

Two centuries of economic development show that spatial disparities in income and production are inevitable. A generation of economic research confirms this: there is no good reason to expect economic growth to spread smoothly across space Countries far from world markets face the stiffest challenges to economic growth and need a strong commitment for cooperative solutions.

World Development Report, 2009

1. Introduction

International economic development assistance to Solomon Islands has recently undergone an important 'transition'. The Regional Assistance Mission to the Solomon Islands (RAMSI) ten-year post-conflict stabilisation intervention is coming to an end, and bilateral and multilateral donors have now taken over key RAMSI functions in economic management. The international community is moving its focus from stabilisation and security towards longer term development needs, under more conventional modalities of support (Coppel 2012).

Substantial gains in economic management have been achieved under RAMSI's watch, and significant progress has been made towards economic recovery following the outright economic collapse accompanying the 'tension'. By all except the most uncharitable accounts, RAMSI's specific mandate to stabilise government finances has been met. In terms of the broader mandate to 'promote longer term economic recovery', many signs are positive. Per capita incomes in Solomon Islands have recently exceeded pre-tension levels for the first time. It might now be tempting for policy makers in those countries that contributed to RAMSI to conclude that an economic transition has been effected: that the Solomon Islands economy has been 'fixed' and is now on a path towards self-sufficiency.

This paper assesses the extent of economic transition in Solomon Islands since the tension and draws policy implications for the international community. I argue that while important advances in living standards have been achieved, there is little evidence of structural economic change that would be sufficient to support significant and sustainable improvements in growth. After a decade of unprecedented investment in strengthening state institutions, expanding services, and building infrastructure, and despite strong growth over recent years, the economy shows no signs of diversification, with the private sector increasingly clustered around unsustainable logging and the Honiara bureaucracy, and the current account deficit thoroughly entrenched.

These realities should not be taken as evidence of failure. Rather, they demonstrate the need to redefine success. Economic self-sufficiency achieved within Solomon Islands' geographical boundaries is not a useful goal for a small, isolated, and dispersed economy. Rather, Solomon Islands and those supporting its development should follow the lead of other small island economies that have achieved substantial and durable improvements in living standards by pursuing deeper economic integration with larger economies, including through sharing service delivery and regulatory responsibilities and working to remove constraints to cross-border movements of people, capital, goods and services. Such integration offers potential benefits both to Solomon Islanders and also to the broader region.

In the first half of this paper, I review recent economic developments in Solomon Islands. In section two, I summarise the many improvements to economic conditions and the business environment achieved since RAMSI's arrival and the end of



the tension. In section three, I assess the extent to which these improvements in the business environment have translated into improved economic performance. I show that headline economic growth figures paint a misleading picture regarding the extent and quality of economic development, with the economy still concentrated around unsustainable logging and the Honiara service economy. In section four, I identify two major upcoming challenges to improved living standards inherent in Solomon Islands' current trajectory of development: the projected exhaustion of natural forest stocks, and the emerging pressures on living standards and social cohesion that are accompanying rapid urbanisation in the context of limited economic opportunities.

In the second half of the paper, I suggest that increased economic integration represents the best prospects for managing upcoming challenges and achieving durable improvements in living standards. In section five, I assess the prospects for broad-based private-sector development in Solomon Islands. Based on global growth dynamics and the experiences of other small states, I argue that the underlying realities of economic geography will continue to constrain opportunities for self-sustaining, private sector-led growth, and that alternative economic development strategies will, therefore, be needed to manage future pressures. In section six, I suggest that the international community therefore has a key role to play in Solomon Islands' ongoing economic development. In the short term, donors can explicitly prioritise measures to support a successful transition to mining and ensure sufficient expansion in economic opportunities to defuse the immediate risks inherent in continued Honiara-centric development. Over the longer term, the international community should pursue broader, deeper economic integration between Solomon Islands and nearby large economies, including through shared responsibilities for delivery of state functions and increased factor mobility.

2. Achievements

Conditions for economic activity in Solomon Islands have improved since the tension. But these

improvements have been uneven and piecemeal, largely reflecting the capacity and mandate of the RAMSI mission.

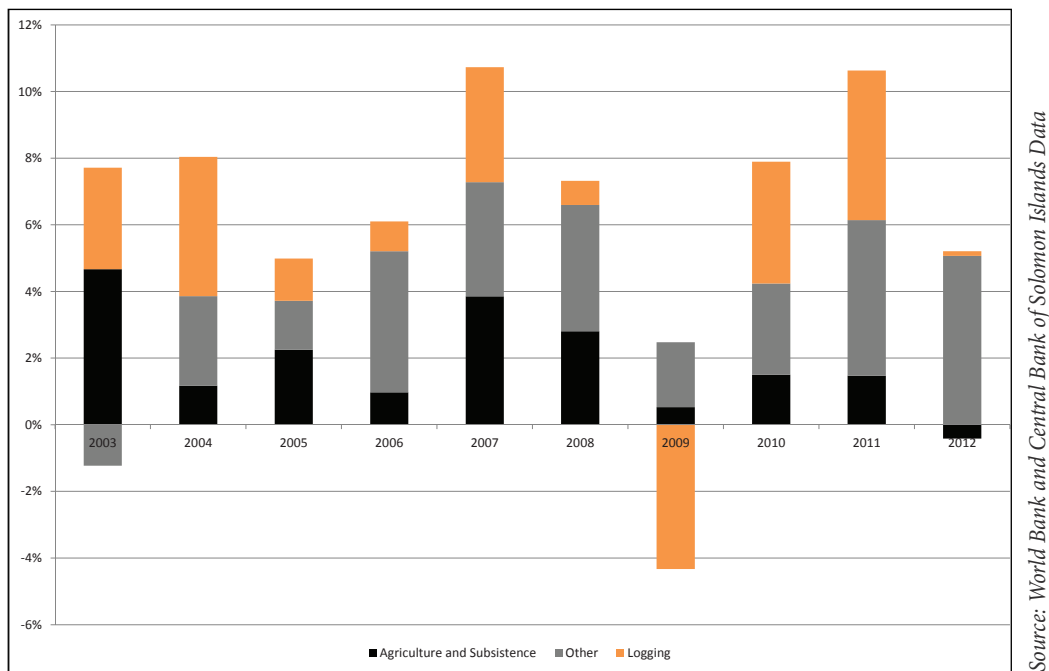
Conflict and Security

Conflict and breakdown of law and order were the most significant contributors to economic contraction during the tension. The success of the peace-keeping intervention in quickly ending the conflict and restoring security and basic services in Honiara and provincial centres is well established (Coppel 2012; Dinnen 2008). The rapid disarmament of militants, the resumption of government services, and restoration of the conditions required for basic economic activity was an important contributor to economic recovery (Porter et al. 2010). Recent evidence suggests very few businesses in Honiara now consider the security situation to be a major constraint on business activity (Haque and Greig 2011). Greater confidence in the security situation is reflected in new investment in the mining, agriculture, tourism, and fisheries sectors. But access to the police and judiciary, especially outside of Honiara, remains a constraint to some business activities, with high costs and long delays associated with using the court system (Allen et al. 2013). The annual People's Surveys indicate that the majority of Solomon Islanders does not feel safe, and fear a return to violence following the withdrawal of RAMSI's security presence (ANU Enterprise 2013).

Macroeconomic Management

RAMSI's explicit mandate to achieve macroeconomic stabilisation has been met — with the help of a large external presence within the Ministry of Finance — but the structural imbalances that have long characterised the Solomon Islands economy remain. Following a history of large fiscal deficits financed by domestic and international borrowing, budgets have come close to balance in most years since the tension, with relatively significant surpluses in 2011 and 2012 (IMF 2013). Improvements in public financial management systems, emphasising fiduciary control, have eased cashflow problems and underpinned the successful imposition of budget discipline. Revenue growth has been impressive. As a proportion of GDP, non-grant

Figure 1: Contribution to GDP Growth



revenues have increased from 15.4 per cent of GDP in 2003 to 34.5 per cent of GDP in 2012 — substantially higher than pre-tension levels.¹ Given the pace of economic growth, this translates to real growth over the period of more than 170 per cent. Concerted revenue collection efforts at customs and within the tax divisions, combined with systems improvements, have allowed an expansion of resources for delivery of public services even while deficits have been narrowed (IMF 2013).

