

Five Out of Ten: A Performance Report on the Regional Assistance Mission to the Solomon Islands (RAMSI)

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EXECUTIVE SUMMARY

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The Solomon Islands, with a population of 500,000, is the third-largest state in the Pacific. It is also one of the poorest and least developed. Its islands are richly endowed with volcanic soils, marine resources, timber, and minerals, and are well-located for trade and tourism near burgeoning Asian markets. Yet living standards are scarcely higher than they were at the time of independence.

The Solomon Islands' tumultuous history is a result of thirty years of economic stagnation.

Large numbers of migrants moved from the island of Malatia to Guadalcanal in search of better economic opportunities, and came to be resented by Guadalcanalese who claimed the Malaitans were taking their land and jobs. From the mid-1990s, civil unrest turned to violence, with open fighting bringing economic decline and finally triggering collapse. In April 2003, then Prime Minister Allan Kemakeza requested Australian assistance. After discussions with New Zealand and endorsement by the Pacific Islands Forum, an Australian-led assistance package became the Regional Assistance Mission to the Solomon Islands (RAMSI).

RAMSI landed military, police, and civilian personnel in the Solomon Islands in 2003. The immediate objective was to restore law and order by confiscating firearms and establishing a presence in the nine provinces. Those responsible for the worst of the violence were to be brought to justice.

The RAMSI intervention marked a turning point for Australia's relationship with the Pacific islands. After years of high aid flows that tried to assist development, Australia was reluctantly forced to, in effect, take over the running of one of its closest neighbours.

This year will mark five years since RAMSI's forces landed in the Solomon Islands, and their success to date has been mixed. The Australian Defence Forces' pacification effort has been enormously successful. Over 6,000 militiamen have been arrested, over 9,000 charges have been laid, and more than 3,000 guns have been confiscated. Civil stability has returned, but the security gains will prove temporary if the underlying economic stagnation that led to the civil unrest is not addressed.

RAMSI has laid the foundation for development by restoring macroeconomic stability. Tax efficiency has been addressed and revenues increased. An audit system for government departments has been introduced and political 'slush funds' have been cut.

RAMSI's economic production efforts, however, have focused on reducing regulatory barriers to business in Honiara and encouraging foreign investment. The Solomon Islands, where most people do not even participate in the cash economy, now has world-class banking regulations. The majority of Solomon Islanders have not been affected by these measures because this is not where the bottlenecks to economic growth are. More than 85% of Solomon Islanders live subsistence lives in rural areas.

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Their gardens have kept a growing population fed, but without education and health services. Honiara teems with unemployed youth idling in the shade, despondent and restless because they have no present and no future.

There are few income-earning opportunities in the villages, and no jobs in the towns. There is no indigenous informal sector. Chinese shopkeepers and other expatriates dominate commercial opportunities.

RAMSI has concentrated its efforts on peripheral problems and ignored the real constraints to growth.

Agriculture is the key to raising rural living standards, and land tenure is the key impediment to raising agricultural output and incomes. Without land surveys, registration, and long-term leases there can be no progress. Infrastructure is the second bottleneck. Without roads, inter-island transport, education, and mobile phones, agriculture and small off-farm business cannot develop.

The Solomon Islands is better off with the involvement of RAMSI than without, but RAMSI risks becoming just the latest agency promising to deliver development with little improvement to show for their pledges.

There can be no stability in the Solomon Islands without raising agricultural incomes, providing new sources of employment, and growing indigenous commercial opportunities. These must be RAMSI's concern if it is to have an exit strategy.

Introduction

Around the year 1300, the Solomon Islands shared one of the highest standards of living in the world with other South Pacific islands. Originally settled perhaps 60,000 years ago by migrants from South Asia, additional settlers came some 15,000 years ago from the islands off East Asia. From being hunters and gatherers, South Pacific islanders developed garden-based agriculture that rewarded them with ample food supplies. They became the most skilled seafarers of their day, covering vast ocean distances with their knowledge of currents, winds, birds, and marine life. When the first European sailors visited the islands of the South Pacific in 1568, they thought they had discovered Paradise. The islanders enjoyed much higher standards of nutrition, health, and leisure than Europe offered. These were a stark contrast to the toil of sailing ships.

Following the first European visits to the South Pacific, there came traders, whalers, missionaries, and colonisers. Germany took an interest in the eastern Solomon Islands, and in 1893 Britain declared a 'protectorate' over major western Solomon Islands to preempt further German imperial designs. The principal contact with the outer world was by Solomon Islanders 'recruited' to work in other Pacific islands and in Queensland. Missionaries began their work by establishing a few schools and some health centres. Britain's footprint in the Solomon Islands was light until World War I, and remained so in the 1920s and 1930s. Honiara became the administrative capital. Levers established a copra plantation, but most Solomon Islanders continued to be subsistence gardeners and fishers, scarcely touched by colonisation.

When Japanese forces landed on Guadalcanal in July 1942 to build an airbase from which to attack Australia and counter the United States forces brimming into the Pacific, the Solomon Islands awakened to the wider world. Guadalcanal became a major battlefield as United States forces fought to drive out the Japanese. Tanks and armoured vehicles became stranded in gardens, and a flood of building materials and other 'cargoes' of manufactured goods—food, drinks, tents, torches, radios, refrigerators, and vehicles—landed on beaches and dropped from the skies. Britain returned briefly at the end of World War II, but with the establishment of the United Nations, colonialism was clearly becoming untenable for all but hardy imperialists such as the French. Great Britain disengaged from almost all its colonies, focusing on leaving behind civil service structures so that government could continue. In 1978, the Solomon Islands became independent. Honiara celebrated, envisaging that with the colonial era over it would at last catch up with the rest of the world. But the next thirty years brought bitter disappointment.

The colonial government left the independent Solomon Islands with a government structure replicating British institutions that had taken centuries to evolve for a population now numbering around sixty million people. It saddled the new state with institutional structures that would have been ample for a country with ten times the Solomon Islands' population, then at around 300,000. The core of these institutions was a fifty-member parliament—one member for each 6,000 voters—which emphasised differing local and tribal interests rather than attempting to establish a sense of nationhood for the new state. In addition, nine provincial governments were established. A judicial system was put in place. An industrial relations structure following patterns from Australia and New Zealand was introduced, even though employment in the formal sector was negligible and dominated by a small number of public service employees who replaced colonial officials. Solomon Islands embassies and high commissions were established abroad, with some reciprocal representation in Honiara.

