Economic surveys

Recent economic developments in the Solomon Islands

Tarcisius Tara Kabutaulaka

The increasing cost of living, allegations of corruption in the public sector and domestic cash flow problems all point to poor fiscal management in Solomon Islands. And while the balance of payments and export revenues are improving, the government's domestic and international debts overshadow these successes. Forest resource exploitation and domestic financial management are set to be major campaign issues in the lead up to the elections in August 1997.

Tarcisius Tara Kabutaulaka is a PhD student in the Department of Political and Social Change in the Research School of Pacific and Asian Studies, The Australian National University.

Developments in the broad macroeconomic indicators in 1996 and the first quarter of 1997 indicated a mixed performance for the Solomon Islands. While the external sector registered a surplus which reflected the stronger rise of exports over imports, the position of government finances continued to deteriorate, as revenue collections were lower and the arrears position worsened. The securities market problems remained unresolved and the adverse impact this has had on the banks' attitude towards lending continued.

However, for most Solomon Islanders, this period was dominated by discussion of the issues that are expected to dominate the campaign for the general election scheduled for 6 August 1997. These include allegations of increasing corruption in the public sector and the rapidly deteriorating economy which has resulted in a huge domestic cash-flow problem. By early 1997 it was obvious that the Solomon Islands economy was receiving a battering because of its poor fiscal policies.

The most obvious indication of the deteriorating economy was the rapidly increasing cost of living. The Central Bank of Solomon Islands (CBSI) reported an increase in the inflation rate from 10.4 per cent as at the end of December 1995, to a peak of 14.5 per cent as at the end of March 1996 (CBSI April 1996). However, by the third quarter the rate of inflation had declined, as measured by the annual change in the three month moving average, falling back to 10.4 per cent. This was 2.8 per cent below inflation in the second quarter but 1.9 per cent up on that for the same quarter twelve months ago. Although the third quarter figure of 10.4 per cent was the lowest for 1996, it was almost equivalent to the highest rate recorded during the whole of 1995. In commenting on the high inflation, the Central Bank stated that 'by regional and international standards the current rate of inflation is high in Solomon Islands, although from a historical perspective inflation has always been high' (CBSI September 1995:20). With such a high inflation rate, the most hard hit were urban workers living on minimal salaries.

The Peoples Alliance Party has criticised the government for its failure to improve the economy since the beginning of the year. The party's deputy president, David Kausimae, predicted that the year would be characterised by economic difficulty (*Solomon Star* 17 January 1996).

Government debts

1996 was a difficult year in nearly every sector of the economy. Government debt increased both domestically and internationally. Many citizens were astounded when the Honiara newspaper, *Solomon Star*, reported in March that the government owed the National Provident Fund (NPF), the country's only national superannuation scheme, a total of SI$20 million in rental, loans, contributions, securities and surcharge. The amounts were as follows: rental, SI$917,473; loans, SI$5,676,015; contributions, SI$10,000,000; securities, SI$1,915,370; and surcharge, SI$1,096,000 (*Solomon Star* 15 March 1996).[1] The commercial banks were also affected because of the government's inability to pay bank securities. This resulted in the suspension of expansion programs by the three commercial banks in the country—the National Bank of Solomon Islands (NBSI), Westpac and ANZ. According to the Central Bank, the government had over SI$8 million unpaid interest on securities in the three banks dating back to the start of 1995. The General Manager of the NBSI stated that the 'loss of reliable income hits straight at our ability to grow and expand' (*Solomon Star* 1 May 1996).

Internationally, the country continued to accumulate debts with international lending agencies such as the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB). By the end of the year the government was operating with a huge budget deficit which had been inherited from previous years. In 1995, Finance Minister Abe told parliament 'there is no doubt, Mr Speaker, we have a huge budget deficit which even I as Minister of Finance, am having great difficulty in financing. The government debt is rocketing upwards and now accounts for some 70 per cent of our gross domestic products. This means that the government has incurred a debt of about $1,750 for every single people here in the isles of Solomons' (*Hansard Report* June 1995).

Balance of payments and international reserves

In spite of the grim fiscal picture, on the macroeconomic level the story was a little more positive by the third quarter of 1996. The balance of payments showed a trade surplus of SI$30 million, 19 per cent higher than the previous quarter and 15 per cent above the same quarter in the previous year. The value of total exports increased by 15 per cent to SI$168 million in the September quarter compared with a decline of 7 per cent in the previous quarter. Total exports for the nine months to September reached SI$471 million, 21 per cent higher than for the same period in 1995. This allowed external reserves to grow to SI$102 million by September, the equivalent of around 1.6 months of import cover. However, taking into account the government's external arrears of around SI$17 million, the reserves represent only 1.3 months of import cover (CBSI September 1996).

Government revenues also improved during the nine months to September. The total revenues were SI$263 million, which was up by 13 per cent on the same period in 1995. This represented about 78 per cent of total expected revenues for the whole year as recorded in the 1996 Budget estimates. This means that the overall government revenue performance in 1996 will be broadly in line with the budget outcome. However, the Central Bank argues that 'revenues could have been higher by around SI$11.8 million had the government proceeded to suspend all duty exemptions and remissions to logging companies' (CBSI September 1996:23). 'Local' logging companies in particular have been given 100 per cent export tax exemption, even though most of them have overseas partners.

These improvements in the economy were, unfortunately, overshadowed by the government's huge domestic and international debts. Government borrowings had exceeded its ability to repay.

