manufacturing of uniforms and soft furnishings; and
- Provision of construction services, including painting and laboring.

Women in Business: Lavalynn Grossmith, Lava’s Original Fashionwear. Lavalyn’s tailor shop is located in the heart of Renadi, the industrial centre of Honiara. The shop is small and she shares it with her husband who is an architect. Lavalyn has three sewing machines and overlockers. Her proximity to the GBR base has opened up opportunities within the aid economy. Previously, Lavalyn used to make costumes for GBRS themed parties. She has also been asked to make curtains for the base. The curtain making started as a small job, but now Lavalyn has been asked to make curtains for the entire base and Aspen medical centre. She has also made uniforms for BJS and Government clients. The majority of Lava’s business now comes from expatriates and RAMSI.
2.4.3 Quantitative analysis of potential business opportunities

Basic financial modeling of a set of four representative business opportunities (laundry services, juice bar, centralized cleaning services, and mobile pre-pay card on-selling) demonstrates that they would be financially viable.

An Excel spreadsheet was used to model likely revenue, operating and fixed costs for each business at various levels of output. Price and cost information was drawn from a variety of sources, including interviews with business people and banks, Solomon Islands-specific research, and international reports on cost structures of particular industries. A full description of this work is presented in Appendix B.

The following assumptions were applied in the construction of business models:

- 50 percent bank financing of initial investment at an interest rate of 18 percent;\(^7\)
- The expatriate market will be willing to pay prices equal to prices charged in Australia for similar goods;
- First-movers into these activities may be able to sustain prices in excess of marginal cost in the absence of competition for some time, especially if the business has natural-monopoly characteristics;
- Wages of SBD5.00 per hour for unskilled staff, and SBD15.00 per hour for administrative or store-manager level staff;\(^8\)
- Rental price of SBD300 per square meter per month;
- Constant returns to scale over modeled production range;
- Straight line depreciation of capital equipment (including vehicles) at 10 percent; and
- Overall business tax on profits of 35 percent.

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\(^7\) Interest rate reflects reported commercial borrowing rates at main banks in mid-2010.

\(^8\) These wages reflect information from interviews with Honiara entrepreneurs and contents of the Solomon Islands Chamber of Commerce and Industry wages and salary survey.
The results of this modeling suggest:

- **Viable opportunities exist.** All of the opportunities that were analyzed appear feasible under a range of plausible input assumptions. These business opportunities could be pursued by women entrepreneurs with support from the private sector, donors or the Government.

- **Scale matters.** A key variable in determining the likely profitability of identified opportunities is the scale that these businesses would be able to achieve. Achieving comparatively large turnover and volumes within the small Honiara market appears vital for business sustainability, emphasizing the importance of investment in market research, marketing and good choice of business location.

- **Capital constraints are not binding.** Even for comparatively capital intensive businesses such as dry cleaning, capital costs accounted for only a very small proportion of overall costs. This suggests that high costs of finance in Solomon Islands are unlikely to be the binding constraint on this type of business venture (although problems with accessing finance may be very important).

- **Rental prices are a key cost.** Rental prices are a core cost, and account for the greatest proportion of costs for three of the four opportunities identified. Resolving current land issues in Honiara may play an important role in reducing business costs and facilitating women’s investment in the aid economy. Also, identifying mobile businesses (such as services rendered in your own home), street selling or internet based businesses, which do not incur rental expenses should be seriously considered by budding women entrepreneurs.
SECTION 3: Why Increase Participation of Women Entrepreneurs in the Solomon Islands Aid Economy?
Increased participation of women entrepreneurs in the Solomon Islands economy is desirable. This section explains 1) the potential benefits from increased local economic impact from aid flows; and 2) the potential benefits of ensuring that women access a larger proportion of opportunities arising from local economic impacts.

3.1 Increased local spending can facilitate growth, reduce poverty, and mitigate risk of conflict

More aid money could be spent locally, if:

- Locally-owned companies won more contracts to supply donor agencies with goods and services;
- Donor agencies were supplied with more locally-produced goods, through supply contracts held by Solomon Island or international companies;
- Donor agencies directly employed more Solomon Island staff to provide various services; and
- Expatriate aid staff had opportunities to purchase a broader range of goods and services locally, and therefore spent a greater proportion of their salaries and expenses on goods and services within Solomon Islands, rather than repatriating money back to their home-country.

If these things happened, Solomon Islands could benefit in three ways. Firstly, the skills and knowledge acquired by Solomon Island entrepreneurs and workers from increased participation in the local aid economy would expand Solomon Islands’ capacity for successful participation in the global economy. Secondly, increased local aid expenditure is likely to expand income-generation opportunities available to Solomon Islands in both rural and urban areas. Finally, increased local expenditure can lead to an expansion of Government revenues and the tax base, at a time when the Government is facing severe revenue pressures.

3.1.1 Expanding skills and knowledge for successful participation in the global economy

The Solomon Islands economy remains small, poor, and largely subsistence-based. Only a tiny minority of households depend on formal-sector employment or cash-generating businesses. Financial literacy is low, and Government regulations are non-transparent and poorly understood. A key finding of this analysis is that thinness of markets (a small number of buyers and sellers for most goods and services) and lack of familiarity with the cash economy and entrepreneurialism inhibit the recognition and exploitation of market opportunities in Solomon Islands in at least two ways.
Firstly, thinness and lack of scale increase unit costs. The small size of local markets means that it is often difficult for local producers to achieve production or transport at economic scale. The lack of existing supply chains increases the costs of finding inputs, or wholesalers to supply.

Secondly, thinness creates huge information problems for prospective entrepreneurs. With a relatively small number and narrow range of businesses operating, it is very difficult for prospective entrepreneurs to understand the likely viability of potential enterprises. Entrepreneurs are not exposed to good cost and market information, have limited capacity to deal with often non-transparent business regulations, and little exposure to basic business good practices related to accounting, investing and researching potential markets.

In this context, increasing local aid spending can prime the pump of private-sector development. Offering domestic market opportunities – and providing support to businesses in taking advantage of these opportunities – can build better entrepreneurial capacity and general business skills. A flow of demand to the private sector can allow its development to a scale where some of the clearest diseconomies of scale, such as those relating to labor-market thinness, high transport costs, and low management capacity, may begin to be overcome. In short, a period of aid-led demand can sow the seeds of entrepreneurship that underpin private-sector development, and might eventually assist in broadening Solomon Islands’ export sector.

Box 3.1: Information problems as a barrier to entrepreneurialism

Recent economic theory and evidence has shown that innovative entrepreneurial activity (a new type of business, producing a good or service that has not previously been produced domestically) creates potentially huge benefits for an economy overall, but also carries high risks.\textsuperscript{9} Innovative entrepreneurial activity effectively tests the cost structures of the economy and renders them transparent for all other potential investors. But the innovator may not capture the social benefits if they are competed away by “copy cat” businesses: if the innovative business succeeds, subsequent investors do not face the same uncertainty and risks. These copy-cat businesses can enter an industry at a lower cost, and compete with innovators, eroding returns to the original innovator. Innovative entrepreneurial activity in any society is therefore likely to be below socially optimal levels, with initial innovators bearing all the risks of innovation, but with the benefits largely socialized.