The International Monetary Fund (IMF) added a central bank to the growing apparatus of state, rather than encouraging the fledgling government to opt for a reference currency (such as the United States or Australian dollar) or a currency board. The World Bank and the Asian Development Bank arrived, along with a number of United Nations agencies gathered under the UNDP (United Nations Development Program) umbrella. Staff from these agencies became regular visitors to the Solomon Islands, while local personnel made corresponding visits to Washington, Brussels, Vienna, London, Manila,

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and New York. The South Pacific Commission (SPC, now the Secretariat of the Pacific Community), headquartered in French-speaking Noumea, sought to bring together the interests of the Pacific's island nations, an endeavour in which it was soon joined by the anglophone South Pacific Forum (now the Pacific Islands Forum).

Aid (development assistance) began to flow, mostly from Australia, but also from New Zealand, Europe, Japan, and the United States. Some non-government organisations (NGOs) and service organisations such as Rotary became active in the Solomon Islands. The Solomon Islands thus belongs to thirty-two international organisations, and is the recipient of aid from other countries, multilateral bodies, NGOs and church organisations. These aid donors and international organisations have created a large volume of reports on the Solomon Islands, but none of these agencies have thought the creation of a reliable statistical base important enough to pursue.

In the post-independence Solomon Islands, salaries for politicians and public servants dominated government expenditures. Leading public servants' energies were absorbed in meeting the demands of cabinet ministers and other parliamentarians, keeping the central bureaucracies operating, and servicing donors and international agencies. Roads, ports, communications, power, water supply, and sanitation were neglected, so that the very limited public utility coverage left behind at independence began to fall apart. Primary education failed to expand literacy and numeracy, secondary education was negligible, and public health and medical services declined. There was no attempt to develop smallholder cash agriculture, though the Solomon Islands have excellent land on which to produce products such as palm oil, for which there has been a growing market. There was no investment in new large-scale plantations. An attempt to develop a government-owned canning industry failed. Timber exports grew, but harvesting was not accompanied by reforestation or commercial agricultural development, and so failed to contribute to rural incomes, leading to frustration and unrest. Despite the islands' outstanding tourist potential, investment in tourism-related industries was very limited. Tax evasion and avoidance sharply eroded public revenues while encouraging corruption. Without cash in the hands of the majority of the population, there was little opportunity for retail or construction businesses.

Traditional gardens were able to sustain rapid population growth of some 3% a year, so that by the 1990s, young men and women entering the labour force did not have either agricultural opportunities or urban jobs. Land shortages were emerging on the island of Malaita, leading to emigration to Guadalcanal. At the same time, a wealthy elite of politicians, senior public servants, and village chiefs connected with timber exports was developing, with clearly different incomes and living standards. Taiwan and China added to misrule by their attempts to draw the Solomon Islands (and other Pacific islands with a vote in the United Nations) into their orbit, making undeclared donations to key politicians and political parties. This added a 'China' component to domestic unrest. Chinese traders with connections in Hong Kong replaced imports from Australia with goods appropriate for the limited local market, but also added to indigenous resentment.

The breakdown of government in the Solomon Islands was at least ten years in the making. The largest contributing factor was thirty years of economic stagnation and a host of attendant problems: illiteracy, unemployment, the formation of a ruling elite, and ultimately frustration.

Economic Performance

A comparison of per capita incomes in the principal independent South Pacific countries suggests that, as in Papua New Guinea (PNG), per capita income in the Solomon Islands has fallen since 1975 (see table 1). In Fiji and Vanuatu, per capita income has essentially remained static. In Tonga and Samoa, countries with high levels of emigration, per capita income doubled between 1975 and 2005. Tonga and Samoa's economic growth was far below that of leading developing countries in East Asia, where per capita income doubled every ten years, but at least it was positive.

Table 1: Real per capita GDP in selected Pacific islands (2005 US\$)

	1975	2005
PNG	1,179	510
Fiji	2,083	2,360
Solomon Islands	820	600
Vanuatu	1,064	1,180
Samoa	796	1,600
Tonga	773	1,490

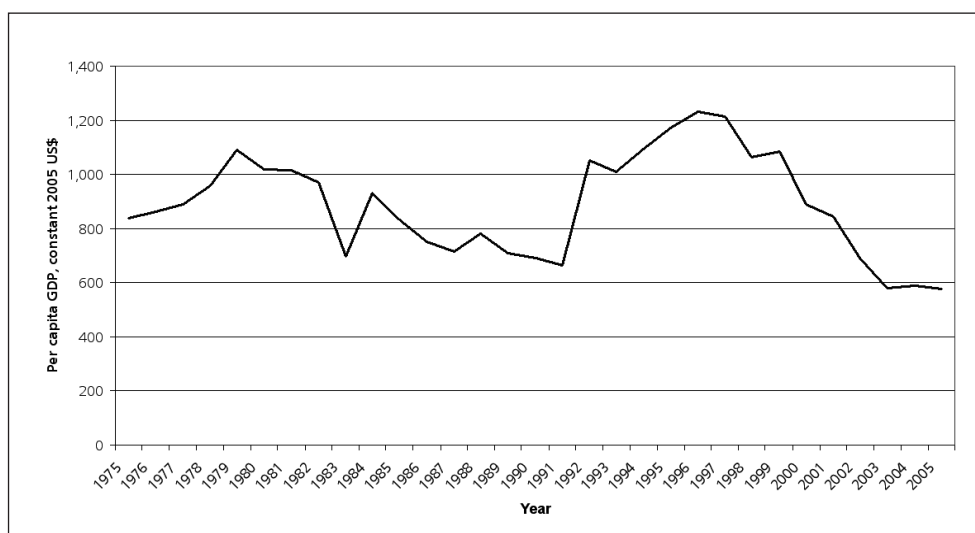
Source: IMF¹

Year after year of disappointing growth in the Pacific has been blamed on geographic isolation, a lack of natural resources, and a small population. It has been argued that these characteristics make Pacific islands unable to sustain rapid growth.

International experience, however, suggests that poor policy has been the main reason for sluggish growth. Iceland, isolated in the freezing North Atlantic Ocean, has a population of about 400,000, compared to the Solomon Islands' 500,000. In terms of landmass, it is significantly smaller than the Solomon Islands. It has short growing seasons, without the fertile gardens of the Pacific, and a climate that is not obviously tourist-friendly. Apart from hot water, Iceland lacks endowments of natural resources and is isolated from world markets. An abundance of fish stocks provided early income for Iceland as it was building its economy, and efficient institutions supported sound economic policies. Iceland today has one of the highest standards of living in the world.

The experience of Iceland shows that size and geography do not doom the Solomon Islands to poverty. There is no reason that it cannot grow fast enough to lift the living standards of its people, and no excuse for its economic failure.

