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**by**

**THE GOVERNMENT OF SOLOMON ISLANDS**

## NOTE

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**Presentation of the Government of Solomon Islands**

**ACTION PROGRAMME FOR THE DEVELOPMENT  
OF SOLOMON ISLANDS, 2001-2010**

**23rd April, 2001**

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# SOLOMON ISLANDS THE ACTION PROGRAMME

## A. Introduction

### The National Setting

1. The Solomon Islands has a small open economy, with abundant natural resources and ample but mostly unexploited potential for rapid economic growth. Its population – mainly rural - is growing at a pace that has only just recently fallen below 3 percent per annum, and depends primarily on subsistence farming and fishing, even though there is the beginning of gainful employment in tourism, commerce and other services. Over the past 20 years or so – that is, until 1999 when serious ethnic unrest began to afflict the country's economy - at times helped by programmes of economic policy reform, per capita income increased modestly and there was good progress in human development. As the Solomon Islands are situated relatively close to Australia – the country is situated approximately 1,000 miles North-East of Australia - the nationality mix of foreign investment reflects this proximity. This is particularly the case for investment that went into gold production, tourism and commerce. Other Asian – mainly Japanese and Taiwanese - investment went largely into forestry and fishing, but there has also been European investment in palm oil and copra production.
2. Since Independence from the United Kingdom in 1978, the public sector has also played a key role in the economy, accounting on average for about one-third of GDP and formal employment in recent years. On the whole, the Solomon Islands possess a relatively well-developed maritime infrastructure that links the country's main islands, but there are weaknesses in the availability of electric power, water supply, telecommunications and road transportation. For a Least-Developed Country with a per capita income of some US \$760, Solomon Islands has a relatively well developed health infrastructure which translates into low infant mortality – currently only 28 per 1000 – and a high life expectancy at birth that exceeds 60 years. However, the population is not as yet well served by educational and training facilities, and school attendance at 57% remains well below desirable levels.

### Factors Constraining and Facilitating Economic Growth and Income

3. Structural problems constraining economic growth include:
  - a) significant physical barriers that make trade with the world economy difficult and costly because of the remote and disparate location of the country's 990 islands which, together, have a landmass of 28,000 square kilometres;
  - b) within Solomon Islands itself, transportation and communications costs are high;

- c) as a “small-island nation” of some 400,000 people only, the country suffers from severe diseconomies deriving from small population size which, inter alia limits capacities and reduces the effectiveness of public administration;
- d) heavy dependence on natural resource extraction which is subject to the finality of resource endowment and the volatility of world commodity prices;
- e) the existence of customary land tenure arrangements which – while underpinning a resilient social safety net – tends to retard commercial development;
- f) the provision of education is limited, certainly when compared to other Pacific island economies, as education is neither free nor compulsory, with the result that nearly half the population has no formal education;
- g) the significant incidence of malaria which debilitates energies and puts a burden on the country’s health delivery system;
- h) a high fertility rate that puts heavy pressure on social infrastructure to serve a population that doubles every 24 years; and
- i) a high degree of dependence on external donor support resulting from insufficient Government effort to mobilise domestic resources for development and which now inhibits national priority setting for the country’s development.

### **Positive Features**

4. On the positive side, Solomon Islands is well served by:
  - a) its location in the Pacific Ocean at a distance of some 1,000 miles from the dynamic Australian and New Zealand economies, which facilitates trade and provides opportunities for Solomon Islands to attract tourism, investment and services from these and from other countries in the Pacific basin;
  - b) the proximate and abundant availability of fish and vegetables which facilitates the task of providing the population with a healthy diet;
  - c) its civic society which provides eloquent contributions to the national debate on issues of political governance and provides a vehicle for the delivery of development services to the country’s dispersed population; and
  - d) its decentralised system of administration which – while far from perfect – permits the provision of Government services to the regionally dispersed population of Solomon Islands, and which has inter alia been responsible for the progress the country has made since Independence in the provision of health care facilities to its people.