Total public sector debt has declined from 73 per cent of GDP in 2004 to just 15 per cent in 2012, with Solomon Islands' risk of debt distress downgraded from 'high' to 'medium' by the IMF and the World Bank in 2010 (IMF 2010). Despite external shocks and strong demand growth accompanying recovery, inflation has remained at similar levels to the immediate pre-tension period, averaging around 8.5 per cent per annum since 2003, and peaking at 17 per cent during the food and fuel crisis in 2008. While the exchange rate has been successfully maintained at the US dollar peg, local inflation has contributed to a significant increase in the real exchange rate (around 22 per cent) and an associated decline in competitiveness. The Central Bank of Solomon Islands has recently moved to more flexible exchange

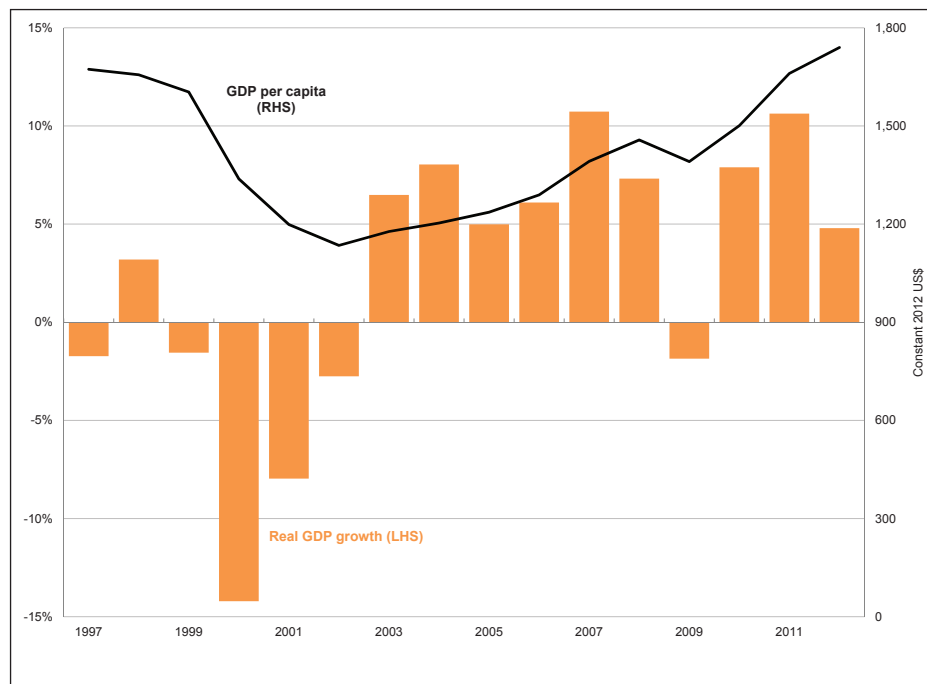
rate arrangements, utilising a pegged basket against a range of major trading currencies.

The budget remains highly reliant on grants, even for the existing inadequate level of service delivery. The structural current account deficit shows no signs of narrowing, and has in fact widened on average during the years of the RAMSI intervention. It is purely due to donor flows that foreign exchange reserves remain at comfortable levels (IMF 2013).

Business Environment Reform

Since 2003, Solomon Islands has also been subjected to the full gamut of donor-driven business environment reforms. These have proceeded at pace, enabled by capacity supplementation from RAMSI advisors within the Ministry of Finance. Business reforms have progressed in relation to state-owned enterprise (SOE) privatisation and governance reform, overhaul of the tariff structure to achieve consistency with obligations under international trade agreements, rationalisation of the tax structure, and liberalisation of the telecommunications and air transport sectors (RAMSI 2013). A new Companies Act has been implemented, along with a new Companies Registry and a Secured Transactions Act to allow for the use of movable property

Figure 2: Change in Real GDP and Real Per Capita GDP



Source: World Bank and Central Bank of Solomon Islands Data

as collateral. The Foreign Investment Act has been revised, streamlining processes for foreign investment, and immigration approval processes revised to improve access to overseas skilled labour (IFC 2013). These reforms have led to substantial improvements in some areas, including reductions in the cost and time taken to open a business and register property through formal channels. Nonetheless, after a decade of concerted effort, Solomon Islands is ranked 111th of 180 countries in the 2013 Doing Business survey (IFC 2013). Aspiring entrepreneurs will still face a wait of three months to receive a construction permit, and five months to have their business connected to the local grid (IFC 2013).

3. Economic Developments

Gains in security have supported important improvements in living standards and incomes. Per capita output of the Solomon Islands economy has grown at an average rate of 3.6 per cent per annum over the past decade. This compares to an average small Pacific country per capita growth rate of 0.6 per cent. But improved management has had an at-best limited impact in effecting structural change and diversification in the Solomon Islands economy or establishing a foundation for broad-based growth.

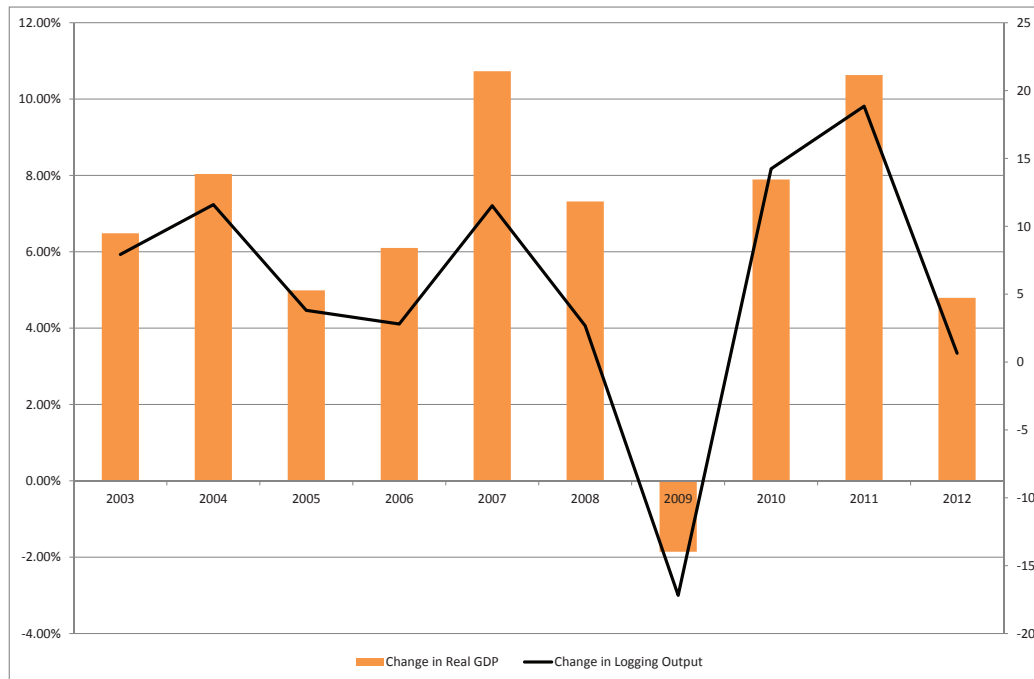
Recovery

The resumption of economic activity following the success of the RAMSI security intervention has been the single most important driver of growth (IMF 2009). Between 1997 and 2002, the Solomon Islands economy contracted by up to 60 per cent in real terms. This contraction reflected the impact of a general breakdown of formal and informal institutions underpinning economic activity, as Honiara-based businesses ceased operating, activity at the Gold Ridge mine came to a standstill, and logging activity slowed in the context of widespread insecurity and violence (Moore 2004). The RAMSI intervention and ongoing security guarantee has both restored adequate security for economic activity and provided a vital source of confidence for investors. The extent to which recent strong growth performance represents simple recovery from the disruption of the tensions — rather than an expansion in productive capacity — is reflected in the fact that per capita incomes are thought to have recovered to 1998 levels only within the past two years, as shown in Figure 2.