Figure 1: Solomon Islands per capita GDP 1975–2005 (constant 2005 US\$)



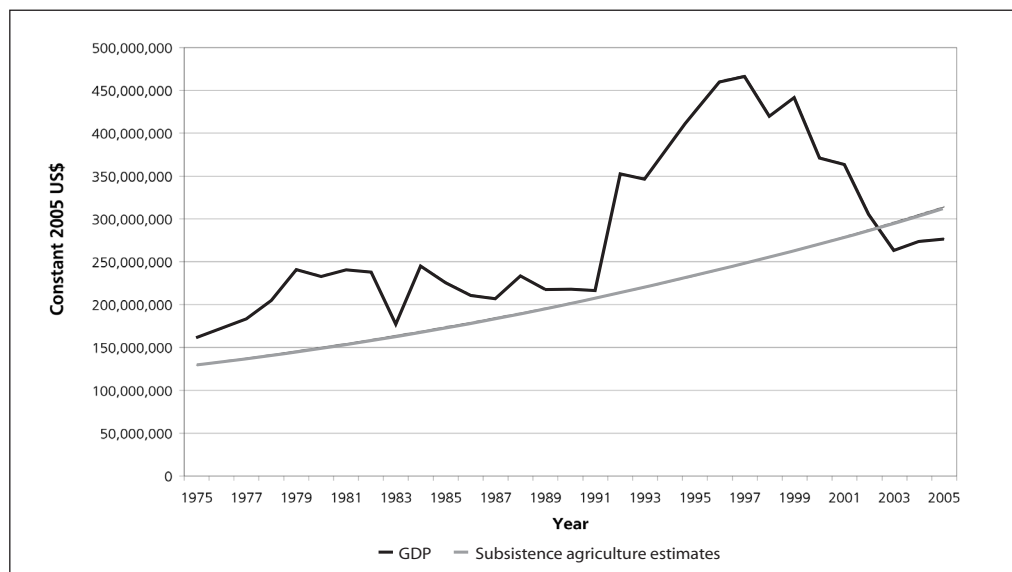
Source: IMF²

Figure 1 shows that per capita income continued to rise immediately after independence but then began to fall until by 1992 it was below the independence level. After a few years of recovery stimulated by timber exports, which peaked in 1997, per capita income fell catastrophically when civil disturbances and a fall in timber prices began to affect output. Although GDP recovered in 2006 and 2007, it has not returned to pre-independence levels, let alone pre-conflict levels. At current annual growth rates of 5%, the Solomon Islands would take twenty years to reach its pre-conflict level of income.

Size and geography do not doom the Solomon Islands to poverty.

Solomon Islands statistics overstate formal production and continue to understate the importance of agriculture in the economy.

Figure 2: Solomon Islands aggregate GDP and estimates of subsistence agriculture 1975–2005 (constant 2005 US\$)



Source: IMF³

The growth described in figure 2 includes estimates for underlying agricultural output growth. There is no evidence of widespread hunger in the Solomon Islands, so food production must have matched population growth of at least 3% per annum. Thus it can be inferred that the subsistence sector of the economy has been growing by at least 3% per year since 1975.

Official statistics suggest that the share of agriculture in total GDP has remained steady since 1990, at around 50%.⁴ But if the subsistence sector has been growing annually at 3% to increase food supply, it must account for a greater share of GDP than official statistics indicate. Statistics are not available to break down GDP at independence by sector, but estimates suggest agriculture accounted for about 75% of GDP in 1978. To keep pace with population growth, agricultural output alone would have exceeded total GDP by 2003! This suggests that Solomon Islands statistics overstate formal production and continue to understate the importance of agriculture in the economy.

The rest of the economy has clearly failed to develop. This is supported by social indicators for the Solomon Islands (table 2), which are amongst the worst in the South Pacific.

Table 2: Social indicators for selected Pacific islands 2006

	Population growth rate (%)	Life expectancy (years)	Child mortality (deaths per 1,000 children)	Adult literacy (%)
PNG	2	56	93	57
Fiji	1	68	20	93
Solomon Islands	3.1	63	56	77
Vanuatu	2.7	68	40	74
Samoa	1.1	70	30	70
Tonga	0.3	70	13	99

Note: Obtaining reliable data is a perennial problem in the Pacific, so the figures in table 2 must be viewed with considerable caution.

Source: World Bank⁵

It is in the context of such stagnation that the Solomon Islands experienced civil unrest.

Civil unrest

Economic stagnation led to deep frustration and civil unrest. Ethnic tensions revived because the failure to spread education meant that there was little development of nationhood. The northern Solomon Islands felt more kinship with Bougainville than with the southern Solomon Islands, so that there was support for the Bougainville insurrection and even talk of a new 'North Solomons' breakaway state. The most destructive tensions, though, were between locals of Guadalcanal and Malaitan migrants to the island.

Malaita began to run out of land in the 1980s, encouraging thousands of Maliatans to migrate to Guadalcanal, home to the capital Honiara and its public service jobs. Guadalcanal people began to complain that Malaitans were taking their land and their jobs. Ethnic tensions escalated in 1998 as civil rule and government was breaking down throughout the islands. By 1999, Guadalcanal militants had control of the countryside around Honiara, and 20,000 Malaitans fled. Violence continued to escalate between the Guadalcanal militia, known as the Isatabu Freedom Movement, and the newly formed Malaita Eagle Force. A state of emergency was declared on Guadalcanal in June 1999. Two subsequent attempts at a ceasefire, one brokered by the Commonwealth Secretariat and the other by regional governments (including those of Australia and New Zealand) failed to stop the violence.

The crisis quickly escalated. In June 2000, the Malaita Eagle Force and disgruntled sections of the police seized control of the capital, taking Prime Minister Bartholomew Ulufa'alu hostage and forcing his resignation.

Within a few months, Honiara's population declined from 50,000 to 20,000. All major businesses were closed as the economy collapsed. Exports are estimated to have more than halved from their 2000 levels.⁶ The Gold Ridge gold mine was closed and ransacked, the main oil palm plantation uprooted, and the tuna cannery shut down. Logging was severely affected. The Reserve Bank of the Solomon Islands ran out of money at the height of the conflict, and the national electricity generator could not operate due to a lack of funds.⁷

The country only stabilised in 2000, when Australia brokered the Townsville Peace Agreement. Under the deal, Isatabu Freedom Movement and Malaita Eagle Force members were to return to their homes. Their arms were to be stockpiled and monitored under international supervision. In return for disarmament within thirty days, militias would qualify for general amnesty from prosecution, but rogue militias and security forces openly stalked the streets, extorting money and favours from political elites while seeking to resume fighting. The Solomon Islands was seen as being on the brink of becoming the Pacific's first failed state.

Government services broke down as militias looted funds. Roads and infrastructure deteriorated sharply. National Peace Councillor Sir Frederick Soaki and a former police commissioner were assassinated on 10 February 2003 in Auki, the capital of Malaita province. In April 2003, Prime Minister Allan Kemakeza requested Australian assistance. Further civil conflict and threats led to the closure of the commercial banks for two days in Honiara in late May 2003. The Australian Strategic Policy Institute published a paper recommending Australian intervention in what it called a 'failing state'.⁸ Other commentators issued similar calls.⁹ Consultations with New Zealand and other Pacific states resulted in the planning of a regional assistance mission.