In Solomon Islands, cost structures may be particularly opaque, increasing the importance of successful "example" businesses. A very limited range of goods and services are domestically produced. The informal, non-cash economy accounts for a large proportion of production, and many areas (where most people live) have very little exposure to market practices of production. Participants in the formal economy must operate within a range of overlapping and complex formal and informal regulatory regimes. Cost structures may be especially difficult to discern for women, who tend to have less experience in formal economy employment and entrepreneurialism. In this context, interventions that foster entrepreneurship and innovation provide a valuable public good.

3.1.2 Expanding income-generating opportunities for Solomon Islanders

As well as seeking to promote economic growth, donors are also concerned about poverty and conflict. Increased local aid spending, if approached carefully, has the potential to both reduce poverty and the risk of conflict.

Increased aid expenditure does not expand opportunities if it simply leads to the reallocation of employment from one sector to another (i.e. production moving from exports or goods consumed by Solomon Islanders, to goods consumed by aid agencies or expatriates) (See Box 3.2). In Solomon Islands, however, formal employment is very low, opportunities to generate cash are often scarce and an increase in the aid-related sector of the economy does not have to occur at the expense of other sectors. Increased local aid spending – especially if providing supply opportunities in rural areas or employment to low-skilled workers – could often lead to increased overall employment and production of the economy. When this is achieved, local aid expenditure can have a direct positive impact on incomes, opportunities, and standards of living.

3.1.3 Expanding Government revenues

Increased local aid expenditure can improve the revenue situation and expand the tax base, in the context of the projected decline in logging.

Most directly, if donors increase the proportion of procurement undertaken by Solomon Island companies and expatriates spend more of their benefits and salaries within country, firms supplying donors and expatriates will pay more taxes in Solomon Islands and fewer to governments overseas. This represents a direct transfer to the Solomon Islands Government. Increased Solomon Island employment by donors may have particularly large impacts, given the current tax and duty exemptions granted to expatriate staff.

In the medium-term, increased local procurement can foster the development of a cash economy, and promote formalization. This broadens the overall tax base, providing durable revenue gains to the Government.
Box 3.2: The dangers of Dutch disease

There is a common theoretical argument that increased local expenditure (expenditure on locally produced non-tradable goods and services) accompanying increased aid inflows could hurt export competitiveness and growth. This theoretical argument may, however, have limited applicability to the Solomon Islands context.

Only a certain amount of labor and other inputs is available within any economy. Donor funded purchases (Note: it could be Government purchases as well as long as it is financed by aid, including budget support) increase demand and bid up prices of these inputs. Local firms supplying local markets can simply increase prices to reflect increased input costs. This option is not available to exporters who cannot pass on cost increases, as they face set world prices. At the same time, higher prices for local goods and services mean that imports (for which prices are also determined by the world price) become relatively cheaper, and therefore more appealing to consumers. The combined impact is a reduction in exports – and resources invested in export sectors – an increase in imports, and a widening of the trade imbalance. When aid-flows are reduced in future, the economy may face high adjustment costs in reallocating resources back to export sectors. In the interim, the aid recipient may lose the expertise and other capacities that it has built up in various export sectors, as well as any ongoing benefits arising from having a vibrant export sector (much evidence, for example, suggests that export sectors are a primary source of innovation and productivity growth).

Empirical evidence of the applicability of the model presented above is mixed, and there are many examples where aid flows do not seem to have adversely impacted on export sectors. A feature of the model, which may not be especially applicable in Solomon Islands, is that it assumes an economy within which all resources are fully employed. In Solomon Islands, many resources, including unskilled labor, are often not fully utilized, or utilized extremely inefficiently. If increased local demand, through appropriate supporting policies and knowledge transfers, leads to the mobilization of available but underutilized resources, the productive capacity of the economy can expand. Demand for local resources can be accommodated at current prices. Aid-related demand can be met from new sources of production, rather than through a reallocation of resources from the tradables sector. In Solomon Islands, aid is often explicitly intended to increase supply by addressing problems such as poor security, weak institutions, and poor infrastructure and human capital. Expenditure on roads, education, health, and security does not therefore simply have a demand-side impact, but also increases productivity and production. Aid inflows that improve infrastructure, skills and capacities, deliver increases in productivity, and reduce instability and the risk of conflict will not necessarily lead to price increases, as supply can increase at the same pace as demand.

Another potential limitation to the model’s relevance to Solomon Islands arises in relation to the expected duration of donor support. A key perceived risk of local economy donor expenditure is the adjustment costs following donor exit, when resources must be reallocated to export or non-aid related sectors. In Solomon Islands, however, it is reasonable to expect a high level of donor expenditure for the medium-term, with no signs of an easing in the security situation, or of economic growth sufficient to drive locally-funded service delivery to Millennium Development Goal levels. It is appropriate to somewhat discount the potential costs of adjustment given that they are unlikely to arise in the near future.

Overall, the above implies that large increases in local expenditure that impact only on consumption without addressing supply-side constraints should be avoided (examples of undesirable consumption expenditure might include salary supplements or subsidies). Risks of negative macroeconomic impacts can be minimized, and positive contributions to employment, social stability, tax revenues, and productivity maximized, if local aid expenditure leads to the development of expanded productive capacities. A key focus of this study is therefore identifying ways in which donors can promote increased participation in the aid economy in ways that simultaneously expand overall productive capacity.

10 Younger (1992) and Sackey (2001) analyze the impact of aid on macroeconomic performance and the RER in Ghana, but with conflicting results. White and Wignaraja (1992),Vos and Johansson (1994), Adenauer and Vagassky (1998), Vos (1998), and Nyoni (1998) analyze the macroeconomic problems associated with large aid flows to Sri Lanka, Nicaragua, African countries of the CFA franc zone, Pakistan, and Tanzania, respectively. These studies have also reached different conclusions as to whether aid has caused the Dutch disease. In Melanesia, Gounder (2002) finds a positive relationship between foreign aid and economic growth in the Solomon Islands. Feeney (2005) finds that the rate of inflation, real exchange rate appreciation, negative export price shocks, and environmental shocks all have a negative impact on rural sector production, though that aid has no impact on rural production, and a positive impact on economic growth.
3.2 Increased participation by women entrepreneurs brings broader social benefits

International evidence suggests that fostering women’s participation in economic development is likely to lead to more sustainable and substantial development benefits for two reasons.

Firstly, women have been shown to respond more effectively to initiatives designed to foster private-sector development in contexts where there is little familiarity with cash or the formal sector. The superior performance of micro-finance mechanisms specifically targeting women provides one example of this, with women more likely to meet repayments, reinvest profits and achieve sustainable business growth.

Secondly, a broad range of international evidence has shown that increased incomes to women are more likely to translate into improved social outcomes. Expansions in women’s incomes is more clearly associated with improved health and education outcomes for children, and economic empowerment of women leads to improvements not just for women, but also for their families, communities and ultimately the country as a whole.¹¹

Figure 3.1: Poverty and gender equality¹²

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¹² Source: Morrison, Raju and Sindha (2007). The scatter plot shows 73 countries. The poverty line is defined at US$2 per day.
SECTION 4:
What is Currently Constraining Greater Participation by Women Entrepreneurs?
4. What is currently constraining greater participation by women entrepreneurs?

Constraints to greater women’s participation in the aid economy can be categorized under five headings: security and stability concerns, information problems, skills gaps, procurement practices and business environment issues.