Logging and Public Sector Expenditure

Resumption of peace and security has coincided with high global log prices. Logging output has

Figure 3: Change in Real GDP and Change in Logging Output



increased by around 70 per cent since 2003, peaking at historically high levels in 2012. Increases in logging output since 2003 have directly contributed around a quarter of economic growth. There is a strong correlation between logging output and overall real growth, as shown in Figure 3.

Growth has also been fuelled by rapid expansion in public expenditure, much of it financed by aid. Aid flows have increased from 16 per cent of GDP in 2004, to peak at 30 per cent of GDP in 2011, more than doubling in real terms. (This compares to an average of around 1 per cent of GDP for lower-middle income countries globally). Real public expenditure has increased by more than 180 per cent since 2003, while direct public sector employment has increased by around 80 per cent. Increased numbers of public servants and an influx of aid bureaucrats, diplomats, and consultants have fuelled the emergence of a vibrant service economy in Honiara. Increased public expenditure has broadened opportunities for firms supplying donor contracts. The relationship between changes in public expenditure and non-logging, non-agricultural output is shown in Figure 4.

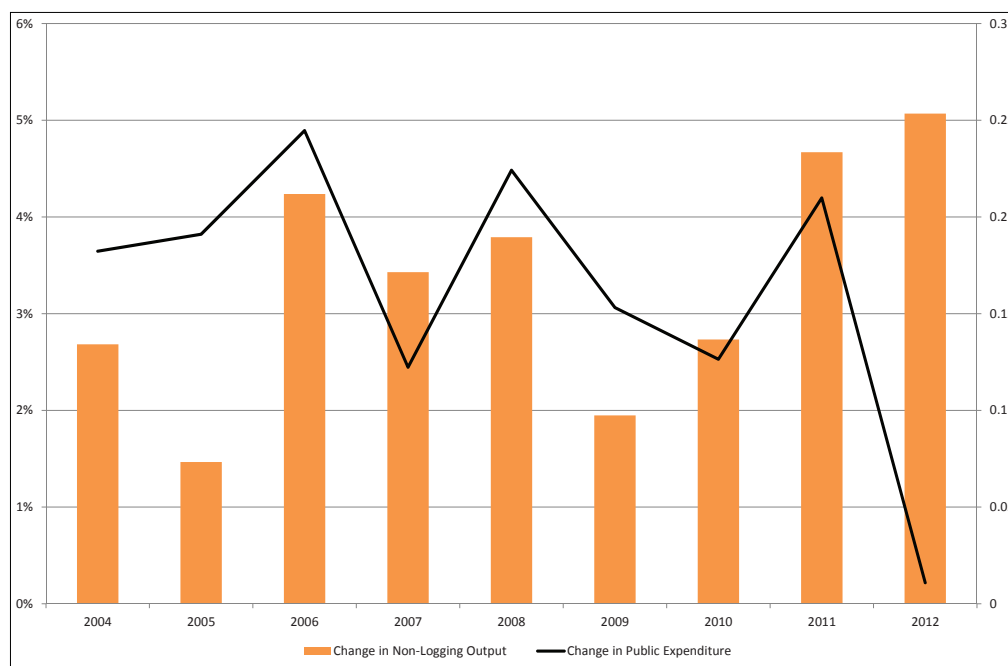
Continuity and Concentration

Despite rapid growth, composition of current output provides cause for skepticism regarding any

structural transformation of the Solomon Islands economy. Logging output has remained fairly consistent as a share of the economy over time, at 15.8 per cent of GDP in 2013, compared to an average of 15.3 per cent since 1971. Subsistence and agricultural production comprise around 34 per cent of output in 2013 — remarkably close to the long-run average of 36 per cent since 1971 (although with an increasing proportion of agricultural output for monetary exchange following a spike in subsistence production during the tension). Manufacturing output — often a primary target for increased investment under business regulatory reforms — has actually declined in relative and absolute terms since the tensions, accounting for around 2.5 per cent of output, compared to 3.3 per cent in 1971.

Due to the continued reliance on traditional sources of growth, the benefits of economic recovery have been unevenly shared. Logging remains dominated by foreign — largely Malaysian — firms, utilising unsustainable extraction methods that require minimal capital investment or local employment generation (Porter et al. 2010). Opportunities for domestic processing or value adding have not been pursued. Landowning communities have also often been deprived of potential benefits from resource forestry and

Figure 4: Change in Public Spending and Non-Logging Output



exposed to additional costs, due to the limited regulatory reach of government. Logging firms have often been able to bypass established processes and exploit overlapping customary property right regimes to gain access to forest resources and minimise or altogether avoid compensation to land owners. Environmental damage has been extensive, imposing hidden economic costs in terms of damage to subsistence systems (Kabutaulaka 2008).

Growth from public sector expansion has, in many respects, had a more positive impact. The Honiara economy is vibrant and employment opportunities are growing. Opportunities created by aid and government spending and employment are being exploited by both migrants from other parts of the country and long-term residents (Haque and Greig 2011). Previous analysis has highlighted the extent to which women are also taking advantage of new entrepreneurial opportunities in the context of urban economic growth. But the benefits of Honiara's growth are highly geographically concentrated (Haque and Greig 2011). Most manufactured goods consumed in Honiara are imported from overseas, with Honiara's consumption weakly linked to production across the broader Solomon Islands economy (notable exceptions being agricultural production for market sales and betel nut).

4. Emerging Challenges

Against this backdrop of uneven recovery and continued economic concentration, Solomon Islands faces two emerging challenges. Firstly, the exhaustion of forest stocks is a major threat to an economy that has relied so heavily on logging for employment, foreign exchange, and growth. Secondly, with limited growth prospects beyond various extractive industries and the Honiara service economy, rapid urbanisation fuelled by a fast-growing youth population poses significant risks.

The End of Logging

There is increasing certainty that the long-predicted collapse in logging output will occur over coming years as natural forest stocks are exhausted (IMF 2013). This outcome reflects a long history of unsustainable and unregulated extraction (Gay 2009). The economic impacts will be significant. The logging industry currently employs around 7,000 Solomon Islanders. Logs account for nearly 60 per cent of exports. Revenues from log exports are equal to around 16 per cent of non-grant revenues (IMF 2013; Porter et al. 2010). As previously discussed, overall growth has tended to be strongly correlated with logging output, reflecting the importance of cash income from logging to broader economic activity in rural areas.

Government strategy for managing this transition has never been explicit. If recent efforts to improve the business environment had delivered a broader expansion of private sector opportunities, the challenge might have been easier to manage. As it is, the best prospect for managing the end of logging is successful development of alternative natural resource industries.

New developments in the mining sector have therefore, recently attracted much attention. The scale of potential operations is very significant. The prospective Isabel operation would initially involve direct shipping of unprocessed ore. A refinery facility may be developed, involving US\$1.25 billion of investment and exporting approximately 30,000 tonnes of nickel per year. Exports could be worth US\$460 million per year and Sumitomo estimate that more than 1000 jobs could be created. Recent mineral exploration has identified possible future development including copper and gold on Guadalcanal, Vella Lavella, and New Georgia islands. In addition, the seabed surrounding the Solomon Islands is considered likely to have deposits of copper, gold, and zinc.

There are many factors that could forestall such investment, perhaps indefinitely. These include perennial contestation over land rights, ongoing absence of regulatory and policy certainty required for large investments, and price fluctuations in global commodity markets. But even if potential mining investment was to be fully realised, favorable economic outcomes for Solomon Islands are far from assured.