## **B. Performance in the 1980s and 1990s**

### **Underlying Trends in Economic Growth and Distribution**

5. In the 1980's the economy of Solomon Islands experienced steady but modest economic growth of 4.1 percent per annum which was facilitated by high levels of both public and private investment totalling between 25 and 30 percent of GDP in that period. In the first half of the 1990s, however, the annual increase in real GDP rose to 7 percent, caused by stronger growth in logging, fisheries, construction, transport and communications. The acceleration of growth performance in this period, however, proved unsustainable as it was largely based on an excessive rate of logging reaching up to three times the estimated long-term sustainable rate. This was one of the reasons why in the second half of the 1990s the country's high growth performance could not be maintained. Another contributory factor was the Asia Crisis which reduced both the volume and prices of the major export products of Solomon Islands.
6. The overall result was that in 1996 economic growth fell to 3.5 percent. Ominously, in 1997 economic growth turned negative, and fell to -0.5 percent. Declining export income inevitably forced a cut back in government expenditure and investment. This became another causal factor behind the downturn in economic growth. This record demonstrates that, unless ways can be found in the future to raise domestic investment levels up to those prevailing in the 1980-1995 period, economic growth in Solomon Islands over the medium-term is unlikely to exceed 4 percent per annum. This growth rate, however, would not be high enough to lift the country out of the Group of Least-Developed Countries by 2010, which is a key objective of Government policy.

### **Savings, External Dependency and Economic Diversification**

7. Over the past twenty years, the level of domestic savings in Solomon Islands fell significantly short of investment expenditures, leaving a resource gap that needed to be – and was - financed by foreign grants, loans, and direct investments<sup>1</sup>. While this helped to maintain a relatively high investment level in the country – that is, in the 1980-1995 period – it led to considerable and, perhaps excessive, dependence on the resources and goodwill of the international donor community. This dependency on external donors needed not to have become that high – and overall investment and development progress could have been significantly faster – if successive Governments had handled the country's finances in a more orderly and transparent manner and if they also had paid more attention to the need for maintaining macro-economic stability.
8. On the face of it, the growth in the 1980-1995 period appears to have brought about little structural change in the economy, with the primary sector still contributing about 35 percent of the GDP. However, closer examination of the performance of the Solomon Islands economy reveals that in this period an

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<sup>1</sup> and, in 2000 and 2001, by drawing external official reserves

encouraging diversification of the country's monetised economy did take place. Thus, as exports increased more than five-fold in this period, its composition changed very considerably and the export sector began to consist of a diversified package of products, including apart from timber – the country's main export product - fish, palm oil, copra, coconut oil, cocoa, gold and tourism products. This positive development could auger well for the future if the current virtual paralysis of the export sector can be overcome. Another challenge for the country will be to ensure increased national participation in the benefits of rapid export development, including of natural resource exploitation, which in the past has been unusually small and which were largely – and at times inexplicably - allowed to accrue to foreign investors.

### **Incomes and Employment**

9. Solomon Islands' GDP per capita income has been estimated at US\$ 760 in the mid-1990s, a relatively low level of income compared with other Pacific Island countries. However, income levels of the majority of Solomon Islanders are lower, because income distribution is skewed in favour of a small group of urban based, high-income earners. In the early 1990s over one half of the total income in the economy was received by 10 percent of households. The existence of a significant urban-rural income disparity is illustrated by data which indicate that the average monthly income of a rural household was \$620 in the mid-nineties, compared to \$1,444 for a Solomon Islander household in Honiara, the country's capital.
10. The high population growth rate of some 3 percent per annum made the increase in per capita real GDP relatively modest in the 1980-95 period and, thus, averaged 0.7 percent per annum. This still led to an overall improvement in living standards in this period on the order of 15-20 percent, a comparatively encouraging development result for a Least-Developed Country.
11. However, regrettably, and hopefully only temporarily, this positive achievement was fully wiped out in the two years of internal strife that afflicted Solomon Islands in the 1999-2000 period and which was responsible for the country's economy to slump to some 50 percent of what it was before, and which also led to the destruction of a significant portion of the country's economic and social infrastructure.