4.1 Security and stability concerns

Perceived continued risk of conflict and violence, and uncertainty regarding the continued presence of an international peacekeeping force, is constraining participation by women.

The Tensions and subsequent political instability has left a pronounced legacy on businesses owned by women. Most women involved in this study closed their businesses during the Tensions, but have reopened their doors in the last five years. Several women, however, cited political uncertainty and perceived risk regarding the return of conflict as a reason why they would not expand their businesses. Several women wanted to relocate their businesses to the province, or diversify into farming or rural development, in order to avoid the perceived greater likelihood of exposure to violence or conflict in Honiara.

Perceived risk of conflict may disproportionately inhibit entrepreneurship by women, given social and cultural expectations that women remain primary caregivers to children. Women may be more averse to the risks of entrepreneurship in the context of potential conflict, and less willing to relocate to areas where conflict is perceived as likely. Security concerns were not mentioned by men during workshops discussing constraints to business activity.

4.2 Information problems

Interview and workshop evidence suggests that information gaps play a key role in limiting women’s entrepreneurship within Solomon Islands. Many women lack the market, price and cost information required for entrepreneurship and successful engagement in the formal-economy.

Basic knowledge of how businesses work is acquired in most contexts through exposure to successful businesses. Potential entrepreneurs can see what works and what doesn’t work. They can learn from others’ success, and establish copycat businesses. They can observe business failures, and gain lessons from that failure that can be used to guide their own venture.

In Solomon Islands, basic knowledge of how markets and businesses work is not widespread, because locally-owned example businesses are relatively few. Solomon Islands remains a largely subsistence economy, with around 85 percent of the populations still reliant on subsistence agriculture. The economy is small, with GDP at just over US$1,000 per annum. Since the Tensions,
the role of the public sector has grown considerably, with aid and the Government accounting for at least 50 percent of production.

In the context of big government and poor governance, small markets are often distorted through the presence of regulations or subsidies, or through the exercise of market power by one or more participants. Many successful businesses cannot be replicated because of regulatory barriers to entry, or the ability of incumbents to exercise market power. Businesses that should be viable sometimes encounter problems because of poor regulation or unfair competition. Businesses that might fail in many contexts sometimes succeed, simply through holding an inadequately monitored procurement contract.

The existence of an unusually small and highly distorted private sector limits the nature, quantity and quality of information available to prospective entrepreneurs on the following topics:

- **Basic information about how taxation and the economy work.** During focus group discussions women discussed a fear of registering their businesses in case they received high tax bills. This reflected misunderstanding of how taxation worked. Some women held and shared distorted perceptions regarding the overall functioning of the economy, and the role of donors, banks, and the Government (similar confusion was apparent among some male entrepreneurs). Some women seemed resigned to not understanding and not being able to access the right information.

- **The extent of opportunities within the aid economy.** Very few of the women involved in this research had information regarding the duration of RAMSI’s presence. None had information to assess whether the aid economy could provide a robust and durable market. The RAMSI website does not mention local procurement processes. HK Logistics are buying locally wherever possible, but this has not been advertised. There was a clear lack of knowledge regarding the extent and probable duration of donor expenditure among both women and men. Some women and men believed that foreign donors did not undertake any local procurement. Women often believed that expatriates did not spend enough money locally to make them a viable target market.

Women in Business: Ning Gabrino, Ning’s Bakeshop, Popoy’s Grill, and Mum’s.

Ning was born and educated in the Philippines but became a citizen of Solomon Islands in 2004. Twenty years ago she moved to Solomon Islands for work. Ning, an accountant by profession, is familiar with banking procedures and regulations. When she wanted to open her bakery, she applied for a business loan. Ning was initially denied the loan due to insufficient security relative to the specialized machinery required for her business. But through perseverance and approaching other banks, she finally got the much needed capital for Ning’s Bakeshop. Today as the President of SIWIBA, Ning is helping other women access finance and start becoming entrepreneurs themselves.

“Expatriates don’t spend money in Solomon Islands. They don’t come to my shop because they don’t like queuing up. It’s better to open a business for locals.”

– Woman entrepreneur
The nature of opportunities within the aid economy. Women often cited or demonstrated a lack of familiarity with the tastes and requirements of expatriates. Women mentioned examples of entrepreneurs making ill-advised changes to their business-models or products based on inaccurate information regarding what was likely to appeal to expatriate markets, or meet the procurement requirements of donor agencies. Some of the women successfully catering to expatriate markets had strong personal connections with expatriates, and had spent time overseas.

Price structures and business planning. Potential entrepreneurs often lack knowledge regarding the costs of establishing and operating a business, and production volumes required to attain sustainability. Often, women did not know how to assess the potential viability of a business idea or take the initial steps towards establishing a business. There were examples of poor pricing practices, with little knowledge of how to engage effectively in price and non-price competition, and some women setting prices below the costs of production. Lack of access to finance was commonly cited as a barrier to establishing a business, but many women assumed that capital raising could only be achieved through family, wantok, or fundraising, with little familiarity of the concept of accessing investment on commercial terms from other businesses and individuals, or obtaining loans through banks and concessional donor programs. These knowledge gaps were less prevalent among men involved in this research, but these men were also generally more experienced and had operated businesses for longer.

Availability of basic information regarding business and the economy may be particularly limited to women because of socio-cultural norms and expectations which sometimes associate women with household production rather than income-generation, and discourage formal ownership of businesses by women.

“Every time I travel I look out for new ideas. In the Solomon Islands we don’t have much but what we do have you can turn into something beautiful like you see in a magazine. My ideas for business are deep within me. I am a creative person. I have not studied anything like design but I always ask friends to buy me magazines and when I am on the internet I can see ideas from other countries. Then I can adapt them to here. But I don’t advertise my business. I just tell people, contacts, friends in Government that I can plan their wedding or event. This is the Pacific way of doing business.”

– Woman entrepreneur
4.3 Skills gap

Existing programs to support skill development for women’s entrepreneurialism are provided through NGOs, Government, business associations, and donors. While these fulfill a range of useful functions, they do little to address many of the information problems identified above. Further, existing business support and training focuses on an inadequate set of skills and implicitly reinforces the restriction of women’s participation to very small businesses providing a very limited range of goods and services.

**Non-government organizations** provide women with a range of support for livelihood or business activities:

- **Livelihood skills.** The Ministry of Women, Youth and Children’s Affairs (MWYCA), Women’s Development Division, the Soroptimists, and Church groups provide women with livelihood skills in sewing, cooking, flower arranging, and second hand fabric dying. This type of skills training has provided a low risk opportunity for many women in the country to make money, albeit small amounts, periodically on an as needs basis.

- **Business mentoring.** Australian Business Volunteers (ABVs) provide business mentoring services, which have been accessed by some women entrepreneurs. The ABV model appeals to many women in business, with volunteers able to transfer a broad range of useful skills over a period of three to four months. The matching process for volunteers, however, is lengthy and there is no guarantee that a suitable candidate will be identified.

- **Technical advice.** Staff from Kastom Gaden Association and the Agriculture Livelihood Program have been called upon by a few women to provide technical or business assistance or advice. The resources of these organizations are stretched, however, and only limited assistance was able to be provided.