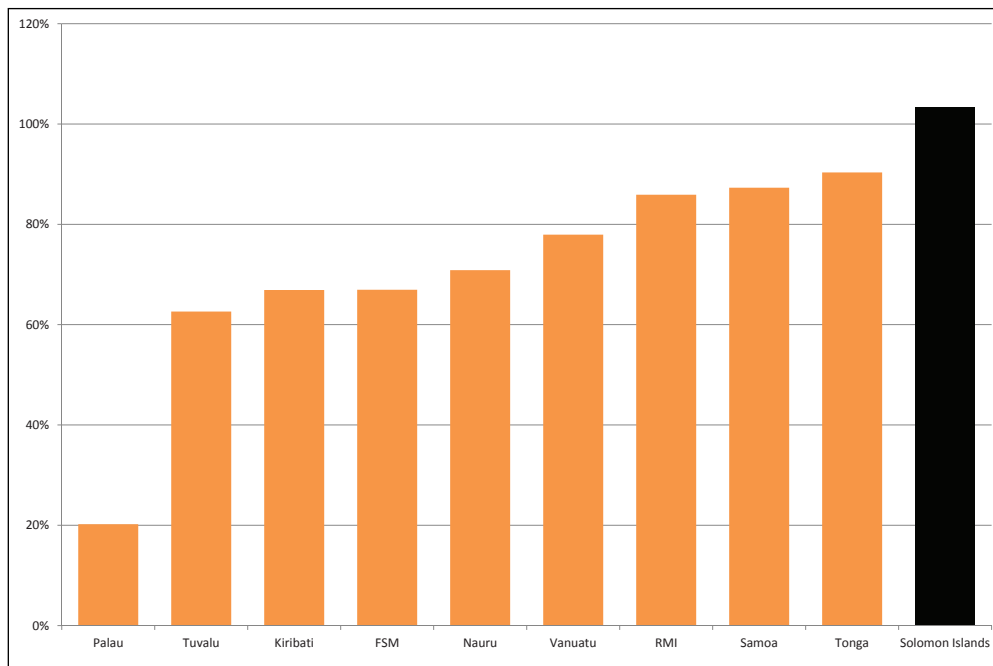
A large cross-country literature highlights the risks associated with large-scale mining investment (Sachs and Warner 2001; Ross 2004; Collier and Hoeffler 2004). Particular cause for concern in the Solomon Islands' context is evidence that mining activities contribute to conflict pressures. Geographical concentration of economic opportunities, contestation over mining rents, and associated perceptions of inequity can fuel existing grievances and deepen divisions (Ross 2004). Armed conflicts triggered by mining activities in Papua New Guinea have imposed substantial social and economic costs and frustrated progress towards state-building. Some commentators have, in fact,

argued that Melanesian contexts may be more prone to resource-related conflict, due to very weak state capacity and legitimacy, pronounced ethnic divisions, and the tendency for broader social and economic contests — especially over land and economic opportunities — to manifest in conflict over natural resource rents (Dinnen, Porter, and Sage 2010; Banks, 2008). None of this bodes well given Solomon Islands' recent history of conflict, fraught Honiara–provincial relationships, very weak capacity within key regulatory agencies to enforce regulations or ensure fair treatment of landowners, and the demonstrated ability of those in control of resource wealth to directly influence policy in their own interests.

International evidence also shows that many governments forgo a large proportion of potential fiscal benefits of mining operations (arguably including the Solomon Islands Government in relation to the Gold Ridge mine) (Sachs and Warner 2010). With stark differences in capacity between resource investors and the government agencies responsible for negotiating and enforcing revenue sharing and taxation arrangements, it is often difficult for small country governments to ensure a fair deal. Even when revenues have been captured by governments, they have often not been used in ways that support long-term growth, due to widespread weaknesses in public financial management systems and political dynamics that encourage short-termism in the management of fiscal resources (Sachs and Warner 2001).

The potential negative governance impacts of resource reliance are well documented in regional and Solomon Islands–specific literature (Dinnen et al. 2010). Allen (2011), Kabutaulaka (2008), and Craig and Porter (2013) have documented the extent to which rent flows from logging activities pervade politics, financing patronage and eroding political accountability for service delivery. Transition to mining may exacerbate the current corrosive impacts of natural resource rents on political governance. Of particular concern within the current political-economy context is the possibility that a resource boom would increase fiscal space for greater allocations to so-called Constituency Development Funds (CDFs) — funds

Figure 5: Change in 15–24 yo Population 2011–2020



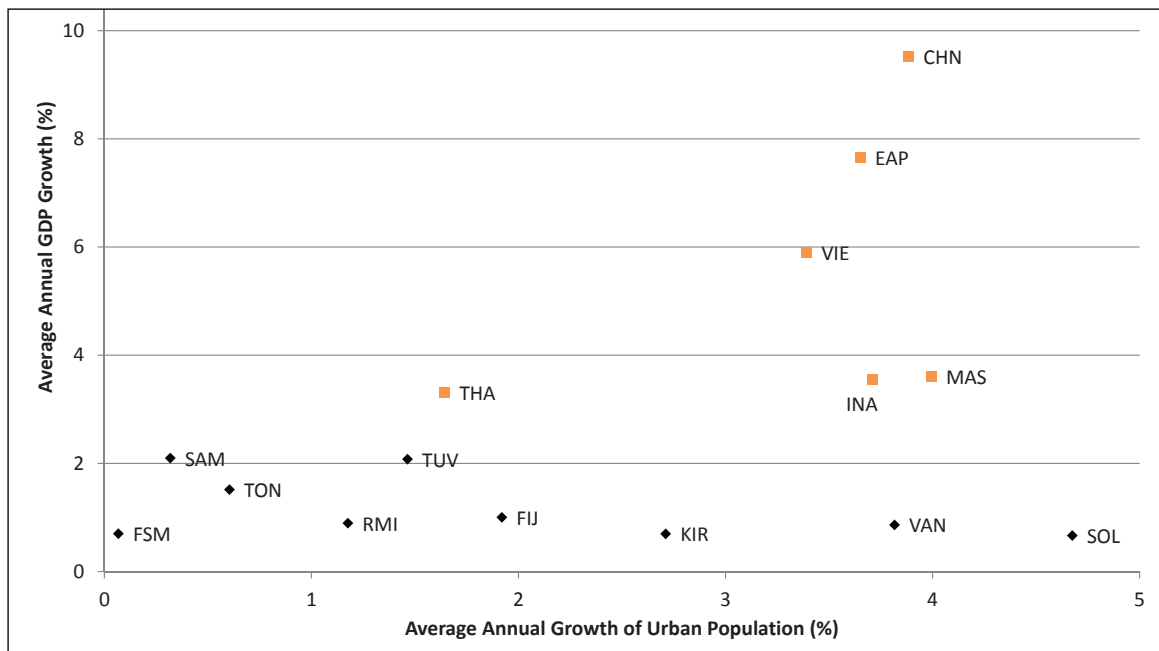
provided to individual members of parliament for use at their discretion, and with very limited accountability or reporting requirements, and most commonly used to secure the political support of constituents through the transfer of cash and private goods. While opinions differ as to the extent to which channeling of resources through CDFs constitutes wastage of public resources, there can be little doubt that substantial growth of CDFs in the absence of increased investment in public goods through government systems would further corrode the influence and legitimacy of central government institutions and deepen the dominance of patronage-driven politics (Haque 2011; Craig and Porter 2013).

Job creation associated with mining activity is likely to be limited, relative to the jobs currently provided by logging, and geographically concentrated around sites of resource extraction, given the difficulty of developing backwards supply chains in Solomon Islands' high-cost economy. A key challenge for Solomon Islands is, therefore, to convert potential mining investment income into a sustainable source of financing for vital service delivery and infrastructure, while avoiding unreasonable environmental and social costs, and sharing benefits widely enough to avoid resentment and conflict.

Urbanisation and Demographic Pressures

Rapid expansion of Honiara's population over the coming years poses further challenges to stability and improved living standards. While Solomon Islands' population remains overwhelmingly rural, Honiara is growing at a rapid pace, even compared to large Asian cities. Between 1999 and 2009, the Honiara population grew at an average rate of 4.7 per cent per annum (Solomon Islands Government 2012). Much of this growth has occurred in the peri-urban areas, beyond Honiara's formal borders, reflecting problems with housing access within formal town boundaries. Solomon Islands' current economic development trajectory provides little reason to believe that the pace of urbanisation will slow. The public sector in Honiara accounts for a large proportion of formal sector jobs, and the Honiara service economy provides the best prospects of paid employment for many Solomon Islanders (World Bank 2013). The number of Solomon Islanders between the ages of 15–24 is expected to double between 2011 and 2020 (as shown in Figure 5). As social attitudes and expectations change, including through the spread of new telecommunications technologies, a growing youth population seems more likely to prefer the search for social and economic opportunities in Honiara,

Figure 6: Output Growth and Urban Growth 1991–2011



FSM: Federated States of Micronesia; SAM: Samoa; TON: Tonga; RMI: Republic of Marshall Islands; TUV: Tuvalu; FIJ: Fiji; KIR: Kiribati; VAN: Vanuatu; SOL: Solomon Islands; INA: Indonesia; MAS: Malaysia; VIE: Vietnam; EAP: East Asia Pacific Region; CHN: China.

however poor the conditions, over the monotony, physical exertion, and isolation of rural life.

