

Storm Warning

Can the Solomon Islands Be Rescued?

A 'more of the same' approach to long-term development in the Solomons is no more likely to be successful than in the past, argues **Helen Hughes**

The decision to restore civil order in the Solomons is welcome, but it can only be the first step toward recovery. As Australian-led police and military forces take that step, the long-term challenges of putting in place the conditions that will achieve a productive and stable state must be acknowledged. Unless underlying economic problems are tackled and our present aid policies reviewed, Australian and New Zealand forces may be in the Solomons for a long time. And Australians and New Zealanders will be increasingly resented because, although they will

be patrolling the streets, they will be failing to help the Solomons to thrive.

Violence has been escalating in the Solomons because the population has been growing at 3.9%—one of the highest rates in the world—while economic growth has been negligible. As a result, per capita income has been falling. The Solomons' economic performance is the weakest in a weak Pacific.

The Solomon Islands does not lack resources. It has rich agricultural land and minerals, timber and fishing rights. Since independence, the Solomons has earned more than US\$2.2 billion from timber and fish and received around US\$1.6 billion in aid (in 1998 dollars). But most of the 450,000 to 500,000 Solomons Islanders have seen little of this income.

It is difficult for Australians and New Zealanders to comprehend what 20 years

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of stagnation mean. Few government or aid dollars have been spent on roads, jetties, power stations, schools or health centres. A handful of extravagant government buildings are the main bricks and mortar indications of vast aid inflows. Yet Parliament was not able to sit earlier this year because it could not afford the electricity costs! Staff that occupies the luxurious central bank (sponsored by the International Monetary Fund) presides over a runaway inflation rate and a collapsed banking system.

Schooling is limited to three to four years for boys. As they grow into adolescence they lounge about the villages because chain saws have taken over from stone axes to make gardens for agriculture so that there is little work for men to do. In Honiara male unemployment is officially 50%; including villagers drifting in and out of town, it is 80%. Not only youths, but men now in their 30s and 40s, have never had an opportunity to work productively and earn an income. Their entire lives have been wasted. It is little wonder that they have turned to crime and violence.

Girls only receive two to three years' schooling and bear upward of five children from an early age. Women work long hours throughout their lifetime to feed the increasing population and grow cash crops for what little money there is in the villages. In the absence of productive work opportunities, much of this income is inevitably spent by profoundly frustrated men on beer. Alcoholism contributes to violence, notably against women.

Although government service is so bloated that it absorbs the bulk of revenues, it is tiny in relation to the need for jobs. Employment in the private sector is even smaller. Public servants have not been paid regularly for years. The police and army are

deeply implicated in crime and violence through clan relationships, notably in Guadalcanal-Malaita conflicts. Their armouries have become low-cost arms supermarkets.¹

The few health centres that survive lack basic equipment, medicines and staff. Throughout the Pacific nepotism and hence poor management and theft exacerbate the inadequacy of hospitals. As town electricity is unreliable, all hospitals are supposed to have back-up emergency generators. Many of these were stolen during installation and others have disappeared subsequently. It is just too bad if a patient is on the operating table when the town electricity supply fails.

Economic failure has been years in the making. Communal ownership allowed the Solomons' rich forests to be denuded. Fish resources have been similarly exploited. The proceeds have been shared by a few village 'big men' in cahoots with central government politicians and bureaucrats in an orgy of waste and corruption. Huge private fortunes have been siphoned off with the help of expatriate carpetbaggers.

Government intervention has prevented the evolution of a private sector. Instead of the development of a modern state on the basis of expanding education and productive work, a small elite has used the semblance of a democratic framework to entrench and defend its privileged position and to reinforce economic and political monopolies.

The Solomons' underlying economic problems arise from development strategies focused on the exploitation of gold, timber and fishing rights. Such 'windfall' incomes from natural resources create economic 'rents' that bias the economy against labour-intensive employment and lead to opportunities for corruption. Development strategies that do not create jobs have been combined with semi-socialist labour policies that were popular in Australia and New Zealand until the 1970s, but that have since been largely abandoned there in favour of competitiveness and growth. In the Solomons high wages for those few fortunate enough to have jobs are still pursued at the cost of employment opportunities.

The Solomons are rich and beautiful islands. The people of the Solomons are resourceful. When a

cyclone struck a remote island in December 2002, relief teams, expecting to find many dead people when they arrived days later, found that because swift emergency measures had been taken locally, not one islander was seriously injured.

Transition from a traditional Pacific society to a high-income modern one has costs as well as benefits. Clan support provides social security in a traditional society. But clan obligations, and the communal ownership of land, carry a high cost in terms of disincentives to the saving and investment necessary to stimulate and sustain development. Those obligations have to be foregone so that families who work hard and want to save and invest can do so without having to support their clan.