### **Employment**

12. As the predominant proportion of the population derives a livelihood from mixed subsistence production, most Solomon Islanders are self-employed. Thus, over 70 percent of the economically active population is engaged in non-monetary work in the villages, including subsistence farming. The proportion of people engaged exclusively in wage-earning activities does not exceed 14 percent of the labour force, but a further 15 percent derives income from a mix of wage-earning and subsistence production.
13. Solomon Islands formal sector employs approximately 34,000 people, of which 26 percent is employed in the primary sectors of agriculture, fisheries



and forestry, 16 percent in manufacturing and construction, and 58 percent in the service sectors of public service, financial services and trade. The public sector weighs heavily and accounts for 32 percent of total wage employment in the country. It is important to note that over the past 15 years employment in the public sector grew only by 1 percent on average, while private sector employment grew at an annual rate of 5 percent. While this reflects public sector retrenchment, yet the public service remains overstaffed in relation to the country's economy.

14. The share of women's employment in the formal sector rose from 17.6 percent in 1987 to 23 percent in 1993, indicating that women's entry into formal wage earning jobs increased at a faster rate than that of men. The employment opportunities that opened up for women during this period have been in the areas of education and health in the public sector, of tobacco and clothing in the manufacturing sector, and in the service sectors of retail trade and financial and business services. Of serious concern is that the economy of Solomon Islands has found it difficult to create employment opportunities to absorb all of the some 7500 young people who enter the labour market every year. This exacerbates the problems of unemployment in the country and contributes to social problems in the urban centres of Solomon Islands.

#### **Policy Reform and Structural Adjustment**

15. Over the years Solomon Islands have gone through several programmes of economic policy reform, the latest of which was launched in September 1997 by the Government of Prime Minister Ulufa'alu, which took office at that time. This economic reform programme was adopted in the midst of a severe economic crisis and adverse external conditions, as the onset of the Asian crisis inter alia brought about an abrupt end to a boom in log exports. The Government's programme aimed at that time at resolving the ensuing fiscal and balance-of-payments crisis by strengthening the country's deteriorating external financial position and creating a more favourable environment for private sector-led growth through structural reforms.
16. The main measures of the economic reform programme were a devaluation of the Solomon Islands Dollar, a tightening of fiscal and monetary policies, a normalisation of relations with creditors and a reform of the public service. As a result of these efforts, the fiscal deficit was reduced substantially in 1998, the stock of financial arrears in relation to GDP was cut by one half, and inflation began to fall to single-digit levels. With these policy reforms, and with the start-up of the Gold Ridge Gold Mine, the country's balance-of-payments also improved. At the same time, good progress was made with structural reforms, including with the privatisation and a downsizing of the public service. In support of this reform programme external donors provided generous financial support which exceeded US \$40 million per annum, over US \$100 on a per capita basis.

#### **Ethnic Unrest, Economic Dislocation and Financial Deterioration**

17. However, the advent of ethnic unrest in 1999 and 2000 provided a great and unexpected setback to, and complicated, the implementation of the Government's economic reform programme. The ensuing severe economic dislocation, as well as the human displacement that took place in the 1990-

2000 period, triggered a sharp fall in GDP, investment and exports. It also provoked a cessation of most export-oriented production and an exodus of entrepreneurs. It did not only lead to a strong deterioration of the country's external financial position, but also eroded the revenue base of Government, and necessitated a severe cutback in Government operations. Restoring political and economic normalcy and reversing the decline in the country's economic fortunes remains a major challenge to the Government and people of Solomon Islands, and is an objective to which the Government of Solomon Islands is firmly committed.