Urbanisation has many benefits to offer Solomon Islands (World Bank 2009). Firms in urban areas can benefit from the greater availability of goods and skills required for production, knowledge spillovers, better infrastructure, and a large, proximate customer base. The associated productivity benefits can lead to employment growth and higher incomes. These proximity benefits are clearly observable within Honiara's vibrant service economy. When driven by the productivity benefits associated with density and concentration, the prospects of better quality jobs, and an escape from the insecurity of rural agriculture, urbanisation is a key driver of economic development. Urbanisation has inevitably accompanied income growth around the world (World Bank 2009). Urbanisation also provides an opportunity for governments to achieve economies of scale in service delivery and infrastructure provision, reducing unit costs and allowing improved quality and access. Both of these potential benefits are already apparent in survey data from

Honiara, where residents are far more likely to have access to paid employment and basic services than those living in rural areas (Solomon Islands Government 2012).

But urbanisation also brings costs and risks, especially when it is occurring for the wrong reasons. Some urbanisation in Solomon Islands is being driven not by the productivity and income benefits of concentration, but by inadequate services in rural areas, low agricultural productivity, vulnerability to price shocks and natural disasters, and declines in rural living standards associated with population pressures on subsistence systems in some areas (Connell 2011; Storey 2003). Urbanisation of this nature leads to congestion of public services and infrastructure, and is associated with high youth unemployment and frustrated aspirations for social mobility, feeding into increased rates of substance abuse, crime, and loss of social cohesion (World Bank 2009; World Bank 2013). Such outcomes are readily observed across the Pacific and especially in the squatter settlements of Melanesia (Connell 2011). The breakdown in family structures and informal social safety net systems as young people

move to cities has led to unprecedented levels of inequality (Monsell-Davis, 1993). Associated strains on social cohesion are very apparent in survey data, with Honiara residents — and especially those in peri-urban areas — reporting far higher levels of substance abuse, exposure to crime, and dissatisfaction with the conduct of government, including in relation to policing, corruption, and security, than those in rural areas (Solomon Islands Government 2013; ANU Enterprises 2012).

Expanding the economic opportunities available to Solomon Islanders is central to managing the pressures of urbanisation. Urbanisation driven by opportunity can lead to a self-perpetuating cycle of productivity growth and improving living standards. But without sufficient economic opportunities, the impacts of urbanisation may be catastrophic. A young, concentrated, idle, and disenchanting population poses huge challenges for social cohesion in any context, as the experience of nearby Port Moresby vividly illustrates. Such challenges would be even more difficult to manage if political, provincial tensions were to emerge over the inadequately regulated development of mining resources or the uneven distribution of associated benefits and opportunities.

5. Prospects for Transition

How can the economic opportunities required to address mounting pressures be provided? Further improving the business environment is often cited as the critical requirement for generating investment and increased economic opportunities for Solomon Islanders. Donor reports often stress the exhaustive list of legal, regulatory, policy, institutional, and infrastructure reforms required to create an environment attractive to investment and facilitative of productivity (ADB 2010; Gay 2009). Implicit in these recommendations is the expectation that, with the correct policy and regulatory settings, spontaneous private sector growth would occur at a pace sufficient to deliver the required job creation.²

Current dynamics of global economic development and, particularly, the historical experience of small states might give cause for caution in this regard. Globally, forces of economic geography are driving increasing geographical unevenness in productivity and production, with

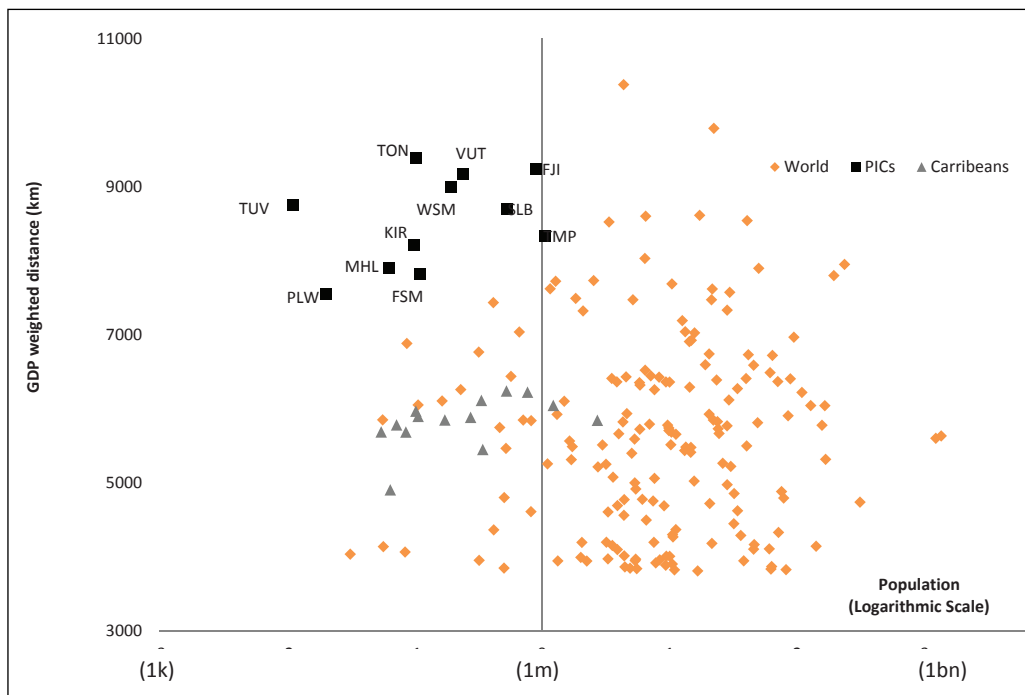
negative implications for the competitiveness of small and dispersed economies. At the same time, Solomon Islands' lack of scale and concentration increases the costs of delivery public services, infrastructure and institutions, compounding competitive disadvantage. The experience of other small island states reflects these realities. While high living standards have often been achieved, it has seldom been through adopting the policy prescriptions currently dominating discussions of economic development in Solomon Islands.

Agglomeration and Productivity

The disadvantages facing small island economies are well established in economic literature. Small domestic markets impede the achievement of economies of scale in production for local markets, while very high transport costs choke off opportunities for competitive exporting (Armstrong and Reid 2006; Redding and Venables 2004; Radelet and Sachs 1998). With little reduction in transport costs over recent decades, and some evidence that trade costs are increasing for countries isolated from major trade routes, there is little evidence that globalisation is in any way reducing the relevance of geography to economic development prospects (Hummels 2011; Yang et al. 2013).

In fact, global economic dynamics are working to exacerbate the disadvantages faced by small states. Economic activity is increasingly unevenly disbursed geographically, with 1.5 per cent of the world's land area now accounting for 50 per cent of global production, and large cities accounting for 80 per cent of global production (World Bank 2009). Populations are similarly unevenly distributed, with populations increasingly concentrating in urban areas, and the majority of the world's population now living in cities. This pattern of uneven development, with population and productivity highly concentrated, is repeated across regions, countries, and areas within countries. Recent economic research has provided compelling evidence regarding the causes of continued concentration (World Bank 2009). When located close to other firms and large, dense populations, firms are able to realise economies of scale with easy access to large markets. Firms are able to specialise, with the abil-

Figure 7: Size and Isolation — All States



FSM: Federated States of Micronesia; WSM: Samoa; TON: Tonga; MHL: Republic of Marshall Islands; TUV: Tuvalu; FIJ: Fiji; KIR: Kiribati; VAN: Vanuatu; SOL: Solomon Islands; PLW: Palau; TMP: Timor Leste.