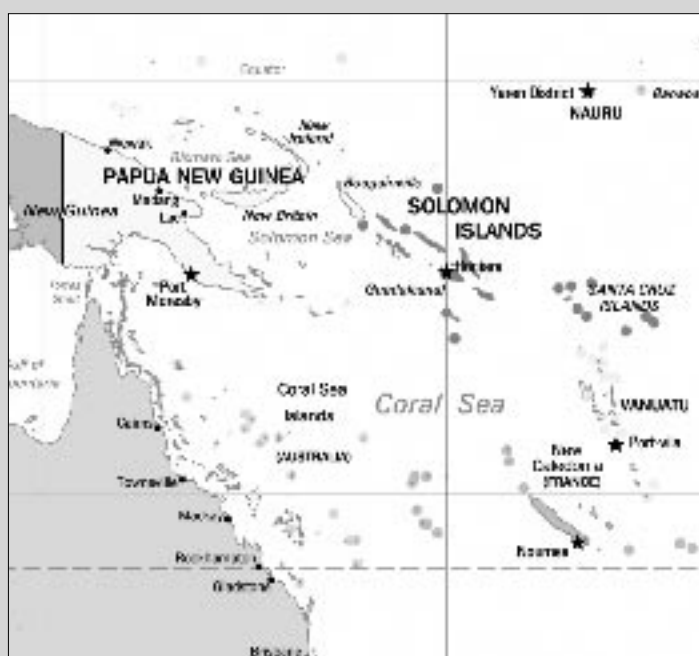
With security the Solomons could develop a labour-intensive economy. Bountiful agricultural land could support a variety of labour-intensive agricultural exports. As a result of the opening up of world trade, the Solomons has access to international markets. In addition, it still has the benefits of low tariffs for labour-intensive products in Europe and North America, and Pacific goods enjoy tariff free entry into Australia and New Zealand (although these preferences are being eroded as Australia and New Zealand drop their tariffs to unprecedentedly

low levels). There are many opportunities for tourism. On top of such industries, income from properly managed timber exports with appropriate re-forestation (which is also labour-intensive), the restoration of mineral exploration and mining, and well-managed fishing rights could underpin rapid income growth for all.

Achieving such outcomes would, however, require a formidable array of economic reforms, starting with individual property rights in land and going on to changes throughout the economy and in fiscal and monetary policy. Those reforms will be difficult, not just because they require choices about abandoning traditional ways but, more pointedly, because they attack entrenched privileges. But if the Solomon Islanders do not tackle these tasks, the gap between a rapidly growing population and falling incomes will only increase. The peoples of the Solomons will continue to experience the costs of transition without the benefits, leading to more crime and violence.

What can be done to help?

Economic reforms can only be formulated and adopted in the Pacific. But other countries, particularly Australia and New Zealand, also have



THE SOLOMON ISLANDS AT A GLANCE

Land area: 28,530km²
 Population, 2000: 447,000
 Density, people per km², 2000: 16
 Annual population growth, 1970-2000: 3.9%
 Real GNP per capita growth, 1967-2000: -0.4%
 GNP per capita purchasing power parity, 2000*: US\$1,170

Life expectancy, 1970: 40; 2000: n/a
 Fertility rates, births per woman, 1970: 7.0; 2000: 5.4
 Infant mortality per 1,000 live births, 2000: 22

Total aid flows since 1970 (1998 dollars): US\$1,477m
 Average annual aid flow per capita since 1970: \$US110

Note: n/a means data not available or varies by more than 25% among sources. *Purchasing power parity is not derived from econometric estimates based on 'like' countries; it is only applicable to urban not to subsistence rural areas.

Source: H. Hughes, *Aid Has Failed the Pacific*, Issue Analysis No.33 (Sydney: The Centre for Independent Studies, May 2003), Tables 2, 3, and 5.

Source: CIA (www.cia.gov/cia/publications/mapspub/index.shtml)

an important role to play. If that help is to be effective in reversing decline, we need to recognise the counterproductive role that aid has inadvertently played in the Pacific. A ‘more of the same’ approach to the long-term development tasks now being planned to accompany the military and police intervention in the Solomons is no more likely to be successful than in the past.

Aid is another windfall income. Like resource revenues, it creates economic ‘rents’ that have an inherent bias against the private sector and job creation. The late Peter Bauer showed long ago that aid undermines its own objectives by leading to mismanagement and corruption.² In the Solomons aid has mainly been used to prop up swollen central government. Solomons governments, like others in the Pacific, have treated aid as part of their revenue stream in annual budgets. Pacific elites openly regard it as their right to spend Australian and New Zealand taxpayers’ money as they choose. Too often aid has not been spent on development, but on recurrent central government salaries and ‘goods and services’ subject to kickbacks by politicians and their cronies. ‘Capacity building’ and ‘good governance’ aid has thus not improved the working of government, but has accompanied the Solomons’ descent into chaos. Placing expatriates in government offices has sometimes enabled revenues to be raised more efficiently but, without improving controls over expenditures, it has also served to strengthen the depredations of the elite. The air-conditioned 4WD brigades of consultants who have supplied this ‘boomerang aid’ have been the principal beneficiaries.