## C. PROGRAMME OF ACTION (2001-2010)

### The Post Conflict Agenda to Overcome the Current Crisis

18. The immediate challenges which the Government of Solomon Islands has adopted are to maintain peace and succeed in restoring law and order in the country, rebuild the country's destroyed social and economic infrastructure, restore the country's productive base by bringing the export-focused private sector back to life, resettle those families that were forced to relocate inside the country and bring the country's internal and external finances back in balance. These tasks command higher priority than anything else and will have to be confronted in the coming two years.
19. Success in achieving economic recovery and resumption of economic growth in Solomon Islands will depend on a variety of factors, including the following:
  - a) the implementation of the Townsville and Marau Peace Agreements which must go forward, and political reconciliation must become a reality;
  - b) vision and leadership from the political leadership remains needed to create the enabling political and human environment for the private sector to resume production and exports and for the Government to play its essential catalytic and model-serving role;
  - c) the private sector will need to restart its operations so as to restore previously- reached and ultimately to provide higher levels of output and greater employment opportunities, and to help finance the reconstruction and expansion of social and economic infrastructure; and
  - d) the Government will need to strengthen its financial management and resume its programme for economic reform and structural transformation of the Solomon Islands economy.
20. As regards the restoration and maintenance of peace in the country, the longer term prospects for the development of the Solomon Islands economy will be significantly better if the peace process is consolidated without delay. That is the Government's goal, believing that the successful carrying out of the peace process is a conditio sine qua non for the country to begin its economic recovery, realise its full economic potential and give its citizens an opportunity to restore their lowered living standards. Consolidation of the peace process is also essential to reduce uncertainty for investors, both foreign and domestic. To lay the basis for a lasting peace, the Government remains committed to maintaining full inter-provincial equity in the distribution of its resources while, at the same time, it will progressively introduce the process of decentralised governance and financial management.
21. The Government also believes that success in promoting economic recovery will depend on the achievement and maintenance of a stable macro-economic setting and the effective implementation of all its development programmes

and projects. International experience shows that economic stability is vital for the achievement of high rates of economic growth and sustained reduction in poverty, as it promotes confidence, encourages savings and investment, increases capital inflow, supports innovation and entrepreneurship, and raises the rate of economic growth. In turn, economic growth provides the basis for the reduction in poverty.

22. At the present time the Solomon Islands do not yet have all the elements that are essential for economic stability. Its public finances are in deficit, inflation remains a serious problem, and the country's external finances are not yet in balance. Daily, the Central Bank is losing foreign exchange reserves and Government faces problems in meeting its external debt obligations on time. Clearly, the Solomon Islands economy suffers from major internal and external financial imbalances which, if not addressed with vigour, will make it very difficult for the country to transit beyond macro-economic stability towards economic growth and reduced poverty. Thus, the Government believes that in Solomon Islands the road towards macro-economic stability and development in the medium-term leads through achievement of the twin objectives of (1) fiscal improvement, including raising and retaining more Government revenue as well as applying more austerity to Government spending, and (2) of strengthening the country's external financial position through increasing foreign exchange earnings from exports, mobilising financial support from its development partners and reversing the declining trend in the country's external reserves.

### **Need for Raising Government Revenue**

23. The health of the private sector was badly affected by the events of the past two years, which reduced the capacity of the Solomon Islands economy to generate revenues for Government. By restoring as quickly as possible the productive capacity of the national economy the Government hopes to enhance its capacity to generate the revenue which it needs to finance economic recovery and development. What Government also plans to do is to enhance the effectiveness of tax collection by improving the administration of its taxes and by strengthening the collection of our non-tax revenues. In this connection, the creation of an independent revenue authority may help in improving tax collections.
24. While some of the country's productive assets can be put back into operation fairly quickly – and this is a key objective of Government - this is not so for all of them. There is, thus, an urgent need for developing alternative source of production, income and exports. In order to do so, Government intends to increase its investment in infrastructure rehabilitation, education and technical training. That, in turn, requires more internal savings as well as quick delivery of external support. The Government believes that economic development does not come from economic policy reform alone. While the latter is essential, it needs to be supported by financial resources that can underpin investment, so that economic policy reform can translate into measurable progress for the people of Solomon Islands. Thus, in addition to stepping up its own revenue mobilisation effort, Government aims at mobilising additional financial support from its development partners.