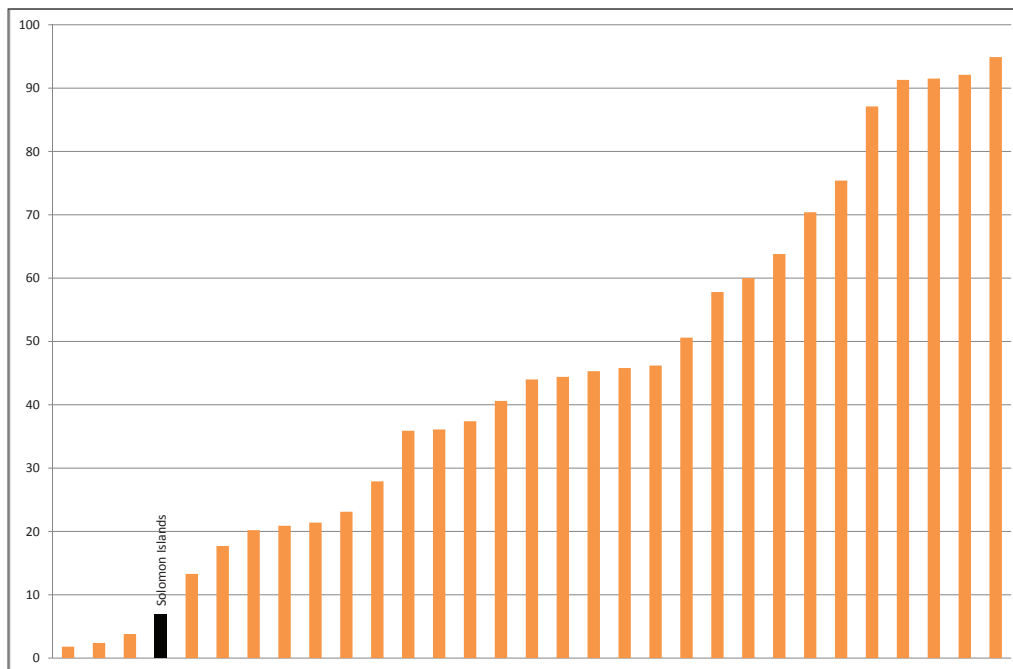
ity to outsource upwards and downwards through the supply-chain. Firms also experience greater exposure to positive knowledge externalities, by being able to observe the practice of other firms and having access to a pool of workers with experience in different firms and industries. Higher productivity allows higher incomes and wages, which attract workers, fuelling a self-perpetuating cycle of increasing concentration and urbanisation that has been synonymous with development internationally and over time (Venables 2006; World Bank 2009).

The consequence of these powerful economic forces is that development is uneven — some spaces (regions, countries, and areas within countries) are becoming wealthier while others are getting left behind (World Bank 2009). Crucially, this growing unevenness can only be counteracted by policy to a very limited extent. The efficiency benefits that come from a relatively low-cost business regulatory environment are dwarfed by the productivity benefits of concentration, while policy-driven attempts to redistribute economic activity through public investment programs and investment incentives have a very poor record globally (World

Bank 2009). Importantly, policy measures aimed at increasing economic openness may exacerbate, rather than counteract, global trends towards concentration — businesses in lagging areas may lose competitiveness in the face of imports from firms located in areas of economic concentration.

The relevance of these facts to Solomon Islands development prospects is obvious. Recent work by the World Bank has highlighted the uniqueness of Pacific island countries in terms of their combined small population sizes and long distances to global economic production, as shown in Figure 7 (World Bank 2011). Costs of trade between Pacific island countries and large markets are much higher, as a proportion of export value, than for countries like Australia or New Zealand. Even within the Pacific, however, Solomon Islands faces unusual geographical obstacles due to the extent to which its population is dispersed widely, with low population density over many islands. The agglomeration index provides one potential measure of this dispersal, constituting an aggregate measure of urban population share, population density, and travel times to urban centres. Solomon Islands, with a

Figure 8: Agglomeration Index — Smallest States



score of 6.9 (with a maximum possible score of 100) is among the lowest scoring globally and among small states, as shown in Figure 8. The average Solomon Islander lives more than 200 kilometers from Honiara, indicating far greater population dispersal than other Pacific island states such as Fiji, Samoa, and Tonga (Craig and Porter 2013).

Geography and Public Goods

Solomon Islands' small and dispersed population also constrains delivery of the public goods and services on which private businesses depend. Many public goods and services exhibit economies of scale. Solomon Islands' smallness increases the unit costs of providing many public services, due to the high fixed costs involved. A road, energy network, hospital, or government ministry that serves 550,000 people (or a few thousand people, at the island or province level) is likely to have a higher cost per user than one that serves several million people because the associated fixed costs — costs of administration and certain capital costs — must be spread across a smaller number of people. Higher costs mean that it is more difficult for governments in small countries to provide the public goods on which the private sector relies. The absence of economies of scale in Solomon Islands is clearly reflected in measures of infrastructure coverage and

quality, as highlighted in the World Bank's 2010 work on growth prospects and shown in Figure 9.

Small population size also has important implications for public sector capacity (Baker 1992; Haque et al. 2013; Brown 2010). While many low-income countries face capacity constraints in various areas of government, a dedicated literature highlights particular barriers to capacity development for public sector administration in small country settings. Public services in small countries, while large relative to the population, are often small in absolute terms. Given that many administrative and service delivery functions involve large fixed costs, small country administrations often have too few people with the right skills to carry out all required functions. With small populations and weak education systems, public agencies are sometimes simply unable to recruit people with the right skills for specialised roles. This problem can be exacerbated when those who attain specialist skills within government are often attracted to broader overseas job opportunities in contexts where 'only a few brains need be drained before a serious systemic crisis occurs' (Baker 1992b, 16). Recent quantitative research has showed how these problems manifest in weaker public financial management performance in Pacific contexts relative to larger countries at similar levels of income (Haque et al. 2013).

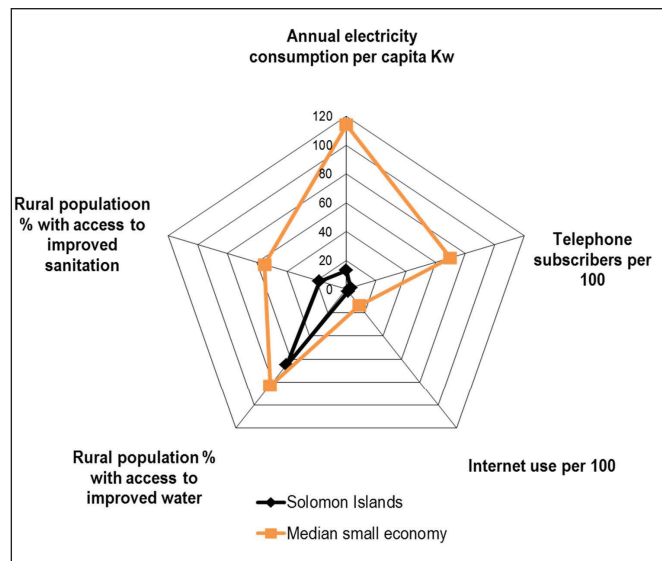
Experience of Small States

Overall, geography constrains private sector development in Solomon Islands in two interlinked ways. Firstly, geographical factors of smallness, dispersal and isolation have a direct impact on costs and competitiveness that are largely not amenable to policy solutions. Secondly, these cost disadvantages are compounded by weaknesses in public administration and the provision of public goods, also related to smallness and dispersal, which further increase business costs. Cross-country studies using firm-level data have confirmed that smallness increases business costs, due to the absence of agglomeration benefits, high transport costs, and the higher costs of infrastructure services. Winters and Martin (2004), for example, show that manufacturing firms in countries the size of Solomon Islands would have to pay either negative wages or earn a negative return on invested capital if they were to compete on price with firms located in larger countries. Higher costs mean that it is difficult to produce manufactured goods for export to competitive markets. At the same time, higher costs erode domestic production, with local firms unable to compete against cheaper imports from lower cost economies.

These realities have not precluded development in small states (Easterly and Kraay 2000; Bertram 2006). Rather, small states around the world, like Solomon Islands, have relied on various forms of rents, especially aid and natural resource extraction, to support economic growth and living standards. Rent-based strategies — ranging from regulatory arbitrage in Caribbean financial centres to extraction of geostrategic rents by the US Compact countries of the North Pacific — have often been very successful for small states, with most analyses suggesting that small states are no poorer and grow no slower than larger states.