**Government** provides various subsidies and regulatory support for Solomon Island entrepreneurship:

- **Reserved list.** The Foreign Investment Act 2005 and the Foreign Investment Regulations 2006 provide a list of business opportunities that are not open to foreign investors. The list includes: operating public transport such as buses and taxis, fast food, handicrafts, marketing and cleaning services including hotel cleaning and domestic help. Although the Ministry for Commerce no longer monitors this list, women entrepreneurs continue to use it to identify potential business opportunities.

- **International scholarships.** The Government promotes skill acquisition, including for private-sector development outcomes, through provision of international academic scholarships.

- **Business “incubation”.** The Honiara City Council (HCC) is promoting women’s entrepreneurship through the “business incubation shops” at the Honiara Central Market and Kukum. The business incubation program offers cheap rent to at least two shops in the market for women entrepreneurs for a period of two years. Women reported difficulty in accessing information about the program, and believed that a business incubator needs to offer more than subsidized rent.

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14 A total of 24 shops are available for rent at the two sites, however only two of these are reserved for women. This does not prevent women from applying for and being awarded more tenders.
Women who already have business ideas can access training and support from education institutions and business associations including the Small-Medium Enterprise Council (SMEC), Solomon Islands Small Business Enterprise Center (SISBEC), Solomon Islands Women in Business Association (SIWIBA), and MASE Business Center. SMEC and SISBEC provide basic information on financial literacy and developing a business plan and MASE provides specific information and training on business development and operations. These groups operate across the country and courses are offered at a subsidized rate. Women comprise a large number of the enrolments.

SIWIBA is also moving in the direction of being able to offer women business advice, however, they do not have a permanent staff or premises. All executive members of SIWIBA are businesswomen themselves and contribute to the association on a voluntary basis. They provide a vital source of information regarding the activities of women entrepreneurs and a potential coordination point for future initiatives in this area. Solomon Islands Chamber of Commerce and Industry (SICCI) also provides a useful point of contact and coordination between Government, donors, and Solomon Islands businesses.

The analysis suggests several issues within existing support arrangements:

- **Programs are subject to fragmentation and lack of coordination.** The existing range of support programs has evolved on an ad hoc basis over time. There is no overriding strategy guiding the provision of assistance to women entrepreneurs, and existing support programs show gaps and overlaps.

- **Assistance can be difficult to access.** Awareness of existing programs is limited among entrepreneurs. No women in this study were taking advantage of the various subsidy and assistance schemes provided by the Government because they either did not know that such assistance was available, or did not know how to apply. There is no single point at which prospective entrepreneurs can be connected with those providing available assistance or provided with help in preparing applications.

- **Business mentoring assistance is scarce.** Accessing business mentoring assistance is difficult and there are not enough mentors to meet demand. This appeared to be of particular concern to women entrepreneurs, with men involved in this research having less need for this type of assistance. ABV is the only current mentoring program, and it cannot always match entrepreneurs with appropriate volunteers. The process of accessing assistance is often time-consuming.

- **There are gendered barriers to women accessing scholarships.** At present there are no scholarship schemes designed to increase the number of women studying business. Government scholarship programs do not attract large numbers of female applicants. The disproportionate burden of family and childcare responsibilities placed on Solomon Islands women is an important reason for the small number of female applicants, given that 1) scholarships do not always provide visa or stipend support for spouses or children; 2) NZAID is the only donor offering visa and stipend support for accompanying spouses; and 3) uptake of Government scholarships (with the exception of in-service scholarships), requires applicants to resign from their jobs and surrender entitlement to Government housing.
Existing support may reinforce culturally-based perceptions regarding appropriate roles for women entrepreneurs. Current emphasis on rural livelihoods and very small-scale service business operations may foster a continued reliance on the same business ideas, models and customer base, and inhibit development of more innovative business ideas and strategies.

Entrepreneurialism is impeded by a lack of technical skills required for maintaining competitiveness and reducing the costs of doing business. Women entrepreneurs reported a lack of options for gaining specific skills and familiarity with technology required to operate certain businesses without travelling overseas. The women in the study repeatedly mentioned courses offered by the Australia Pacific Training Centre (APTC) as a vital source of training for their businesses and noted the absence of a domestic equivalent as a key constraint. The costs of overseas training are clearly prohibitive for many entrepreneurs. Donor and Government-funded scholarships provide a scarce opportunity to observe overseas practices and absorb foreign skills, but these programs tend to concentrate on academic courses at universities in donor countries, rather than skills and practices directly relevant to entrepreneurial activity in developing countries.

Box 4.1: Does “wantokism” impede entrepreneurialism in Solomon Islands?

Collective social dynamics of the “wantok” system are often cited by international observers as an impediment to business activity. International commentators have argued that expectations that profits will be shared reduce incentives to start businesses or engage in other entrepreneurial activity, and pressures from wantok members to distribute resources and cash can impede the accumulation and reinvestment necessary for successful business development.

None of the businesses consulted by the World Bank during this and other research considered such pressures to be insurmountable, or even the most important of the barriers to entrepreneurialism. Entrepreneurs described a number of strategies for successfully dealing with wantok pressures. Entrepreneurs often located business ventures away from geographical areas where such pressures were strongest, distributed only a predetermined and commercially feasible proportion of profits to meet social obligations, or incorporated reciprocity into social arrangements – with those receiving assistance from entrepreneurs being expected to contribute labor or other assistance.

Many women entrepreneurs also mentioned benefits to entrepreneurialism arising from customary social arrangements, including:

- Improved availability of cash and resources to start businesses;
- Availability of trusted labor, at low cost or with payment delayed; and
- Sharing of risks associated with entrepreneurial activity.
4.4 Procurement practices

Procurement practices of donors and Government often constrain, or could be better used to facilitate, opportunities for participation by women entrepreneurs.

- **Sole-sourcing reduces transparency and restricts the number of women who can participate as suppliers.** The common donor practice of consistently approaching a single, established sole-source supplier for small contracts reduces opportunities for entry of new participants, and may also increase costs for donors by inhibiting competition.

- **Donors are not making best use of social responsibility provisions in procurement guidelines.** While almost all donor procurement policies promote the participation of small business, only two promote principles of gender equality and social inclusion. Inclusion of gender considerations in procurement processes could be considered by donors that do not currently have such provisions. Donors that already have gender provisions could make greater use of them to create opportunities for women entrepreneurs and women more generally. AusAID provides no clear instructions on how gender clauses in procurement policies can be operationalized. NZAID requires all tendering businesses to provide a justification of how they will address principles of gender equality. It is not clear, however, that NZAID is currently able to accurately monitor compliance with this requirement.

- **Women lack experience in applying and preparing tenders.** New entrepreneurs often lack familiarity with standard contracting processes and do not have sufficient knowledge to complete tender documents to the standards required by donors.

- **Liquidity requirements and international standards impose unnecessary barriers.** For some contracts, donors require businesses to be registered and able to demonstrate financial capacity to cover the cost of the contract. For most of the small businesswomen involved in this research, demonstrating this kind of financial cover was not possible given difficulties in acquiring credit and time costs of working with commercial banks. For female entrepreneurs to win large contracts through tenders they also needed to comply with a range of international standards (health and safety, certification of organic produce etc.). Many small businesses lack the capacity and financial resources to acquire necessary certification.