The package of assistance developed was supported by the Foreign Ministers of the Pacific Islands Forum and endorsed by the Solomon Islands Parliament. The blessing of Kofi Annan, the Secretary General of the UN and of the Commonwealth Secretariat was sought. In July 2003, military, police and civilian Regional Assistance Mission to the Solomon Islands (RAMSI) staff landed in the Solomon Islands.¹⁰

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RAMSI

From a security perspective, RAMSI has been an unqualified success. Its security objectives have been met. Peace returned to the Solomon Islands. More than 6,000 militiamen have been arrested, over 9,000 charges have been laid, and over 3,000 firearms have been confiscated. The Solomon Islands police force has been purged of 160 rogue officers. As the result of a new training effort, the police force is claimed to be cleaner and more effective.¹¹ It was supplemented with about 300 RAMSI staff, but four years after the intervention, expatriate police are still evident in considerable numbers.

The Solomon Islands has long been one of only twenty-four countries in the world to recognise Taiwan, but there is constant pressure to switch camps and recognise the People's Republic of China instead.¹² Reports suggest that Beijing has spent hundreds of thousands of dollars in financing opposition parties in the Solomon Islands to support the change. To prevent this, Taiwan has become a considerable 'aid' donor. It contributes up to A\$150 million per year to the Solomon Islands, much of it paid in cash and not subject to accountability or audits.¹³

In April 2006, residents of Honiara, suspecting corruption between Honiara elites and Taiwan, responded angrily by burning and looting Chinese businesses in widespread rioting that destroyed Chinatown and the local casino. Neither RAMSI soldiers nor the RAMSI-trained police were able to control the mob. Chinatown is still in ruins in 2007, but the casino was swiftly rebuilt and is back in operation.

The Chinatown riots indicate that the security gains made to date have been fragile. RAMSI has failed to support the economic changes essential to changing the Solomon Islands' long-term development outlook. Without such an economic growth outlook, and practical steps to implementing it, RAMSI has no exit strategy. RAMSI has managed a return to macroeconomic stability that is essential as a base for future growth. The tax system has improved and government revenues are increasing. Other efforts have focussed on reducing regulatory hurdles to beginning formal businesses, and easing restrictions on hiring and firing. Government slush funds are less common now that audits are regularly conducted and accounting systems are in place.

But these changes do nothing to address the constraints on development in the Solomon Islands. Over 85% of the population is dependent on subsistence agriculture. The public service makes up most of the formal economy. There is one large palm oil plantation, and one gold mine. Logs dominate exports, while export production in non-timber agriculture is negligible. The key constraints on development are in the areas of land tenure and infrastructure, including education. No progress has been made in easing them.

Land

Villages and clans hold nearly 90% of all land in the Solomon Islands, so land alienation from traditional owners has not been a problem.¹⁴ Use rights for land, however, are unspecified, so investment in land is an onerous undertaking. Existing lease provisions are not enforceable, so land cannot be used effectively. While traditional ownership was appropriate to subsistence farming, with the areas of land being worked changing with family needs, a move to cash production requires property rights in land. Property rights in land are also essential to the development of manufacturing, and for tourism and other service industries. All these potential employment-generating industries are constrained because there is no system of allocating available land.

At the very least, a realistic system of leases to free up land for commercial use has to be introduced. Leases are theoretically possible under the current land regime, but in practice they cannot be negotiated because there is no land registration. A necessary first step for reform is to identify land boundaries and match holdings to a register of owners. There is widespread agreement that a national land survey is needed. The past four years were an opportunity for RAMSI to carry out such a survey, but it has not happened.

Most research has confirmed that property-rights-based production is needed to propel the Solomon Islands into a growth phase.¹⁵ The Solomon Islands needs to stage an informed debate to enable villagers to weigh the costs and benefits of reform.

Public service

The public service in the Solomon Islands is large enough to service a country several times its size. With only 500,000 people, the population of Tasmania, the Solomon Islands retains nine provinces and a capital city, each with its own administrative machines, in addition to a federal government. At a federal level, twenty ministers sit in cabinet, each with their own staff, drivers, and additional perks. In a small developing state such as the Solomon Islands, this largesse imposes a disproportionately large cost on the rest of the country. The size of the government in the Solomon Islands must reflect the size of the country and its available resources.

RAMSI has overseen a substantial lift in government revenues from 2000 (table 3). This partly reflects a cyclical return to normal activity after a significant downturn, and is also related to efforts by RAMSI to improve the tax system. The role of aid is, however, extremely evident.

In 2000, grants accounted for less than 10% of total revenues. By 2004, grants were 30% of the budget, even though tax revenues had risen substantially. Neither the additional tax revenue generated nor the substantial amounts of grants received have gone towards relieving the constraints on the Solomon Islands economy. Their main function has been to support an unnecessarily large public service. The Solomon Islands would not be able to sustain such a large public sector without budgets being underwritten by RAMSI's financial largesse, so RAMSI is a barrier to reform.

There is a wealth of anecdotal evidence of the inability of the public service to actually carry out development tasks. As an example, volunteers who had refurbished a generator left behind by the Defence Forces on Choiseul Island had planned it to be a source of power for the local hospital. But because Honiara was unable to release the funds to buy fuel for the generator, it lay unused.

Table 3: Solomon Islands central government revenue and grants (SI\$ millions) 2000–2004

	2000	2001	2002	2003	2004
Income tax and profits	96.3	73.6	73.2	96.1	149.4
Goods and services tax	66.9	63.6	70.1	112.0	164.0
Customs and import duties	52.7	42.7	54.5	67.8	82.4
Export taxes	40.8	23.0	39.3	56.8	67.6
Other revenue	22.6	18.3	10.1	31.3	53.5
Total tax revenue collected	279.3	221.2	247.2	364.0	516.9
Development grants	46.9	115.7	33.3	243.7	340.0
Budget grants	10.1	3.7	7.1	65.8	87.1
Total grants received	57.0	119.4	40.4	309.5	427.1
TOTAL REVENUE	615.6	561.8	534.8	1037.5	1460.9

Source: IMF¹⁶

The Solomon Islands spends more of its budget on wages and salaries than on all other government services combined (table 4). Although the percentage of recurrent expenditure spent on public employees has fallen from over 50% in 2000 to about 40% in 2004, this reflects the larger budgetary amounts available to the government, rather than a rationalisation of the public service. Development expenditure has increased in

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recent years, from about SI\$70 million to over SI\$340 million, but its effects have not yet been seen in schools or roads. In 2004, moreover, 99% of development spending was financed by grants. The economy is still very much reliant on donor generosity.