Aid has been an important part of economic development progress for many small states (Bertram 2003). Small states receive a vastly disproportionate share of global aid flows. Aid for the 50 smallest countries is around 8.3 per cent of Gross National Income, compared to 0.5 per cent for lower-middle income countries overall. Detailed cross-country

Figure 9: Infrastructure Indicators – Solomon Islands and Small States



Solomon Islands lags significantly behind the median small economy in access to nearly all forms of economic infrastructure.

analysis has shown that the closeness of political relationships between metropolitan countries and small island states exerts a determining impact on income and income growth in small states, largely due to the importance of aid and fiscal transfers for small-state living standards (Bertram 2003).

A wide literature also details the important role played by natural resource extraction in small states. Recent World Bank analysis finds that, of 19 small countries that experienced a sustained period of rapid growth since 1980, natural resource extractive industries were an important driver in seven cases, while tourism growth played a major role in nine cases (World Bank 2010). While natural resource extraction may be impacted by higher cost structures in small states, profits can still be generated for as long as revenues exceed costs. Strong tourism performance reflects the inherent imperfectly competitive nature of the global tourism market, with tourists prepared to pay more for unique experiences.

Many small states also generate income from sources that Solomon Islands has not yet been able to realise. Reflecting limited opportunities for labour-intensive domestic production, small states have been more successful in mobilising diaspora to take advantage of employment opportunities in

larger, lower cost, higher productivity economies (Bertram 2006). Remittances to the 50 smallest countries are equal to around 6.7 per cent of GDP on average, reaching around 25 per cent of GDP in Tonga and Samoa (World Bank 2013). Small states have also been very successful in manipulating their jurisdictional autonomy to generate regulatory rents from various sources. The emergence of large financial services sectors in some small economies (especially those in close proximity to large economies) has reflected successful regulatory arbitrage of tax laws and financial regulations to attract economic activities that are mobile and relatively less reliant on higher cost domestic inputs (Bertram 2006).

With income from state-captured rents large relative to income from production and exporting in the private sector, small states can often afford large governments. The public sector plays a key role in supporting living standards in the context of often limited private sector opportunities, and often provides a reserve source of employment. Evidence is clear that small states tend, on average, to have both larger governments, in terms of government expenditure as a share of GDP, and larger public sectors, in terms of payroll expenditure as a share of GDP (World Bank 2011).

The Solomon Island Economy in Context

Decades of research demonstrates that scale and concentration are a prerequisite to productivity in both the public and private sector. Inability to achieve competitiveness in the production of tradables has important implications regarding the likely pace and nature of economic growth, under any policy settings. This reality is reflected in the experience of small states globally, where economic development has generally been achieved through international transfers, worker remittances, and natural resource rents (including from tourism), rather than economic diversification.

Acceptance that growth is more likely to come from these non-traditional sources has important implications for current and future policy priorities. Improvements to the business environment can certainly assist firms, especially in the non-tradables sector, to emerge and grow in response to domestic demand created by rent-based

inflows. But such reforms are extremely unlikely, on their own, to drive rapid growth or deliver the expansion of economic opportunities that Solomon Islands desperately needs. Ideologically driven recommendations that an improved business environment requires reductions in the size of the public sector seem perverse, given the reliance of the private sector on public spending, the public sector's vital role in employment provision, clear existing weaknesses in the provision of the public goods and services on which businesses rely, and the need for a capable and well-resourced state to mitigate conflict pressures through broadening access to services, security, and justice.

6. Implications for the International Community

The implications of all of this for the international community are clear. Firstly, reliance on international fiscal and capacity support for delivery of basic public goods and services is unlikely to decline over the medium term, given the expected exhaustion of logging, long lead times for prospective mining operations, and the absence of other growth drivers. Secondly, this international support could usefully shift focus from broad business-enabling environment reforms towards managing the pressures inherent in what is likely to remain an economy concentrated around natural resource extraction and the public sector. Thirdly, the best long-term prospects for real convergence in living standards between Solomon Islands and nearby large markets will come only from far deeper economic integration — basic facts of economic geography mean that UN Millenium Development Goals' level of living standards are unlikely to be affordable if Solomon Islanders remain separated, by accident of arbitrary postcolonial boundaries, from the productivity and prosperity that economic concentration offers.

In very tangible terms, there are three clear priorities for short-term action:

1. establishment of adequate institutional capacities for managing prospective mining operations
2. improvements in the services and basic administration of Honiara, where the population can be expected to continue to grow rapidly

3. increased public investment in direct employment generation to mitigate the risks of rapid urbanisation in an economy unable to spontaneously generate sufficient private sector opportunities.

Over the medium term, progress must be made towards deeper forms of economic integration, including regularisation of fiscal and capacity support and the expansion of labour mobility options for Solomon Islanders.

Managing the Transition to Mining

Successful management of the mining transition, if it is to occur, will require long-term commitment from donor countries, involving provision of long-term technical assistance. Preemptive, high-quality capacity support to the relevant agencies will be required for development of mining policy and legislation. These capacities are simply not available within the Solomon Islands public service and will need to be externally provided. Even then, *de jure* measures are unlikely to translate into *de facto* outcomes unless accompanied by ongoing in-line technical assistance in relevant ministries during the negotiation of access and taxation and royalty agreements, and for ongoing compliance and monitoring. International technical assistance will also be needed for establishing systems to ensure the negotiation of fair and durable agreements between mining companies and landowners. Specialist international capacity in the Inland Revenue Department will be needed to ensure that international mining companies comply with taxation requirements. Technical support in the Ministry of Finance will also be needed to implement appropriate measures for managing revenue flows to government.

Capacity support, however, may not be enough. Global experience with mining suggests that effective mobilisation of international technical assistance may be insufficient to secure a fair deal between mining investors and the people of Solomon Islands given the difficult political-economy context, inevitable deficits in institutional capacity, and very weak civil society (Ross 2004; Sachs and Warner 2001). Further co-ordinated international action may need to be taken to

monitor and regulate the activities of mining firms. Australian or other large-country authorities with responsibility for the regulation and taxation of mining could be given jurisdiction to ensure the application and maintenance of reasonable standards in Solomon Islands. This sharing of responsibility could go further. Many of the firms currently involved in prospecting or mining activities in Solomon Islands are based in countries that have aid relationships with Solomon Islands. These countries could take greater responsibility for the conduct of firms operating in Solomon Islands and regulate their activities under home country legal and regulatory frameworks, given the potentially huge impact of these firms' actions on economic development and living standards.³

Increasing the Domestic Economic Impact of Public Expenditure

The public sector will remain an important direct and indirect source of employment in Solomon Islands. Whether from aid or mining rents, the public sector will control a large portion of economy-wide income and needs to ensure that this is used in ways that both help meet the rapidly increasing demand for jobs while avoiding the severe inequalities in access to resulting economic opportunities that played an important role in sparking previous conflict (Allen 2013).

Government and donor agencies should consider options for further directly increasing the employment intensity and local economic impact of public spending. Recent employment-intensive public works schemes in Honiara may provide a useful model. Donor agencies could give greater weight to local economic and employment impacts when designing major infrastructure projects, with a growing body of regional experience providing lessons as to how this can be successfully accomplished.⁴

As well as bringing important efficiency benefits through reduced transaction costs and better alignment with government priorities when accompanied by the necessary capacity development and supplementation activities, increasing use of budget support modalities would inevitably ensure that aid flows had a far larger economic and employment impact. Rather

than channeling expenditure to consulting firms, management contractors, and international supply companies, resources could be funneled through ministries and public sector procurement systems. There is clear international evidence that such modalities have far greater local economic impact, and would increase direct and indirect public employment, including spurring private sector development through increased opportunities for local firms supplying government contracts (Peace Dividend Trust 2009; Carnahan 2004).

Improving the Administration of Honiara

With public expenditure driving much of Solomon Islands private sector activity, Honiara will continue to grow. In the context of rapid urbanisation, poor infrastructure, services, and administration in Honiara pose a threat to security and social cohesion. At the same time, economic concentration around a well-functioning Honiara offers Solomon Islands' best opportunity for agglomeration-related benefits of productivity growth, including private sector development and increased employment.