The debit tax bill

In a desperate attempt to salvage the country's crippling economy, the national parliament in December 1995 passed a bill on a controversial debit tax which, if implemented, would impose a two per cent tax on every withdrawal from bank savings. In February 1996, Finance Minister Abe announced that despite widespread criticism of the proposed tax, it would be effected in June. The decision outraged the public as well as banks. However, the fate of the proposed debit tax was determined when, in May, the Finance Minister fell ill in Singapore while on an overseas tour and had to spend some weeks receiving medical treatment in Australia. During his absence, Prime Minister Mamaloni, as acting Finance Minister, gave directives for the debit tax bill to be thrown out. In addition, he ordered the suspension of further payments of the Constituency Development Fund (CDF) which entitled each Member of Parliament to personal control over the expenditure of SI$200,000 per annum. The decision to suspend the CDF was, however, reversed in July when Mr Abe returned as Finance Minister.

Resource exploitation and the economy

The government's biggest achievement in its attempts to improve the economy was in finalising agreements for a gold mining project on Guadalcanal. The economic situation is expected to be boosted when the Gold Ridge gold mine begins operation in June 1997. The agreements for mining were finalised in a series of documents signed in 1996 between Ross Mining of Australia, the government and the Gold Ridge Landowners Association which represents the landowning tribes in the area. This is Solomon Islands' first large-scale mining project, although the mining of alluvial gold had been taking place in Gold Ridge since the 1970s. Throughout the year the government's immediate concern was to ensure the Gold Ridge project started as soon as possible. This is not surprising given that the Gold Ridge deposit is estimated to hold about SI$1 billion worth of gold. By July, 1996 the company was expected to have completed feasibility studies and ready to go ahead with the project (*Solomon Star* 7 February 1996).

However, like most projects, there were a number of unexpected costs. As part of the agreement the more than 700 residents of Gold Ridge on Central Guadalcanal will be relocated to Lugga (near the Henderson Airport) in order to make way for the mining operation. The plan was that this would be a temporary relocation for the ten years of the mine's expected life time. After the mining had been completed, the environment in the Gold Ridge area will be rejuvenated and the residents returned to their homes (*Solomon Star* 31 January 1996). Consequently, it means the relocation would take place within the lifetime of a child currently in primary school. The social implications would, therefore, be profound. However, despite a general Social Impact Assessment (SIA) of the mining project, no specific study was done on the relocation plan.

The cost of the resettlement scheme will be met by the Ross Mining Company and is estimated to be about SI$6 million. It involves the construction of houses, schools and a clinic and is expected to provide over 100 direct jobs over a period of about 20 weeks. In November, a ground-breaking ceremony was held to mark the beginning of construction work on Gold Ridge resettlement village (*Solomon Star* 13 November 1996). The company had, at the beginning of the year, already paid SI$90,000 in access fees to landowners, and estimated that the capital development cost will be about SI$125 million (*Solomon Star* 31 January 1996).

Apart from the gold mining project, events in 1996 were dominated by a long-standing resource extraction issue. The government continued its controversial and widely unpopular policies in the forestry industry. This was despite widespread criticism from foreign governments as well as international and local non-government organisations and individuals. Australia's then Minister for Development Cooperation and Pacific Affairs, Gordon Bilney, for example, criticised the government's logging policy. In response, an executive officer of the Solomon Islands Forest Industries Association (SIFIA), Erick Kes, stated that 'it is deplorable that the minister totally ignored affirmative change and positive developments taking place in this industry' (*The Solomon Voice* 16 February 1996). It was estimated that the forestry resource was being harvested at three times the sustainable rate, causing uproar amongst environmental groups. Also, there was concern over the government's 100 per cent export tax exemption awarded to some logging companies, including the Prime Minister's own Somma Ltd which operates in his West Makira constituency. These criticisms culminated in an Australian Broadcasting Corporation *Foreign Correspondent* program produced in August which highlighted the Prime Minister's involvement in the logging industry. The issue of logging was made more prominent by the Central Bank of Solomon Islands 1995 *Annual Report* which stated that, despite an increase in log exports, the revenue from log products has not actually increased. This caused many people to ask questions. The forestry issue in Solomon Islands was not only an environmental issue, it was also a major political issue. The reactions and responses of foreign governments as well as international and domestic non-government organisations were also politically important. Forestry is an issue that will feature in campaigns for the 1997 election. It is ironic that in February 1996, the Prime Minister blamed the Forestry Division of the Ministry of Forest, Environment and Conservation for what it had described as the present ‘untidy’ situation in the forestry industry (*Solomon Star* 16 February 1996).

While economic and political squabbles in the domestic scene continued, the 8-year Bougainville war between the rebel Bougainville Revolutionary Army (BRA) and the Papua New Guinea Government over the western border continued to overshadow the Solomon Islands. This was in spite of the fact that, at the official level, the Solomon Islands government recognises the crisis as an internal matter for Papua New Guinea. However, the reality is that Solomon Islands‘ involvement is inevitable—the number of Bougainvillean civilians fleeing the war-torn island into the Solomon Islands has continued to increase. Throughout the year, many Bougainvilleans crossed the border to seek medical assistance, many with bullet wounds (*Solomon Star* 11 December 1996). The crisis has resulted in the increasing militarisation of the Solomon Islands economy and society. In commenting on the spillover effects of the Bougainville crisis, Prime Minister Mamaloni, admitted that the government has shifted its economic eyes towards national security with the effect of militarising the Solomon Islands economy, a move which will further strain the country’s budget (*Solomon Star* 5 July 1996).

Solomon Islands’ economic turbulence of 1996 will have ripples into the next millenium.

Note

1 The exchange rate at end-1996 was SI$3.50 to the US dollar.

References

Hansard Parliamentary Report. Solomon Islands National Parliament, Honiara.

Central Bank of Solomon Islands (CBSI), various issues. *Quarterly Report*, CBSI, Honiara.