Table 4: Solomon Islands central government expenditure 2000–2004 (SI\$ millions)

	2000	2001	2002	2003	2004
Compensation of employees	199.6	187.5	177.4	160.2	172.9
Goods and services	76.3	76.2	72.3	99.0	153.1
Interest payments	54.9	19.1	50.6	48.3	35.7
Grants to other government units	43.0	33.2	14.2	37.5	52.5
Other expenditures	11.5	79.2	91.8	64.3	27.8
Total recurrent expenditure	385.3	395.2	406.3	409.3	442
Total development expenditure	69.5	128.6	48.7	266.9	342.1
% of which is grant-financed	67	89	68	91	99
% of which is loan-financed	33	11	32	9	1
TOTAL EXPENDITURE	454.8	523.8	455	676.2	784.1

Source: IMF¹⁷

Rather than encouraging the Solomon Islands government to make the changes necessary for growth, RAMSI's objective has been to reinstate the same institutions, the same central bank, and the same unnecessary proliferation of ministries that were a mainstay of stagnation for thirty years. To this existing over-administration, it has added its own layer of oversight. The reforms made thus far have not addressed the key constraints on development. Under RAMSI's watch, the Solomon Islands government has been resurrected rather than reformed.

Employment

Unemployment and underemployment continue to threaten the sustainability of improved peace and security. The streets of Honiara remain filled with unemployed youth with nothing to do but to sit in the shade. About 80,000 Solomon Islanders are conservatively estimated to be unemployed and underemployed (table 5). A further 16,000 join this number each year. It is only a matter of time before frustrations from joblessness and boredom break out in another spurt of violence.

Table 5: Unemployment and underemployment in selected Pacific islands 2006

	Population	Formal sector workforce	Unemployed and underemployed	Annual additions to labour force
PNG	5,500,000	220,000	1,000,617	150,753
Fiji	890,000	111,133	155,007	20,029
Solomon Islands	540,000	57,472	79,299	16,090
Vanuatu	200,000	23,801	35,337	4,899
Samoa	177,000	50,325	22,459	3,441
Tonga	112,000	15,597	17,161	2,890

Source: H. Hughes and G. Sodhi¹⁸

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Unemployment and underemployment on the Solomon Islands scale cannot be ignored. In the immediate term, rural solutions must be found.

Agriculture

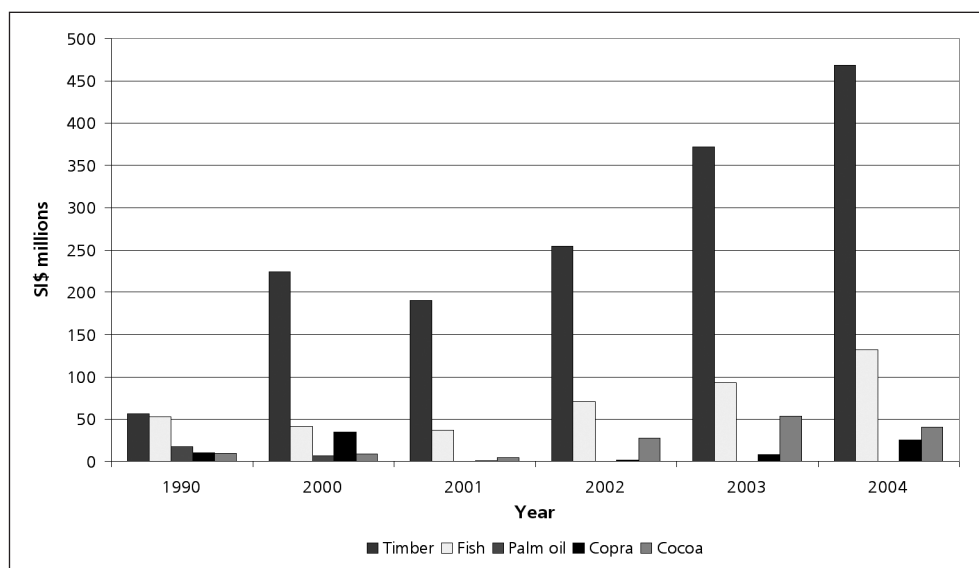
Timber has been the Solomon Islands' main rural export (figure 3). Palm oil production has revived on Guadalcanal after halting completely as a result of the civil unrest, but this production is only from one estate, with minimal smallholder participation. Fishing has not increased substantially despite rich potential. Most production remains concentrated in the subsistence sector.

In a mainly rural economy, development is made possible by developing farming incomes, by shifting the rural population into urban labour-intensive production along East Asian model, or by a combination of both. Labour-intensive export manufacturing suited city-states such as Singapore and Hong Kong. Malaysia and Thailand, on the other hand, spurred rapid development by utilising quality agricultural land for smallholder commercial farming while instituting policies that created urban jobs. Samoa and Tonga stimulated growth by establishing high-quality universal primary schooling followed by mainstream secondary education in English, to increase rates of emigration and hence remittance income from abroad.

The Solomon Islands' rich agricultural land could deliver increased output, employment, and exports. Niche export markets could include spices, flowers, and fruit and vegetables. The Solomon Islands could take advantage of palm oil demand in rapidly expanding Asian markets by investing in estates to act as central processors for smallholders. Cocoa is a suitable crop and, within limits, so are coconut products. All these opportunities have been identified in countless reports. If urban employment and incomes increased, there would be an expanding domestic market for fruit, vegetables, pigs, and chicken, and these opportunities, too, have been known for years.

The Solomon Islands' rich agricultural land could deliver increased output, employment, and exports.

Figure 3: Solomon Islands exports by commodity 1990 and 2000–2005 (SI\$ millions)



Source: IMF¹⁹

The most recent of a flow of Solomon Islands reports on agricultural development are the five-volume AusAID *Solomon Islands Smallholder Agriculture Study* and, repeating its findings, the seventy-two page *Solomon Islands Agriculture & Rural Development Strategy*.²⁰ These simply reiterate the importance of developing agriculture.

The eight authors of the AusAID report go into minute detail; for example, without adequate market research, they consider that vanilla should be grown for export but chillies only for canned fish! The *Solomon Islands Agriculture & Rural Development Strategy* combines the contributions of nearly eighty Solomon Island bureaucrats, as well as expatriate consultants, to repeat clichés that flow effortlessly: for example, there is

No one will grow crops on land they cannot exercise property rights over.

promotion of ‘a bottom-up and holistic approach that encompasses the empowerment of the people through rural advancement strategies.’²¹ Statistical material is sparse, though the report optimistically projects log production into 2050, even though other commentators suggest that current extraction rates would exhaust timber stocks within a decade. Neither volume analyses why agriculture in the Solomon Islands has not developed during the past thirty years.