## **Need for Restoring Foreign Exchange Earnings from Exports**

25. Over the past two years, Solomon Islands' export earnings have fallen precipitously. Despite this significant decline in exchange earnings, Government did not give up on its commitment – and does not plan to do so - to maintain its liberalised trade and payments system which over the past twenty years or so has served the country well in exploiting opportunities for the expansion of international trade. However, the maintenance of this commitment to maintain the economy open led to a decline in the official external reserves of the Central Bank of Solomon Islands. Even so, it has not been possible to meet all of the country's external payment obligations, so that Government accumulated external debt service arrears, which hinders the country's access to fresh external financing. Thus, the restoration of normalcy to the country's external debt service payments' position is another priority of Government. Overall, the issue of improving the country's external financial position will be addressed in such a way so as not to depress the climate for investment, neither domestic nor foreign. Thus, the second economic stabilisation objective of the Government is to reverse the decline in the export earnings of the Solomon Islands' economy. To achieve this, there is need for bringing back those investors who have suspended their operations in Solomon Islands.
26. In the coming two years, Government plans to apply with vigour those policies and programmes that are needed for economic recovery and sustained economic growth. Government recognises that it itself can and should play the key role in the process of economic recovery. Thus, Government intends to return as fast as possible to the reform programme that was launched several years ago, without, however, taking action that would endanger the process of solidifying peace and national reconciliation in the country. However, the effort to return prosperity to Solomon Islands cannot only be made by Government. What is also required is the determined support of donors so that Solomon Islands can overcome its current crisis and make the transition from economic recovery to sustained economic development and poverty reduction.
27. Thus, a clear priority of Government is achieving the resumption of external financial support and ensuring a significant increase in the utilisation of that support. Government also needs donors to provide the country with balance-of-payments' support, so as to supplement its external reserves. For this purpose Government will soon initiate discussions with the International Monetary Fund and the World Bank.
28. The Government believes that there cannot be development in the country without peace. Neither can there be peace without development. While on the political side the main aim of Government is, therefore, the implementation of the Townsville Peace Agreement, in economic development terms the objectives of Government are to raise significantly the level of investment for the rehabilitation and expansion of economic and social infrastructure, but to do so in a manner which respects the imperatives of inter-provincial equity. Thus, the provincial distribution of expenditures in our Development Budget will reflect the provincial distribution of the country's population.
29. As regards the Government's aim to restore, and maintain thereafter, a minimum level of social services, the Development Budget gives high priority

to strengthening education and health services for all people of the Solomon Islands, making certain that all women and children have access to basic health services and schools. Thus, significant programmes are being developed for the rehabilitation of hospitals, clinics and schools, rural training centres, supply of school materials, the construction of new schools, as well as for the reinstatement of teachers.

### **Need for Adjusting the Medium-Term Development Strategy**

30. In conclusion, the Development Budget for the years 2001 and 2002 – while they will remain in line with the resumed Policy and Structural Reform Programme – will have to constitute a significant departure from the Government's Medium Term Development Strategy (MTDS) 1999-2001 and will have to reflect a re-prioritisation of the Government's development objectives, by giving higher priority to the maintenance of peace and inter-provincial equity than heretofore had been the case. In the course of this year the Government will present fresh proposals for a more formal adaptation of its Medium Term Development Strategy so that it will more accurately reflect the changed circumstances in the country. Such adaptation will then also include proposals for giving greater emphasis to innovative programmes for supporting private sector development in the country, so as to permit the raising of the level of private investment in Solomon Islands. But it will take some time before private investors will confidently and significantly invest their resources to support economic growth in the Solomon Islands. While Government is confident that private investors will come back, and certainly so in the medium-term, in the immediate future it is the expansion of public investment that must take the lead in the growth of the economy of Solomon Islands.

### **Moving Beyond the Crisis to Sustainable Human Development – The Solomon Islands Vision 2010**

31. The Government's long-term vision for Solomon Islands is that by the year 2010, the country will have exited from the Least-Developed Countries and will have reached by then a per capita income level of at least US \$1000. More specifically the Government's vision for Solomon Islands is:

#### **31.1 *Economic Development***

- a) an export-oriented market economy where Government sees its role as a facilitator and regulator of private sector-based economic activity, and as a provider of the necessary economic and social infrastructure;
- b) a productive nation that fully utilises – and exploits in the national interest - its economic advantages in agriculture, fishing, mineral resources and other key sectors of its economy;
- c) a nation that makes certain that the advantages that derive from the exploitation of its natural resource endowment accrue more fully to the people of Solomon Islands;
- d) a nation that is on an environmentally-safe economic growth path; and

- e) a nation which is highly attractive to international investment.