- **Government procurement practices are not always transparent and sometimes seem arbitrary.** Solomon Islands Government tenders are perceived as arbitrary and non-transparent by both women and men entrepreneurs, and entrepreneurs are seldom aware of the criteria used by the Government in awarding contracts. This discourages investment of time and effort in pursuing contracts and makes it difficult for entrepreneurs to change products/services to increase chances of success in tendering.
4.5 Business environment issues

Women entrepreneurs face general business-environment barriers in establishing businesses within the aid economy. A full appraisal of the Solomon Islands business environment is beyond the scope of this report, but key business-environment issues raised by participants in this study included:

- **Regulatory barriers, although not binding, are often time consuming and difficult.** Women entrepreneurs are seldom required to pay bribes or make other illicit payments. But rules and regulations are often non-transparent, and personal connections and lobbying are often required to acquire necessary permissions and approvals, as well as to access available Government business-support programs. The businesswomen included in this research described the importance of the elite business owners in Honiara. Most women talked about the value and significance of establishing good relationships with Government officials and politicians in order to “make things happen”. Successful entrepreneurs often had connections to senior officials, politicians, or expatriates with business experience. One woman explained the measure of a successful businesswoman is someone who can knock on the door of a Minister to get information. Realistically, most women do not have the time, gumption, or necessary relationships to make this happen. This creates difficulties for new entrants without personal connections, and requires a substantial investment of time and effort from all entrepreneurs.

- **High rents and land registration processes restrict the expansion of women’s businesses and the ability to use land as collateral.** High rentals and a lack of access to finance are both key issues cited by women entrepreneurs. Costly, time-consuming, and risky process for land transactions, including the registration of customary land, both increase the costs of land in Honiara, and impede the use of customary land as collateral by prospective women entrepreneurs. Limited availability of rental space constrains opportunities and means that businesswomen pay a lot for space from which to operate their businesses. During focus group discussions women described being unable to find rental properties large enough to accommodate growing businesses, while others could not afford to remain in their current locations.

“Getting my company name approved was the hardest thing which naturally you think would be the easiest. I wanted to give up on a number of occasions. I couldn’t believe how difficult it was to get simple things done. The only thing that kept me going was how far I had come already.”
– Woman entrepreneur

Box 4.2: The IFC Gender and Investment Climate Reform Assessment

The International Finance Corporation (IFC) recently conducted an assessment of the Solomon Islands investment climate from a gender perspective. While serving different purposes and often reaching different conclusions, the IFC emphasizes the importance of Government working with women to improve the business environment and remove important constraints to investment. IFC suggests the Business Law and Administration Reform (BLAR) Steering Committee, established by the Ministry of Commerce, Employment and Industry, as an appropriate forum for progressing necessary improvement.

• **Access to financial services is limited for women wanting to start a business.** The women in this study cited limited access to finance and the high cost of finance as two key barriers to doing business. Women entrepreneurs have trouble acquiring access to finance for start-up or business expansion. Only a few of the women met accessed start up loans for business, while an even smaller number have bank loans to expand already established businesses. Commercial banks are averse to lending to support innovative business activities, and are also generally unable to provide loans of small amounts, as often required by small-scale woman entrepreneurs. Women entrepreneurs also call for flexible and less time consuming banking options, especially for deposits.

• **Immigration policies are irrational and restrict the participation of expatriates in the creation and development of new markets and opportunities.** Current Solomon Islands Government policy deters people from retiring in Solomon Islands. Acquiring a working visa can also be difficult and time-consuming, preventing entrepreneurs from easily accessing overseas labor markets.

### Box 4.3: Are there gendered differences in factors constraining access to opportunities within the Solomon Islands aid economy?

In order to test whether men and women experienced differences in barriers to accessing opportunities, a control workshop was held with men entrepreneurs. Because of the small sample size, and the differences in age and experience between men and women involved in this research, comparisons should be viewed with caution. While there were many similarities, the following table summarizes some potential differences in the experiences of men and women entrepreneurs in Solomon Islands arising from this research.

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Possible gendered difference in perceptions and experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security concerns</td>
<td>Considered a major concern and disincentive to investment by women, but dismissed by men entrepreneurs as irrelevant.</td>
</tr>
<tr>
<td>Regulatory barriers</td>
<td>Women found to be very difficult to negotiate, requiring the right personal connections. Men considered only a minor impediment.</td>
</tr>
<tr>
<td>Exchange rate policy</td>
<td>Mentioned only by men, possibly reflecting higher representation of male entrepreneurs within the tradables sector.</td>
</tr>
<tr>
<td>Skills barriers</td>
<td>Basic financial literacy and business sense mentioned as a constraining skill gap by women, whereas men considered the primary gap to be in access to training in more technical areas.</td>
</tr>
</tbody>
</table>

Both men and women shared similar perceptions regarding:

• Current inadequacy of information regarding the extent and nature of local donor procurement;
• Current inadequacy of information regarding opportunities to supply donor agencies and subcontractors; and
• The importance of improving access to capital if businesses are to grow.
SECTION 5: What can be done to Address Existing Constraints?
5. What can be done to address existing constraints?

Pursue arrangements that promote confidence in ongoing peace and security

Provide greater transparency regarding donor intentions and policies, and strengthen business mentoring programs available to women entrepreneurs

Broaden existing training programs and scholarships, and ensure that gendered barriers are addressed

Make greater use of social responsibility provisions within donor procurement guidelines, reduce compliance burdens where possible, and increase the transparency of processes and requirements

Address general business-environment issues, including those relating to land, access to finance and immigration

Box 5.1: Gender equality is good for business

HK Logistics is committed to ensuring equal benefit to women and men in their work. HK Logistics employs around 70 percent women and has identified several opportunities to increase the participation of women entrepreneurs. HK Logistics are looking for women entrepreneurs to provide cleaning, laundry and tailoring services. In an effort to develop sustainable business opportunities, HK Logistics is exploring ways of supporting women with materials, regular orders and possibly subsidized rent. For HK Logistics increasing the number and quality of Solomon Island suppliers makes it easier to do business in Honiara, but it also enables them to contribute to the broader RAMSI development mandate.

Actions by donors and Government could go a long way to addressing many of the constraints to greater participation of women entrepreneurs in the Solomon Islands economy. Possible actions are presented in two following tables.

Prioritization analysis identifies five actions as immediately implementable and likely to have a high impact in improving the participation of women entrepreneurs in the Solomon Islands aid economy. These priorities are outlined in Table 5.1.

Table 5.1: Top five actions

<table>
<thead>
<tr>
<th></th>
<th>Donors update external website and produce other communication materials to ensure that accurate information on procurement practices is easily accessible.</th>
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</thead>
<tbody>
<tr>
<td>2</td>
<td><strong>Government and/or donors</strong> provide additional financial support to existing training institutions or business associations to strengthen business mentoring services.</td>
</tr>
</tbody>
</table>
| 3 | **Donors support business associations** in establishing an online publicly accessible database, listing:  
  - All upcoming donor procurement opportunities;  
  - Relevant donor processes, links, and contacts; and  
  - All Solomon Island businesses that have previously supplied, or would be interested in supplying, donors on a sole-source basis. Donors support business associations in disseminating this information in hard-copy to businesses that cannot access the internet. |
| 4 | **Donors** offer training to businesses in preparing tenders for their contracts. |
| 5 | **Donors and Government** commission and support a gender review of existing scholarship and business training programs, and implement recommendations arising from the reviews. |

A complete set of possible actions is outlined in Table 5.2 under five headings: security and stability concerns, information problems, skills gaps, procurement processes, and business-environment issues. The recommendations are categorized using a “traffic light” system in terms of their ease of implementation and likely impact.
### 5.1 Security and Stability Concerns

**Build confidence in ongoing peace and security.** Progress in this direction would provide security for investment, and clarity regarding the likely duration of the donor presence.