Villagers work hard to produce food with antiquated production methods. Not all farmers are ready to become agricultural entrepreneurs. Persistent farmers want to earn higher incomes to house their families better, to obtain medical services, and to educate their children. Others only want to earn modest cash increments. For some villagers, a cash economy is daunting. But no one will grow crops on land they cannot exercise property rights over. Land tenure that enables smallholders to increase production above subsistence must be found. Villagers cannot own their own land, and therefore have no collateral with which to start a business. Land restrictions make large-scale plantation investment impossible. The absence of private property rights in land is a principal barrier to rural development worldwide. Recommendations for ‘capacity building’ and ‘empowerment’ have been futile because these are not the bottlenecks. Without land tenure reforms at least making provision for long-term leases, agricultural development has not been possible.

Since agricultural productivity has not improved, farmers have had to increase the area being farmed to increase food supply at a rate matching population growth. More land is being used for farming purposes. Inefficient slash-and-burn farming techniques can render soils unproductive for decades, so land shortages have been a longstanding source of conflict.

Beyond land, basic literacy and numeracy are essential if smallholders are to be able to move to production of cash crops. Farmers have to be able to keep elementary accounts, read instructions on fertilisers and pesticides, and understand market trends. The low quality of rural schooling where it exists, and the almost total absence of secondary education, are barriers to entrepreneurship of any kind in the Solomon Islands. The official statistic that 75% of the population is literate has little basis in reality.²² A UN survey conducted before the civil unrest, when more children were going to school, reported literacy rates of only 22%, a closer estimation of the dire position of education in the country.²³

Wontoks

Throughout much of history, harvests and food storage have been dependent on good weather, an absence of pests and disease, and luck. Informal systems of welfare evolved in traditional societies to smooth out food production cycles. In practice, this meant that food grown in gardens was shared with the weaker members of a clan—in Pidgin, the *wontok* (‘one talk’). As traditional forms of agriculture expanded into cash crops, informal welfare began to claim cash incomes in addition to food.

The *wontok* system has long been recognised as a constraint on commercial activity, as it stifles incentives to increase production and seek income earning opportunities. Why go to the trouble of working harder when the benefits of toil have to be given up to those not working? Why seek work at all when your *wontok* will provide food and cash?

The *wontok* system is not unique to the Solomon Islands or to the Pacific. All traditional societies have had similar informal welfare systems. As coffee, cocoa and palm oil production developed, welfare systems eroded. Economic policies that achieved growth overcame disincentives to work.

A strong banking system that is capable of quarantining earnings can be helpful. In Fiji, for example, which has higher employment rates than the rest of the Pacific, many place their income in accounts that their extended families cannot access. International experience suggests that informal traditional systems tend to break down as economic growth provides better income-earning opportunities.

Solomon Islanders cannot get their produce to market because there are few roads and little inter-island transport. Electric power is scarcely available. Where successful rural development has taken off with secure land leasehold or freehold property rights, farmers are able to take care of themselves. Banks push out to rural areas to do business, and off-farm businesses such as construction flourish.

Mobile phones have become extremely successful in developing countries as a way of connecting farmers to markets and providing communication infrastructure to transport and other services. But their use in the Solomon Islands is limited because the government limits competition. In Tonga, commercial competition has seen mobile phones make a dramatic improvement to communications. Even in Somalia, which has lacked government for over a decade, there has been greater mobile penetration than the Solomon Islands.

Timber

Commercial logging struggled in the Solomon Islands from the 1920s to 1964. From 1964 until the early 1980s, Levers monopolised the timber industry, harvesting logs on colonial crown land and on customary land leased by the colonial government. Increasing dissatisfaction with Levers' logging on government-administered land led to the 1977 *Forest and Timber Amendment Act*, which recognised customary landowners' timber rights, but established a cumbersome process for adjudication of claims to those rights by area councils. In 1982, landowners opposed to the company's operations destroyed a Levers logging camp and equipment at Enghae on New Georgia in the Western Province. This led to the *North New Georgia Timber Corporation Act*, which enhanced customary landowners' rights over timber and allowed them to set up logging companies.²⁴

Solomon Mamaloni, who had been chief minister from 1974 to 1976, when the Solomon Islands was still a colony, introduced a pro-logging policy while serving as prime minister from 1981 to 1984. Mamaloni was prime minister again from 1989 to 1993, and returned to the position a last time to serve from 1994 to 1997. The Mamaloni government not only wanted to encourage indigenous investors, but also to move from relying on Western logging firms to embracing Asian ones. Logs overtook fish as a proportion of the Solomon Islands' exports in 1982, and have remained the dominant export since then. Logging output moved swiftly to 826,000 cubic metres of commercial logs in 1995. Sustainable yields, however, were estimated to be below 300,000 cubic metres.²⁵ Without immediate reforestation or other land use, weed growth tended to take over. The soil washed down slopes and choked gardens and fishing grounds, destroying village livelihoods. Fears were expressed that forests would be cut out within ten years. The 1997 Asian financial crisis sharply cut demand, reducing output to 637,000 metres in that year. Estimates of the time it would take for wood resources to be exhausted have been extended, but logging still constantly exceeds the sustainable level that would allow the Solomon Islands to harvest logs in perpetuity, estimated at around 300,000 cubic metres a year.²⁶

The companies logging Solomon Islands timber are constantly accused of distorted transfer pricing that moves returns from logging to downstream sales. Although log production has climbed exponentially, revenue from logging taxes has remained low (table 6).

Table 6: Timber volume and tax on logging collected in the Solomon Islands 2000–2004

	2000	2001	2002	2003	2004
Timber volume (cubic metres)	536,000	534,000	550,000	714,100	1,043,150
Tax on logging collected (% of GDP)	NA	NA	NA	3.2	3.3

Source: IMF²⁷

Logging ... constantly exceeds the sustainable level that would allow the Solomon Islands to harvest logs in perpetuity.

Successive Solomon Islands governments granted exporters tax remissions that have grown from SI\$34 million of potential revenue foregone in 1994 to SI\$75 million in 1997.²⁸ Landowner companies have been granted additional remissions to enable them to start logging and to so encourage domestic processing. All these remissions have been alleged to be associated with payments to corrupt officials.²⁹

The Solomon Islands' tax regime is complex, and its tax collection capacity is weak, so taxes are often only partially collected. Contractual arrangements between landowning communities and loggers are also complex and thus difficult to enforce. Communities are not always paid the full amounts due to them, and the funds are not always properly distributed.

An unknown proportion of logging is simply illegal. Cash payments are made to village chiefs, parliamentarians, and provincial officials, and no taxes are collected at all. Because logging is such a fraught activity, reliable employment data does not seem to be available. But even well-conducted logging with local processing could not deal with the Solomon Islands' employment deficit.