### 31.2 *Human Development*

- a) a nation which respects individual human dignity, promotes equal opportunity for all and is united in ethnic and regional diversity;
- b) an educated and skilled nation in a manner consistent with its needs as an outward-looking and progressive nation, so that its children will be capable of participating fully in a modernising world;
- c) an informed society capable to make fully-informed choices to ensure its well being and to manage change without fear;
- d) a healthy nation with effective preventive programmes for communicable diseases whose people have access to adequate medical treatment irrespective of location or income;
- e) a nation where absolute poverty has been eradicated through gainful employment or self-employment of the able bodied and through a social safety net for its most disadvantaged;

### 31.3 *Political and Economic Governance*

- a) a nation that pursues democratic principles and where decisions are devolved to the level where they most closely reflect the priorities of local communities;
- b) a nation that benefits from the work and discussions of a well-developed civic society;
- c) a nation where women are able to make their full and effective contribution to its welfare and well being;
- d) a nation where there is discipline and transparency in government administration and processes, as well as in public financial management and;  
and
- e) a nation where internal disputes are not settled through the use of arms but through the democratic process, and through the courts;

### 31.4 *International Relations*

- a) a nation which assumes for itself the principal responsibility for its development and which reduces its dependence upon the generosity of the rest of the world;
- b) a nation that makes a positive contribution to regional peace, development and cooperation and continues its tradition of supporting the interests of the developing countries in global forums.

32. The Government realises that achievement of the “**Solomon Islands Vision 2010**” will not be easy. It requires that economic recovery and macro-economic stability be attained within two years, that the economy grows by 5-6 percent per year after the year 2003 and that the rate of population growth is gradually but steadily reduced to below 2 percent by the year 2010. Nevertheless, the Government believes that the Vision is achievable. Thus, it believes that to aim at anything less is to accept defeat in advance. It will, on the part of Government, require considerable attention to the twin task of ensuring that more resources for development in Solomon Islands are mobilised domestically and that available resources are directed to priorities consistent with the Vision. It will also require the vigorous implementation of its reform programme for the national economy as well as further reforms in the areas of governance and public service delivery. And it will require substantial new investment in the nation’s economic and social infrastructure, so as to stimulate the private investment flows that underlie the Government’s ambitious economic growth and social development targets. Lastly, and realistically speaking, it will require, in the short- and medium-term, strong external financial support from bilateral and multilateral donors as well as relief on external debt contracted from our official creditors.

### **Achievements and Targets – Profile of Human Development in Solomon Islands**

<b>Current Situation</b>	<b>Targets for 2010</b>
<b>32.1 Health</b>	
i. Life Expectancy reached 62 years in 1999	
ii. Infant Mortality reached 28 per 1000 in 1999	Target for infant mortality (below 35) already achieved
iii. Under-Five Mortality fell to 22 per 1,000 in 1998	Target of below 45 already achieved.
iv. Maternal Mortality remains high at 550 Direct causes of maternal mortality =125 per 100,000 live birth Direct+Indirect causes = 170 per 100,000 live birth Target for 2010 – Targets already achieved and new target for Solomon Islands is	To be reduced to 225
	1. Direct = 110 per 100,000 live births
	2. Direct +Indirect = 170 per 100,000 live births
<b>32.2 Demography</b>	
i. Annual rate of increase was 2.8% in 1996-1999	To be reduced to 2%
ii. Total fertility rate dropped to 4.5 children per woman of childbearing age	To be reduced to 3.5



- iii. Contraceptive Prevalence reached 25% in 1999 To be raised to 40% by ensuring full and universal access to safe and reliable contraceptives

### 32.3 **Education**

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- i. Adult Literacy reached 76% in 1999 to (men: 83%, women 68%) Adult Literacy Rate to rise to 85%, putting special emphasis on women and on lagging provinces such as Temotu and Malaita
- ii. School Attendance averaged 57% in 1999, and was not free Attaining free, compulsory and universal primary education by 2015, and reaching 85% secondary school attendance rate by 2010
- iii. Gender disparity situation favourable at the primary level (58 vs 57%) but not so at the secondary level Eliminate gender disparity at the primary level by 2005 and by 2010 at the secondary level

### 32.4 **Income and Poverty**

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- i. Per Capita Income was US \$760 in 1995 but fell below US \$400 in 2000 Target is to restore per capita income level of 1995 in 2003 and to increase it thereafter 4 percent per annum to US \$1000 by 2010
- ii. Exports increased 5-fold in 1980-1995 Period but dropped by 60% in 1999/2000 Exports to be restored to level of 1995 by 2003, and to increase by 10 per annum thereafter
- iii. External Assistance reached US \$100 per Capita in the 1990s Net external assistance to increase by 7% per annum in the 2002-2010 period