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AusAID and NZAID are among the world’s best bilateral agencies. Their staff is dedicated to development. But Australia and New Zealand have feared the opprobrium of being thought ‘colonial’ to such an extent that they have not empowered these aid agencies to think strategically about the Pacific economies so as to negotiate with Pacific governments to achieve development for islanders rather than elites. Attempts to discuss the costs and benefits of aid rigorously are perceived as attacks rather than a means of making the delivery of aid more effective.

We have 30 years of experience to show that more than money and good intentions are required to meet the development challenges in the Pacific. Some AU\$80 billion (in 1998 dollars) of aid—the highest per capita aid flow in the world—has been spent in the Pacific since 1970. What is there to show for it? If the negative impacts of past aid are to be avoided, independent audits of this aid are essential.

Responding to Pacific island ‘shopping list’ initiatives in bilateral aid negotiations mainly benefited the Pacific elites and their cronies. More recent and direct poverty alleviation projects are ‘bandaids’ that substitute for expenditures on education and health by central governments. They are unsustainable in the absence of productive work and incomes. They create frustration when schooling is not followed by jobs and when health centres are gutted. They do little to bridge the gap between the living standards of most Solomon islanders and the elite, their cronies and expatriate advisers.

The Asian Development Bank, the World Bank and the International Monetary Fund were supposed to impose conditionality on aid to ensure that it was spent effectively, albeit without colonial connotations. Their lending has, however, been openly used as a component of recurrent Pacific budgets. It is even less strategic and less subject to review than bilateral aid. International financial institution loans have enabled the Solomons to borrow additional funds abroad from public and private sources. These funds have also been spent largely on recurrent expenditures, thus creating nearly US\$250 million (58% of Gross National Income) of unsustainable debt by December

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2001. The international financial institutions have urged private direct foreign investment in the Solomons regardless of whether it takes place under conditions that lead to production at internationally competitive prices, or to monopolies.

A new 'mutual obligation' approach to aid is needed to satisfy Australian and New Zealand taxpayers that their money is being spent on development that benefits the Solomons people rather than urban-political elites. Such an approach would involve agreeing on the commitments to reforms required to achieve the sustainable growth in the economy that will help increase per capita incomes. Such aid, for example, would pay for the costs of breaking up communal land into plots for villagers who wish to farm individually. Where a substantial proportion of a community is willing to undertake reforms, an aid project would also pay for the materials costs of new infrastructure such as roads, landing jetties, mini-hydros, schools and health centres. An aid project would only proceed if the central government made regular contributions for police, education and health workers. In suitable areas tourist components could be added. Aid would continue to be disbursed progressively on the documentation of clearly specified benchmarks. But not only would those benchmarks be drawn up with more explicit conditionality, there would have to be a willingness on Australia's part to bear the political heat of halting disbursements if benchmarks were not met.

It is well known that quantitative, objective evaluation is an essential component of successful

aid delivery. AusAID has established procedures for review and feedback. But evaluation should not be carried out solely by aid agencies themselves or contracted by them to consulting firms dependent on their business. Regular, external and independent review is needed, not only because of the indisputable national interest in ensuring taxpayer-funded aid is effective but also, in the case of the small Pacific countries in particular, because of the serious economic impacts of ineffective aid. The government's

auditors, the Australian National Audit Office (ANAO), should conduct periodic audits of Australia's aid. An immediate ANAO-commissioned evaluation of aid to the Solomons is needed if aid is now to make an effective contribution to its reconstruction. Alongside that, broader Pacific-wide audits in crucial sectors, starting with Pacific hospitals, are needed if lives are not to be lost.

The weakness of the Solomons' economy is typical of the Pacific. Papua New Guinea is little better, with consequently high crime and civil unrest in Bougainville and the Southern Highlands.³ Fiji's military coups reflect economic stagnation and Vanuatu has been hovering on the brink of civil strife for years. Economic failure and its social consequences have set 'the clock ticking on a time bomb, whose fallout will directly impact on Australia and New Zealand'.⁴

Endnotes

- ¹ Philip Alpers and Conor Twyford, *Small Arms in the Pacific*, The Small Arms Survey, Occasional Paper No.8 (Geneva: Graduate School of International Studies, March 2003).
- ² Peter T. Bauer, S. Siwatibau and Wolfgang Kasper, *Aid and Development in the South Pacific* (Sydney: The Centre for Independent Studies, 1991).
- ³ Susan Windybank and Mike Manning, *Papua New Guinea on the Brink*, Issue Analysis No. 30 (Sydney: The Centre for Independent Studies, March 2003); Helen Hughes, *Aid Has Failed the Pacific*, Issue Analysis No. 33 (Sydney: The Centre for Independent Studies, May 2003).
- ⁴ Major General Michael Jeffrey, Governor General designate of Australia, *The Sydney Morning Herald* (28-29 June 2003).