- **Government and donors** enter into an explicit and well-publicized agreement regarding the nature and duration of an international security guarantee.

<table>
<thead>
<tr>
<th>General Recommendation</th>
<th>Specific Actions</th>
<th>Impact</th>
<th>Ease</th>
<th>Gendered impact?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build confidence in ongoing peace and security</td>
<td>Government and donors enter into an explicit and well-publicized agreement regarding the nature and duration of an international security guarantee.</td>
<td>Medium</td>
<td>Hard</td>
<td>Women entrepreneurs may be disproportionately impacted by security concerns.</td>
</tr>
</tbody>
</table>

### 5.2 Information Problems

**Address confusion regarding donor intentions and policies.** Better communications regarding current procurement practices would bring opportunities for local economic development, and increase opportunities for donors to procure locally at lower cost.

- **Donors** update external website and produce other communication materials to ensure that accurate information on procurement practices is easily accessible.

<table>
<thead>
<tr>
<th>General Recommendation</th>
<th>Specific Actions</th>
<th>Impact</th>
<th>Ease</th>
<th>Gendered impact?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address confusion regarding donor intentions and policies</td>
<td>Donors update external website and produce other communication materials to ensure that accurate information on procurement practices is easily accessible</td>
<td>High</td>
<td>Easy</td>
<td>—</td>
</tr>
</tbody>
</table>

**Provide integrated and ongoing business mentoring to entrepreneurs.** Experienced business people, providing a consistent stream of advice over a sustained period might help overcome the lack of financial literacy and familiarity with entrepreneurial practices experienced by some Solomon Islands women. The demonstration effects of successful new businesses provide an important public good, justifying some form of subsidization.

- **Government and/or donors** provide additional financial support to existing training institutions or business associations to strengthen business mentoring services.

<table>
<thead>
<tr>
<th>General Recommendation</th>
<th>Specific Actions</th>
<th>Impact</th>
<th>Ease</th>
<th>Gendered impact?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide integrated and ongoing business mentoring to entrepreneurs</td>
<td>Government and/or donors provide additional financial support to existing training institutions or business associations to strengthen business mentoring services.</td>
<td>High</td>
<td>Medium</td>
<td>Social attitudes and expectations may mean women have less exposure to information provided through mentoring programs.</td>
</tr>
</tbody>
</table>
**Strengthening brokerage services between suppliers and potential buyers.** Improving knowledge of produce and service standards and quality requirements would allow more producers to participate in aid-economy opportunities.

- **Donors** support technical advisory programs run through the Government or NGOs to facilitate communication of the needs of purchasers to rural and urban suppliers, while providing technical assistance and extension services to assist producers meet those needs.
- **NGOs or business associations** establish informal platforms – such as newsletters or regular meetings – for sharing information on potential areas of unmet demand and available goods and services between expatriate families and Solomon Island women entrepreneurs.

<table>
<thead>
<tr>
<th>5.3 Skills Gap</th>
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**Offer new courses to meet key skill gaps.** Addressing constraints arising from an inability to access specific technical skills would enable a broadening of plausible business activities for Solomon Islands women to participate in.

- **Training institutions** broaden business training courses to include entrepreneurial skills and more specific technical skills such as market analysis, and research and development.
- **Government and donors** shift the balance of existing scholarships towards technical and vocational training, possibly in environments more similar to Solomon Islands.
- **Donors** offer scholarships for apprenticeships or study-tours to businesses operating in developed or other developing countries.

<table>
<thead>
<tr>
<th>Undertake gender review of scholarship and training programs. Such a review may assist in increasing the accessibility of these programs to Solomon Island women, facilitating increased participation by women entrepreneurs through reconsideration of policies regarding dependents.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Donors and Government</strong> commission and support a gender review of existing scholarship and business training programs.</td>
</tr>
<tr>
<td><strong>Donors and Government</strong> implement recommendations arising from reviews.</td>
</tr>
</tbody>
</table>

- **High**
- **Medium**
- **Medium**

Would be intended specifically to address existing barriers to women's participation.
### 5.4 Procurement Practices

#### Establishment of a database for all procurement and suppliers.
This would allow donors to increase awareness of potential suppliers, while suppliers would be able to approach donors if they wished to be considered for any particular contract. The database would provide greater transparency and competition in low-value procurement.

- **Donors support Business Associations** in establishing an online publicly accessible database, listing:
  - All upcoming donor procurement opportunities;
  - Relevant donor processes, links and contacts; and
  - All Solomon Island businesses that have previously supplied, or would be interested in supplying, donors on a sole-source basis.

- **Donors support business associations** in disseminating this information in hard-copy to businesses that cannot access the internet.

#### Greater use of socially responsible procurement through activation of gender or social clauses in procurement guidelines.
This would ensure that full advantage is being taken of provisions relating to local economic impact, gender equality and non-discrimination.

- **Donors** review existing procurement procedures and processes with the intention of maximizing local economic impact, promoting improved gender outcomes and increased opportunities for women entrepreneurs.

- **Gender clauses could be used to encourage participation by women entrepreneurs or businesses employing female staff.**

#### Tender-writing training.
This would remove the existing bias against new-entrant Solomon Island businesses, and potentially lead to cost-savings for donor agencies through being able to access a broader range of suppliers.

- **Donors** offer training to businesses in preparing tenders for their contracts.

- **Women may face particular disadvantages in navigating currently opaque existing processes.**

#### Improve Government procurement practices, and more consistent application of formal standards.
Better procurement practices could allow greater transparency and open new opportunities for participation.

- **Donors support Government** in establishing programs to improve capacity and systems within procuring ministries to increase the extent to which Government procurement guidelines are applied, and improve transparency and understanding of requirements for suppliers.
Consider alternatives to and relaxation of international standards, and room for flexibility in their application. The economic costs to Solomon Islands of existing standards may not always be justified. Relaxing these standards could improve economic impact and reduce costs.

<table>
<thead>
<tr>
<th>5.5 Business Environment Issues</th>
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<tbody>
<tr>
<td><strong>Give priority to regulatory and business environment reforms that will have a major impact on women entrepreneurs attempting to access aid economy opportunities.</strong> High priority policy and institutional reforms identified in this analysis include:</td>
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<tr>
<td>- Easing inward migration restrictions;</td>
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<td>- Improving timeliness of land transactions within Honiara;</td>
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<tr>
<td>- Take policy or communications measures to mitigate perceived and/or real risks to land-owners, accompanying registration of customary land; and</td>
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<tr>
<td>- Update employment laws to include provisions relating to sexual discrimination.</td>
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<tr>
<td><strong>Donors</strong> review the necessity of currently applied international standards, with consideration of the relative risks and potential development impacts of relaxing these standards to facilitate participation by Solomon Island suppliers.</td>
</tr>
<tr>
<td><strong>Government</strong> ensures representation of women business owners during ongoing regulatory reform processes, including the Business Licensing and Administration Reform Committee.</td>
</tr>
<tr>
<td><strong>Donors</strong> ensure that a gender perspective is taken in ongoing assistance to the Government in improving the business enabling environment.</td>
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<tr>
<td>Reforms could be designed to focus on addressing gendered barriers as a priority.</td>
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</tbody>
</table>
Appendix A: Detailed Methodology

The research was conducted using qualitative and quantitative methods, including focus group discussions, survey, interviews, quantitative analysis, and business modeling and desk review with a number of different stakeholders in Honiara (see Table 1).

