Solomon Islands
The challenge of development

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Outline of presentation

1. Motivation
2. Background to conflict
3. Intervention (RAMSI) was necessary
4. Achievements to date
5. Economic outlook
6. The challenges of reform
7. Sum up
Solomon Islands – where?
Solomon Islands

[Map of Solomon Islands with cities and geographical features labeled, including Honiara, Guadalcanal, Santa Isabel, Malaita, Gizo, Yandina, Solomon Sea, Coral Sea, New Guinea, South Pacific Ocean, and Vanuatu.]
Some questions on the intervention

Q1: Why intervene?
Q2: If intervene, then for how long?
Q3: What is the criteria for success of the intervention?

Note that foreign interventions have large costs and draw on a finite pool of resources.
The economy contracted by 30 per cent since the beginning of the conflict.

Access to basic services had deteriorated significantly.

The financial sector had nearly ground to a halt—nil private-sector investments, a rife pyramid scheme and compensation claims by gangsters.

Public sector failed to meet its debt service obligations—arrears built over time to NPF, Commercial Banks, and private enterprise constituted a large tax on growth of production.

Some rebound in exports and budget revenues.
Per capita Gross Domestic Product (constant SI$)

Year | Per capita GDP (constant SI$)
--- | ---
1996 | $904
1997 | $874
1998 | $859
1999 | $832
2000 | $694
2001 | $620
2002 | $586
### SI is not the poorest or smallest economy: Some Basic Indicators

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<th>Indicator</th>
<th>SI</th>
<th>PNG</th>
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<tr>
<td>Population (‘000s; 2002 estimate)</td>
<td>443</td>
<td>5,300</td>
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<tr>
<td>Per-capita GDP ( $US, 2001 estimate)</td>
<td>580</td>
<td>590</td>
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<td>Fertility rate (2001)</td>
<td>5.3</td>
<td>4.4</td>
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<td>Life expectancy (2001)</td>
<td>69</td>
<td>57</td>
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Background to the conflict

- Principally between two parties (GRA/IFM and MEF built around regional (island) affiliation—had built up over time and erupted into fighting by mid 1999)
- The economy was stagnant leading to the crisis
- Two earlier peace initiatives failed
  - Commonwealth sponsored peace initiative of October 1999 (PMG from Fiji and Van)
  - TPA signed (except by Keke) in October 2000.
- Forex fell to one month cover in early 2002
- Armed gangs began extorting ‘compensation’ from MoF
- Between 2002 and 2003 alone, more than SBD$55 million was paid out in unauthorized ‘allowances’ and other illegal payments by senior police officers
RAMSI was necessary to break the impasse

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<th>Hand-in (h)</th>
<th>Retain (r)</th>
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<tr>
<td>Hand-in (h)</td>
<td>(Peace)</td>
<td>(MEF-rule)</td>
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<tr>
<td>Retain (r)</td>
<td>(GRA-rule)</td>
<td>(impasse)  ‘mutually hurting stalemate’</td>
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Achievements to date

- Law and order restored in much of the country
- Continuing large presence of soldiers (initial Australian deployment of 1,500 of 1,700 now to 700) and police (155 + 80 from protective services of 300) at cost of A$200 million (cf A$10 to A$28 m bilateral aid program)—huge fiscal stimulus
- Budgetary discipline restored, clearing of arrears being organised with support from the Australian Treasury
- Forex reached 3 month cover by October 2003 and is rising as exports recover and aid continues to flow in

Challenge: Putting in place a structure that is self-sustaining
Budget support

- Budget support for Dec 2003 quarter of A$2 million
- A further A$4 million paid to clear arrears to international financial institutions
- On-going budgetary support from Jan 2004 amounting to A$1 million/month – promised for all of 2004 (?)
- Approx 25 per cent of recurrent and 100 per cent development budget is funded by donors.
- NZL support to Education sector to continue to 2006

Questions: Absorptive capacity of departments, fiscal sustainability, and certainty of aid inflows. Managing the payroll (1/2 of total outlays) is a challenge.
Economic outlook

- Initial recovery due to large aid-financed fiscal stimulus will slowly taper out
- Logging (?), fish catch, and copra production on a rebound but still well below pre-conflict levels
- Honiara-based small business facing a drop in demand from tightened government expenditure
- Goodman Fielder pulled out in October 2003, but replaced by local investors
- FDI—return of SIPL (NBPOL) and Goldridge?
- Tourism prospects—FDI, transportation, malaria
Economic reforms to create conditions for growth
- Regulatory reforms—red tape re: private investment
- SOE reforms—Airline, shipping services, DBSI, NBSI (to reduce cost of utilities and transportation)
- Improving access to land and labour whilst maintaining L&O

Rebuilding institutions of the state—RAMSI (the special coordinator) and/or government
- RAMSI as propping up a weak central government? (Risks of retribution once RAMSI has left, thus non-cooperation)
- Alignment of incentives for (politically difficult) reforms
- Minimising dependency-risk
- Balancing emergency assistance with building local capacity
Sum-up

- Intervention was necessary and long overdue
- RAMSI is now in post-conflict rebuilding stage
- Two options for instituting reforms
  1. Plan and implement reforms—problem of moral hazard
     ‘weitim olketa RAMSI bae kam stretem’
  2. Pass responsibility for reforms to local authorities—need capacity and resources.
- Three suggestions in progressing the agenda
  1. Donors to provide financial commitment over a time frame of a decade to create certainty in terms of access to resources
  2. Enable access to developmental funds on transparent and competitive basis—Gizo, Honiara, Auki trading triangle
  3. Underwrite security for the region as a whole (regional public good) re 2000-Biketawa declaration.