An unknown proportion of logging is simply illegal.

Gold

No industry illustrates the precipitous decline of the Solomon Islands economy as well as gold mining. Gold has had a long and lustrous history in the Solomon Islands, which were so named in a belief that they held vast amounts of the yellow metal. A Spanish explorer was the first to report finding gold on Guadalcanal in 1568, and prospecting of varying intensities began in the early twentieth century before being brought to a stop by World War II. Modern exploration began in the 1980s. Ross Mining started production on Guadalcanal deposit Gold Ridge in 1998. The open pit operation there produced more than 200,000 ounces of gold between 1998 and June 2000, when new owners Delta Gold had to abandon the mine due to instability on Guadalcanal.³⁰

The gold deposit on the island is known to contain about 2 million ounces of the metal. It is a reasonably economic resource, although by no means a world-class one. Nevertheless, at the height of production, gold accounted for nearly 35% of the Solomon Islands' economy. Yet production had to be abruptly abandoned when civil conflict escalated in 2000.³¹ The engineers and geologists packed up and went home, leaving multimillion-dollar processing facilities to rioting mobs. The destruction of the mine and its equipment was swift and absolute. Everything in sight was stripped bare; not even the copper wires in the ground or light bulbs survived. The mobs torched trucks and buildings, and any remaining metal was used as scrap.

Seven years on, the mine is now owned by Australian Solomons Gold, which has renovated the mine site and refurbished all the equipment. Gold Ridge is now equipped with up-to-date processing and extracting facilities, but because of ongoing negotiations with landowners mining is no closer to starting.

The mine, nevertheless, still employs about 250 workers. The majority are security guards deployed to usher away small prospectors who want to work around the open pit. Management claims that the number of workers will increase to between 400 and 500 once mining commences with final approval from landowners and the government.³² Landowners are to hold 80% of all jobs on the mine site. Only the remaining 20% of positions—for chemists, mechanics, accountants, and engineers—will be allocated by merit. Mining is a capital-intensive industry, and cannot provide the large numbers of low-skilled jobs needed for economic growth and social stability.

Australian Solomons Gold has a valid mining lease. In mid-2006 it struck an agreement with landowners to relocate villagers affected by mining operations, but the number of landowners claiming land rights continues to grow—they now number in the thousands. They claim varying degrees of legitimacy. Without a register of land and its owners, and without any enforceable leases, negotiations have already taken nearly a decade. Mining is not expected to start until 2008.

The government, backed by RAMSI, has pledged its support for the project, but such support is meaningless without legislative changes. All eyes are on the Gold Ridge mine. It will remain a barometer of the country's rehabilitation.

Aid to the Solomon Islands

Together with other countries in the South Pacific, the Solomon Islands has been among the highest per capita recipients of aid (development assistance) in the world. From 1998 to 2004 alone, the Solomon Islands has received over \$500 million in aid (table 7), averaging \$1,000 per capita.

Table 7: Government development assistance flows to selected Pacific islands 1998–2004 (\$US millions)

	Papua New Guinea	Fiji	Solomon Islands	Vanuatu	Samoa	Tonga
1998	214.7	68.8	52.8	74.6	55.9	12.4
1999	271.5	38.3	104.1	45.1	32.7	16.0
2000	477.8	15.2	86.4	26.9	44.6	27.4
2001	163.7	29.3	29.1	19.4	46.4	25.7
2002	230.0	39.4	22.2	22.1	24.4	29.5
2003	208.4	60.7	112.4	48.4	34.7	24.3
2004	512.4	58.8	98.9	31.3	43.0	27.1
TOTAL	2,078.5	310.5	505.9	267.8	281.7	162.4

Source: OECD³³

Note: OECD data on donor and recipient flows are not reconciled. They do not include aid flows from China, Taiwan, and non-government sources.

With the arrival of RAMSI in 2003, aid flows increased sharply. Following the earthquake and tsunami on Choiseul and in the Western Province in April 2007, there was another burst of government and non-government aid.³⁴

Australia has been the principal aid donor to the Solomon Islands (80% of aid in 2004), followed by New Zealand (10% of aid in 2004). Taiwan is also a significant aid donor. By some accounts, its contribution is greater than Australia's, but it is absent from the official statistics. The World Bank and the Asian Development Bank have contributed concessional loans, grants, and technical assistance, and numerous UN agencies have also been active donors. Despite the high volume of aid flows, and perhaps even because of them, the economy of the Solomon Islands has stagnated.

Why aid has failed the Solomon Islands

Aid flows since independence have served to underwrite the excessive government structures imposed on the Solomon Islands at independence, which the fledgling economy could not support. Since most available funds have gone into recurrent expenditure, there has been little left for the development needs of a state in the Solomon Islands' position. Education, health, roads, ports, power, water, and telecommunications have all been neglected.

Loans, credit, and grants that were marked for education, health, agriculture, fisheries, and infrastructure went to ministries and departments that were unable to spend the funds appropriately. Aid agency staff and consultants, with rare exceptions, have expertise

Despite the high volume of aid flows, and perhaps even because of them, the economy of the Solomon Islands has stagnated.

Table 8: Sources of Solomon Islands Aid in 2004 (US\$ millions)

Australia	102.2
Japan	2.9
New Zealand	11.6
EU	3.3
Multilateral	5.3
Total	125.3

Source: OECD³⁵

Note: OECD data on donor and recipient flows are not reconciled. They do not include aid flows from China, Taiwan, and non-government sources.

Recipient governments and consultants, not the poor, have been the principal beneficiaries of aid given to the Solomon Islands.

in writing reports, strategies, and recommendations, but little idea of how to increase output. This has been a failing of aid not just in the Solomon Islands or in the Pacific, but also internationally.³⁶ They were not able to help inexperienced Solomon Islander (or expatriate) public servants to build schools, health centres, or roads. Aid funding thus became absorbed in ministries, without any expansion of education or health services, and without new roads or ports. The barriers to smallholder output and urban enterprise were not removed.

The language used to deliver aid started to change in the 1990s. Instead of being focused on outputs, it now purported to support ‘capacity building,’ ‘public sector management,’ ‘financial management improvement,’ ‘business environment reforms,’ ‘infrastructure development reform programs,’ ‘small business development in rural areas,’ and ‘education strategies.’ But these programs also pumped money directly into ministries without any corresponding expectation of increasing sector outputs. The programs became damaging because they created outcomes that could not be measured, monitored, or evaluated. The new language of aid is a disguise to hide its ineffectiveness in tackling development. Recipient governments and consultants, not the poor, have been the principal beneficiaries of aid given to the Solomon Islands.