Table 1. Research methods by stakeholders

<table>
<thead>
<tr>
<th>Women entrepreneurs</th>
<th>Men entrepreneurs</th>
<th>Contract holders</th>
<th>Donors</th>
<th>Programs and initiatives</th>
<th>Government</th>
<th>Banks</th>
<th>Business associations</th>
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<tbody>
<tr>
<td>Focus group discussions</td>
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<td>Interviews</td>
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<td>Survey</td>
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<td>Desk review</td>
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<tr>
<td>Quantitative analysis of business ideas</td>
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</table>

1. Stakeholders

The total sample of stakeholders engaged in the research exceeds 80 men and women, living and working in Honiara. The stakeholders include women entrepreneurs, contract holders, donors, Government officers, banks, business associations, and representatives from programs and initiatives aimed at promoting business. Stakeholders were selected randomly based on their willingness to participate in the research. Different aspects of the research were addressed with each stakeholder groups (see Table 2).

- **Women entrepreneurs.** The process of recruiting women entrepreneurs to participate in the research led to the identification of 90 female business owners in Honiara. Basic information on these women business owners has been compiled into a matrix as part of this study, however, this research does not provide a quantitative analysis of women owned businesses. Most of the findings presented in this report are drawn from an analysis of data from a smaller sample (43 women). The actual participants in the research are the 43 women who completed the survey, and especially, the 28 women who participated in the focus group discussions. This study does not distinguish between women in business and women/female entrepreneurs. Women who hold a 50 percent share, or more, in a business, whether it is registered or not, have been included in the sample. The sample of entrepreneurs includes 10 expatriate women and 80 indigenous Solomon Islander women. Although the study identified 90 women in business, this does not include women who sell fresh produce at the
market, street vendors or domestic helpers. These women comprise a highly visible and mobile group on the Honiara landscape and as such studies of women in Solomon Islands tend to focus on these women.\textsuperscript{15} This study has attempted to highlight businesswomen who may be able to access contracts within the aid economy or who are already participating. The list of 90 female entrepreneurs should not be considered as a comprehensive list of all businesswomen in Honiara. The final sample is not representative in an academic sense. However, considering the size of Honiara and the number and range of stakeholders who made this research possible, assessing the strict representativeness of the sample seems unnecessary.

- **Men entrepreneurs.** To provide comparative information regarding the gendered experiences of women entrepreneurs, a workshop was held with a small group of male entrepreneurs, and survey data collected from participants. Workshops and surveys used the same format to aid with comparison.

- **Contract holders.** Six contract holders were selected to participate in the research based on the size and the type of contracts held. GRM, Sinclair Knight and Mertz (SKM), and HK Logistics were selected based on size of the their contracts. Silentworld and BJS were selected to illustrate the different types of aid economy contracts available. Bemobile was selected as an example of a private sector company contracted by the Solomon Islands Government.

- **Business associations and non-government organizations.** The research team interviewed two business associations, three business development groups, Solomon Islands Small Business Enterprise Center (SISBEC), Small and Medium Enterprises Council (SMEC), MASE Business Services Centre and several non-government organizations promoting women’s entrepreneurship. Information on the training and initiatives provided by the groups has been collated into a matrix and is available as part of this research.

- **Government.** Representatives from the Ministry for Commerce, Ministry for Finance and Treasury, Ministry for Women Youth and Children’s Affairs (MWYCA) and Ministry for Education were consulted as part of this research.

- **Banks and financial institutions.** The three commercial banks operating in Honiara were included in the sample along with the Central Bank, Solomon Islands Credit Union (SICU) and Solomon Islands Women in Business Association Credit Union (SIWIBACU). Information from the interviews with the banks and financial institutions has been collated into a matrix on financial products services for women in business available as part of this research.

- **Donors.** The research team interviewed ten donors and high commissions based in Honiara. Donors were asked to describe their procurement practices and report on any programs or initiatives designed to support women in business. Where relevant, the research team followed up with staff from specific programs and initiatives targeting women in business. The information on initiatives and programs was used to develop a matrix, which is available as part of this research.

Table 2. Stakeholders by research objectives

<table>
<thead>
<tr>
<th>Information about procurement</th>
<th>Women entrepreneurs</th>
<th>Men entrepreneurs</th>
<th>Contract holders</th>
<th>Donors</th>
<th>Programs and initiatives</th>
<th>Government</th>
<th>Banks</th>
<th>Business associations</th>
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<tbody>
<tr>
<td>Assess business regulations and barriers</td>
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<td></td>
</tr>
<tr>
<td>Identify and evaluate potential business ideas</td>
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<td></td>
<td></td>
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<td></td>
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<tr>
<td>Evaluate existing programs and initiatives</td>
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</table>

2. Research methods

- **Quantitative analysis and business modeling.** The research team used Excel to create simple financial models of four potential business activities. The models assess the likely viability and profitability of these businesses under a range of possible levels of demand. The business models are presented and analyzed in Section 4.

- **Focus group discussions.** A total of three focus group discussions were conducted with 28 women entrepreneurs working in Honiara. The discussions focused on the experiences of women entrepreneurs, barriers affecting their participation in the aid economy, and new and unmet business opportunities. Some, but not all, of the focus group discussion participants were members of the SIWIBA. Focus group discussion participants were organized into three groups of women with similar backgrounds and experiences to promote discussion. The groups were: 1) Expatriate women entrepreneurs and women who have more than one business or who employ more than 10 staff; 2) Honiara-based Solomon Island businesswomen who own and operate small businesses from a rented or owned premises; and 3) Honiara based Solomon Island businesswomen who operate businesses from home or from a temporary location. Each focus group discussion was conducted at the World Bank office and lasted at least two hours.
• **Interviews.** The research team conducted more than 40 interviews with businesses, aid contract holders, banks, donors, Government officers, business association representatives, and managers of programs and initiatives targeting business owners. Each interview was conducted within the workplace, and lasted for approximately one hour.

• **Survey.** With support from SIWIBA, the research team surveyed 43 respondents. The short answer survey gleaned information from women entrepreneurs in Honiara, almost all whom are members of SIWIBA. The questions included personal data necessary to provide a profile of SIWIBA members and business information relating to start up capital, sector and ownership structure of the business. Some financial information was also included but no respondents provided this information. The survey was self-administered.

• **Desk review.** The team analyzed a number of relevant reports and publications as part of this research. A complete list of the documents reviewed is included at the end of the report.
Appendix B: Financial Analysis of Potential Business Opportunities

Despite persistent regulatory and economic conditions, there are viable business opportunities in Honiara that are not being exploited by female entrepreneurs. An important reason for this is a lack of knowledge regarding the likely profitability of potential business ventures that have not so far been demonstrated as viable within the Solomon Islands.