### **Development of Human and Institutional Resources to Achieve these Targets**

- 33. The Solomon Islands economy suffers severely from the diseconomies of small size which inter alia manifest themselves in difficulties to create and maintain institutional capacities in Government to manage the economy and to implement its programmes for economic and human development. This has as a consequence that the role of Government – already extended beyond its limits – will need to be further reduced to its essential functions of maintaining law and order, administration of governmental affairs and providing essential social and economic services to its people and entrepreneurs. Thus, Government will refrain from participating in production activities – leaving those to the private sector – and will continue to divest itself of its state-owned enterprises under its Policy and Structural Reform Programme.

34. While Government will continue implementing its Public Service Reform Programme with the aim of achieving a leaner and more effective public service, there are clearly limits to the benefits that can be expected from these efforts. Thus, Government will utilise to the maximum extent possible the country's institutions of civic society that can deliver human development services to the people of Solomon Islands. For this purpose a new policy for collaboration with NGOs will be developed in consultation with civic society. There will be need also – and Government is committed to doing so – to strengthen the Government's core economic institutions, including the Ministries of Finance and Planning and Human Resources Development. For this purpose, capacity-building programmes will be developed and implemented as a matter of urgency. Overall, however, Government will look towards the private sector – as well as to market forces – to ensure the achievement of its income and export growth targets.

### **Further Opening Up of the Economy**

35. As a country committed to export-based development of its capacities and resources, the focus of Government policies and programmes will be towards a further integration of Solomon Islands into the world economy, with a view to maximising the benefits that can be obtained from globalisation. To make this possible, vocational training and technical education will be stepped up considerably and a liberalised external trade and payments system will be maintained. Overall, if economic viability is to be restored, further economic policy reform efforts will have to be pursued and peace inside the country is to be maintained. These are formidable and costly challenges which Government is determined to meet.

### **Improving the Exploitation of Natural Resources**

36. Opportunities for developing the primary sector further abound in Solomon Islands, including in the fisheries sector. The restarting of commercial operations at a gold mine in Guadalcanal is in prospect. In addition, strengthening the management of resource use, especially in forestry, including improving inadequate monitoring and regulatory arrangements, will ensure that fuller extraction of national benefits may be feasible. This requires the implementation of programmes aimed at institutional strengthening and regulatory enhancement to address these issues in the natural resources sector.

### **Concluding Observations**

37. The Government's assessment of the prospects of Solomon Islands in the coming decade suggests that regaining sustained economic growth is possible if a number of significant challenges can be met. If they are met – in particular if the full restoration of peace and economic reconstruction can be achieved in the coming two years – the economy of Solomon Islands can be expected to reach sustainable growth of some 5-6 percent per annum, a growth rate that is only slightly higher than the one obtained in the 1980-1995 period, with consequent improvements in per capita incomes and the human condition in the country. However, the challenges for developing and implementing appropriate macro-economic and sector policies, improving the management and administration of investment programmes, mobilising domestic resources

to finance recurrent expenditures for the highest priority programmes and increasing provincial managerial capacities are considerable. Solomon Islands will not be able to meet these challenges alone – the country will continue to require substantial amounts of external assistance over the coming decade.

38. The task of rebuilding Solomon Islands fractured economy is immense. It will require a national vision, a willingness to make difficult choices in an open political context, the restoration of accountability and transparency in Government, a willingness of diverse groups and regions in the country to accept sacrifice for the common national good, and close collaboration between Government and external donors. This will be complex, and there will be pitfalls ahead. But there are positive elements that bode well for the future: the peace process is holding, the resettlement process is evolving and world market prices for exports from Solomon Islands are improving. Solomon Islands already has access to significant amounts of external assistance and these can be channelled to high-priority activities. Economic reform has already made substantial achievements and further reform measures are in prospect.
39. While realism will be needed in assessing prospects for this decade, there are strong grounds to expect that the coming decade will be a time of reconstruction, opportunity and growth in the country. These prospects can be firmed up significantly – and the economic growth and human development targets which the Government has adopted for the coming decade can become a reality - if external donors come to the fore and supplement the efforts which the Government of Solomon Islands will be making itself with generous levels of external concessionary assistance.