At a time when the Solomon Islands was highly receptive to possible change, no political and economic reform agenda that could have provided an exit strategy for RAMSI was presented to the government. On the contrary, RAMSI reconstituted every office and position that had existed before the tensions, even though many of those who held them had not been paid, sometimes for years. Some had found alternative livelihoods, even going back to village gardens. In its efforts to resurrect the status quo, RAMSI even made up the arrears on the service of non-performing Asian Development Bank loans, rather asking the bank to write off the debt on loans that had clearly failed in their purpose.

Much of the aid for the Solomon Islands is ‘boomerang’ funding. It flows to expatriates who repatriate most of their incomes to their home countries. Aid continues to pay high expatriate salaries in the Solomon Islands because the past four years have not been used to teach Solomon Islanders to run their own country. Australians continue to hold key financial posts.

The failure to deal with a transition to local policing is a key symptom of the absence of an exit strategy. The issue of ‘militia’ members in the police force has not been resolved. Australian police—at necessarily high salaries that are a major charge on aid funding—still dominate civil security. When furious islanders torched Chinatown, local police could not or would not intervene.

Other key technical tasks have not been undertaken. The Solomon Islands did not have a statistical service to gather basic information when Great Britain departed. In thirty years, none of the aid donors have thought it necessary to introduce a reliable basic data collection system such as the US Census Bureau has provided for its former Pacific colonies and associated territories. The AusAID-funded Pacific statistical system, PRISM, has no entries for the Solomon Islands. The Australian Bureau of Statistics is highly regarded internationally, and should be funded to follow the example set by the US Census Bureau.

Since 1978, the World Bank has given the Solomon Islands eight International Development Assistance credits (at low interest, with long-term repayments, for low-income countries) totalling US\$50 million for infrastructure, education, health finance, and agriculture. Not one of these loans has had any appreciable impact on the economy or society.³⁷ The World Bank has not used its lending to engage Solomon Islands governments in a dialogue on economic policy during this period.

The United Nations’ Millennium Development Goals have occupied the attention of the Asian Development Bank even though the principal objective—halving the proportion of the population living in hunger—does not apply in the South Pacific generally and in the Solomon Islands in particular because the expansion of gardens has kept up with population growth.³⁸ Where action should be taken, providing meaningful

primary education for all children, reducing child mortality, and improving maternal health, none has followed. Since 1973, the Asian Development Bank has provided to the Solomon Islands sixteen loans, amounting to US\$79.31 million; fifteen technical assistance projects, amounting to US\$13.85 million; and a US\$350,000 Asian Development Fund grant. Initially these were for agriculture and fisheries, transportation, infrastructure rehabilitation, finance, power, water supply and sanitation, and ports. More recently they have been for the reform of state-owned enterprises and institutional development of government ministries and public agencies.³⁹ There have also not been any outcomes from these expenditures.

The European Union has contributed to the Solomon Islands Ministry of Education, and for rural development to its Ministry of Agriculture. Japan has provided assistance with water management. New Zealand's aid has largely been for primary education and for the Honiara Small Business Enterprise Centre, where nearly 4,000 'potential and existing entrepreneurs' have been trained.⁴⁰ The presence of graduates of this training is not evident in indigenous enterprises in Honiara or other centres. Taiwan says nothing about its aid.

The Solomon Islands had accumulated US\$170 million of external debt by 2005, including amounts owned on concessional loans to the World Bank and the Asian Development Bank. Following well-established procedures, the World Bank did not write off these non-performing loans, but instead organised a 'Honiara Club' to 'forgive' the Solomon Islands' external debt. Taxpayers of various donor countries, including Australia, which overwhelmingly gives aid in grant form, will have to bear the costs of the Solomon Islands' squandered aid.⁴¹

The following UN agencies are active in the Solomon Islands: the Food and Agriculture Organisation; the International Fund for International Development; the International Labour Organisation; the United Nations Committee on Trade and Development; the United Nations Educational, Scientific, and Cultural Organisation; the World Health Organization; the United Nations Environment Programme; the International Trade Centre; the United Nations Population Fund; the United Nations Children's Fund; and acting as a coordinator for these from its Honiara office, the United Nations Development Programme.

Among the NGOs active in the Solomon Islands are Save the Children, Caritas, the World Wide Fund for Nature (WWF), Oxfam, the Red Cross, and the Beehive Federal Credit Union (a branch of the Idaho Credit Union League). In addition, church organisations present in the Solomon Islands include United Christian World Ministries, the Church of Scientology, the South Seas Evangelical Church, and the Christian World Service. The lack of development in the Solomon Islands does not reflect a paucity of aid.

Australia recognised that despite large aid flows, the Solomon Islands has stagnated for thirty years. The *White Paper on the Australian Government's Overseas Aid Program* and the AusAID publication *Pacific 2020* both identified that growth needed to be placed at the forefront of strategies to improve the lives of the Pacific's eight million people.⁴² Several reports have correctly identified smallholder agriculture as central to growth in the Solomon Islands.

Honiara and other centres constantly host donor agency staff, consultants, and NGO representatives. Visits by aid personnel take up a great deal of the time of the few public servants actually trying to manage the economy. After thirty years, flows of hundreds of millions of dollars in aid, innumerable consultants' reports, and countless slogans and pledges, the Solomon Islands remains mired in stagnation. Aid has failed to develop its economy or institutions. It has not improved governance, empowered villagers, or built roads, schools, and hospitals.

The Solomon Islands remains mired in stagnation. Aid has failed to develop its economy or institutions.

Conclusion

The people of the Solomon Islands are no better off today than they were at independence thirty years ago. Because of the civic violence that has resulted from stagnation, many are in fact worse off. Villagers work hard in their gardens to feed their families while services such as power, water, education, and healthcare are largely absent from their lives. Children in the Solomon Islands are no more likely to go to school today than they were thirty years ago. The underdevelopment of the Solomon Islands is damning of its governments since independence, and also of the many aid organisations that have little improvement to show for their hundreds of millions of dollars of largesse. If words were a substitute for action, the Solomon Islands would be rich. **Countless multilateral bodies and NGOs** have made the same recommendations and the same promises. **Yet** the land tenure reforms that are essential to agricultural and private sector development have been ignored.

RAMSI has undoubtedly made a critical contribution in pacifying the Solomon Islands. It has laid the foundations for growth and development. The Solomon Islands is better off with the involvement of RAMSI than without, but RAMSI risks becoming just the latest agency promising to deliver development with little improvement to show for its pledges.

The security gains made in the Solomons are fragile. They must be matched by efforts to reform the real bottlenecks in the economy. The bored and frustrated men who continue to sit around villages and towns feel sidelined and alienated in their own country as they observe busy expatriates scurrying about their business. They are a harbinger of future instability. RAMSI's mission is only half complete. Any assessment of its efforts can only offer a mark of five out of ten. Without addressing the real constraints to development, it has no exit strategy.

Endnotes

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