This appendix presents financial analysis of several possible business opportunities that could be pursued by women entrepreneurs in Solomon Islands. This analysis has two purposes. Firstly, it helps to establish the likely viability of specific opportunities that entrepreneurs – with the possible assistance of donors or Government – may be able to pursue. Secondly, it provides a more general illustration of the existence of currently untapped business opportunities, therefore demonstrating the potential benefit of information provision and other interventions which may encourage the pursuit of such opportunities.

1. Approach

An Excel spreadsheet was used to model likely revenue, operating and fixed costs for each business at various levels of output. Price and cost information is drawn from a variety of sources, including interviews with business people and banks, Solomon Islands-specific research and international reports on cost structures of particular industries.

The following assumptions were applied:

- 50 percent bank financing of initial investment at an interest rate of 18 percent (interest rate reflects reported commercial borrowing rates at main banks);
- The expatriate market will be willing to pay prices equal to prices charged in Australia for similar goods;
- First-movers into these activities may be able to sustain prices in excess of marginal cost in the absence of competition for some time, especially in the presence of natural-monopoly conditions;
- Wages of SBD5.00 per hour for unskilled staff, and SBD15.00 per hour for administrative or store-manager level staff (these wages reflect information from interviews with Honiara entrepreneurs and contents of the Solomon Islands Chamber of Commerce and Industry wages and salary survey);
- Rental price of SBD300 per square meter per month;
- Constant returns to scale over modeled production range;
- Straight line depreciation of capital equipment (including vehicles) at 10 percent; and
- Overall business tax on profits of 35 percent.

2. Key results

This analysis demonstrates that:

- **Viable opportunities exist.** All of the opportunities that were analyzed appear feasible under a range of plausible input assumptions.
- **Scale matters.** A key variable in determining the likely profitability of identified opportunities is the scale that these businesses would be able to achieve. Achieving comparatively large turnover and volumes within the small Honiara market appears vital for business sustainability, emphasizing the importance of investment in market research, marketing, and good choice of business location.

- **Capital constraints are not binding.** Even for comparatively capital intensive businesses such as dry cleaning, capital costs accounted for only a very small proportion of overall costs. This suggests that high costs of finance in Solomon Islands are unlikely to be the binding constraint on this type of business venture (although problems with accessing finance may be very important).

- **Rental prices are a key cost.** Rental prices are a core cost and account for the greatest proportion of costs for three of the four opportunities identified. Resolving current land issues in Honiara may play an important role in reducing business costs and facilitating women’s investment in the aid economy. Also, identifying mobile businesses (such as services rendered in your own home), street selling or internet based businesses, which do not incur rental expenses should be seriously considered by budding women entrepreneurs.

### 3. Example opportunities

Key results and input assumptions from the financial modeling of specific potential business opportunities are outlined here.

#### a. Dry cleaning

For the hypothetical dry cleaning business, the following assumptions are applied:

- A small, central commercial dry-cleaner, catering to the expatriate market at prices similar to those in Australia;
- Use of second-hand equipment, imported from Australia at standard freight rates;
- Electricity consumption equal to the average for US dry-cleaning businesses; and
- Employment of one store manager and two unskilled staff.

The following chart shows the revenue, cost and profit at different levels of turnover using these assumptions.

**Figure 1: Revenue, Costs and Profit of Hypothetical Dry Cleaning Business**
Key results are:

- **Substantial initial investment of around SBD140,000 is likely to be required.**
- **Dry cleaning business is likely to break even at any throughput over 150 items per week.** While not unachievable, such high turnover would require investment in marketing. Market research regarding likely demand for such services would be advisable prior to any investment.
- **Throughput of 300 units per week would generate annual profit of around SBD150,000, equivalent to reported salaries of high-earning managers, and allow a pay-back period on initial investment of less than a year.**

**b. Juice stand**

For the hypothetical juice stand business, the following assumptions are applied:

- **A small, central juice-stand, selling pure fruit juices, catering to the expatriate and local markets at prices similar to those for similar products in Australia;**
- **Use of second-hand equipment, imported from Australia at standard freight rates;**
- **Procurement of fruit from the Honiara market; and**
- **Employment of two unskilled staff.**

The following chart shows the revenue, cost and profit at different levels of turnover using these assumptions.

**Figure 2: Revenue, Cost and Profit of Hypothetical Juice Stand**

Key results are:

- **Required capital investment is minimal (around SBD65,000), and this represents a comparatively low-risk investment opportunity.**
- **Juice stand business is likely to break even at any throughput over 300 items per week.** As with the dry-cleaning business, such high turnover would require investment in marketing and a good store location.
- **Throughput of 670 units would generate annual profit of around SBD170,000, equivalent to reported salaries of high-earning managers in Honiara, and allow a pay-back period on initial investment of around 5 months.**
c. Centralized cleaning service

For the hypothetical centralized cleaning service business, the following assumptions are applied:

- A small business, providing house- and business-cleaning services to business and the expatriate market on a medium to large scale. Demand would be based on the appeal of a dependable and quality-assured service, without the need for individual negotiations with cleaning staff. A demand for this service has already been articulated by one of RAMSI’s large contract holders, HK Logistics;
- Employment of one administration officer; and
- Business can be operated from home.

The following chart shows the revenue, cost and profit at different levels of turnover using these assumptions.

**Figure 3: Revenue, Costs and Profit of Hypothetical House-Cleaning Business**

Key results are:

- Required capital investment is minimal (around SBD66,000), and this therefore also represents a low-risk investment opportunity.
- The business is likely to break even if providing more than 220 hours of cleaning services per week. This seems very achievable, and turnover is unlikely to be a major constraint.
- Provision of around 640 hours of cleaning services per week would generate SBD140,000, equivalent to reported salaries of high-earning managers in Honiara, and allow a pay-back period on initial investment of around 6 months.
d. Phone credit on-selling

With the establishment of new telecommunications operators in Solomon Islands, opportunities are likely to exist for individuals to on-sell cellular phone credit on behalf of the new provider at a small margin. New technologies will allow vendors to load credit onto their own cell-phones, and transmit this credit to others’ phones while retaining a small margin (8 percent has been suggested). This presents opportunities for:

- Small scale entrepreneurial activity in Honiara and provinces, with individual retailers on-selling credit; and
- More sophisticated business operations, with sellers diversifying into the sale of related goods and services on behalf of the telecommunications service provider, and potentially employing staff to on-sell credit at a smaller margin (i.e. individual seller retains 4 percent, and business that provides the credit retains 4 percent).

The diversity of opportunities associated with this kind of business, and uncertainty regarding the likely structure of any associated contracts preclude detailed financial analysis at this stage. The chart below, however, shows the income-generating potential of on-selling credit for independent female entrepreneurs operating at a small scale. Those able to sell $2,500 worth of credit within a week would be able to earn an income roughly equivalent to the average unskilled wage in Honiara.

**Figure 4: Income from pre-paid credit sales**

![Graph showing income from pre-paid credit sales](image)

Key results are:

- Required capital investment is minimal (around SBD400), and this therefore also represents an extremely low-risk investment opportunity;
- The business opportunity is low risk; and
- The business is ideal for women looking for flexible income-generating opportunities.

4. Key Results

This analysis has highlighted that high inflows of aid and expatriates provides unmet business opportunities. These opportunities have been analyzed as viable options. While some of these opportunities are being seized many are not. Rather than exploring new and innovative areas and markets, women entrepreneurs continue to replicate the same types of businesses serving the local market.
References