Important changes are required to maximise the potential benefits of urbanisation while managing the risks. Firstly, continued investment is required in both urban and rural services and infrastructure. Improving access to services and economic infrastructure in urban areas, including squatter settlements, is vital to improved living standards, private sector development, and growth of employment opportunities. Deliberate under-provision of services and infrastructure in informal settlement is ineffective in discouraging urbanisation, and simply erodes living standards, creates inefficiency, and increases pressure on social cohesion (World Bank 2009). But service delivery standards must also be improved in rural areas and provincial centres. Urbanisation motivated by a desire to access decent services, rather than more productive employment opportunities, will cause congestion without providing any economic or efficiency benefits.

Secondly, infrastructure links between Honiara and provincial centres need to be improved. This can allow the benefits of economic growth

in Honiara to be shared more widely, through opportunities to supply labour, goods, and services from other areas. Reliable and affordable transport links can ensure that people can move between city and rural areas in response to short-term changes in economic conditions and opportunities, providing some reversibility in decisions to migrate and preventing the emergence of a trapped urban poor (World Bank 2011).

Finally, improved administration of Honiara land is vital. Lack of access to land and dysfunction in land markets is undermining living standards and private sector development in Honiara (World Bank 2010; Storey 2003; Connell 2012). The inability to formally transact land is leading to the emergence of various illegitimate and unevenly accessible informal transaction systems, and resulting in artificial scarcity and inefficient use. Unmanaged urbanisation encroaching on customary land holdings around Honiara's borders presents risks of resentment and conflict, echoing dynamics that triggered the 1998–2003 tension (Allen 2013). A thorough overhaul of land administration is required. Measures that provide formal recognition of land ownership and transactions in squatter areas would provide vital security to new migrants (AusAID 2008). Reforms to land administration in urban Honiara, where land has typically been alienated from traditional ownership, could be implemented without the political difficulties associated with customary land rights. Global experience suggests that the customary owners of land surrounding Honiara would be more than willing to engage in private transactions to free up additional land for settlement if an adequate institutional framework for such transactions can be provided (AusAID 2008).

Mainstreaming Fiscal and Capacity Support

Over the longer term, the broader modalities of international assistance require revision. International aid flows to Solomon Islands are currently around US\$330 million per year, and have averaged around 50 per cent of GDP for the past decade. This equates to around US\$600 per Solomon Islander. While aid flows are likely to decline following the ramping down of the security

presence, continued aid flows of around 30 per cent of GDP could be reasonably expected.⁵

Such dependence on external fiscal support is not unusual in the Pacific, where far greater levels of aid (on a per capita basis) are provided to French territories and the US Compact countries of the North Pacific. However, whereas aid flows in these contexts are channeled directly through government budgetary systems (albeit under various externally imposed controls), aid to Solomon Islands is channeled to a large extent through project modalities, with more than 125 projects currently on the development budget, covering everything from agricultural development to immunisation to infrastructure. This fragmentation of aid through a profusion of projects leads to substantial transaction costs, with rituals of project design, negotiation, supervision and monitoring occupying a huge amount of officials' time, while the compromised capacity of government to impose overall strategic direction and the inevitable resulting gaps and overlaps have important deleterious impacts on efficiency and service delivery. The broadly acknowledged fiction of sustainability within project cycles leads to a stop/go dynamic, causing disruption and backsliding in vital areas.

At the same time, continued reliance on long-term capacity supplementation is broadly acknowledged in vital areas of public administration, including economic management, justice, health, and education. The extended provision of international technical assistance has, counter to common mantras of sustainability, made its withdrawal less viable. During the period of the RAMSI intervention, ministries have proliferated along with the tasks that they are expected to fulfill (World Bank 2011). Complexity of systems has increased as donor agencies have sought to implant best practice models (examples range from use of medium-term budget and planning frameworks to the proliferation of government agencies to the 'modernising' of various legislation and regulations). As a consequence, there is now an even more pronounced divergence between the intended reach and sophistication of centralised state institutions and what can actually be sustained

by local capacity than existed prior to the tension. Meeting these ongoing technical assistance needs will be costly, but — given the extent to which management of upcoming challenges will rely on capable and effective public institutions — less costly than leaving them unmet.

Government and donors will need to be realistic about the need for both fiscal and capacity support over the long term. Viewing fiscal and capacity support not as transitional, but rather as the ongoing cost of delivering functioning state institutions would free up space for more efficient modalities for providing this support. Explicit recognition of the provision of state institutions and services as a collaborative endeavor would:

- facilitate frank conversation about the appropriate division of responsibilities between government and its partners
- increase the dependability of vital support, reducing uncertainty to Solomon Islanders and potential investors
- open space for considering the potentially negative governance and political-economy implications of shared services, and how these risks could be best managed.⁶

Such a need for 'co-production' of state institutions in fragile and post-conflict settings is frankly acknowledged in recent literature, and international dialogue around the G7+ and OECD brokered a 'new deal for fragile states' (Krasner 2004; Matanock 2009).

Loosening Constraints to Labour Mobility

Finally, even with a successful transition to mining, a better-managed Honiara, and increased efficiency in the collaborative delivery of state institutions and services, increasing options for labour mobility is vital. Upcoming demographic challenges and associated pressures on social cohesion are simply too great to be addressed through domestic policy measures alone. Smallness and dispersal undermine productivity and therefore incomes and employment opportunities. The best opportunity for improving the employment prospects of Solomon Islands' growing youth population is therefore to allow them to move to and work in centres of economic concentration overseas, where

scale can be achieved and prospects of productive employment are greater. Unfortunately, such opportunities for Solomon Islanders are currently heavily constrained.

The extent of these constraints can be observed in demographic data. Differences in projected population growth between Solomon Islands and other Pacific island countries are only partly attributable to fertility rates. In Tonga and Samoa, for example, population growth is expected to be almost completely offset by emigration, reflecting the presence of concessional access arrangements and large diaspora populations in nearby large economies (Bedford 2012). By even greater contrast, current policy concerns in the Cook Islands and the North Pacific include that free movement of labour to New Zealand and the United States, respectively, will lead to depopulation.

Neither New Zealand nor Australia offers any preferential permanent access to Solomon Islanders, despite much higher living standards in other Pacific countries that are provided with preferential access quotas (with the exception of Kiribati). With low incomes and weak institutions for human capital development, Solomon Islanders are poorly placed to qualify for permanent residence under points-based systems (Bedford 2012; Luthria et al. 2006). Solomon Islanders are also heavily underrepresented in Australian and New Zealand temporary worker schemes that offer short-term work opportunities for Pacific islanders (Department of Labor 2012).

Increasing options for Solomon Islanders to travel to and work in Australia and New Zealand would have several important benefits for Solomon Islanders. Firstly, with per capita incomes in Australia currently around 3600 per cent of those in Solomon Islands, it is clear that labour mobility options would increase the incomes of migrant workers. Secondly, broader Pacific experience demonstrates the key role that remittances can play in supporting incomes and living standards for family and community members remaining in Solomon Islands. Remittance flows in the Pacific have been shown to be enduring and robust to changing economic conditions in the receiving countries, and to support improved education outcomes, housing quality, and subjective

wellbeing (Mackenzie and Gibson 2010; Gibson and Mackenzie 2011). Thirdly, the existence of an outward migration channel could play an important role in reducing youth population growth and its associated pressures on social cohesion in Honiara. More young men working overseas will reduce the stock of those frustrated, out of work, and drinking *kwaso* on the streets of White River. Finally, typical patterns of circular migration found elsewhere in the Pacific suggest that the building up of overseas diaspora populations can bring long-term benefits in terms of knowledge and skill transfer, and increased access to overseas markets and education opportunities (Gibson and Mackenzie 2010).

Large regional economies also have much to gain from increased labour mobility. Labour mobility represents a low-cost means of achieving improvements in living standards and public sector administration in countries where there is a sustained aid relationship. It is no coincidence that those Pacific island countries that perform highest on international metrics of governance quality and government effectiveness are those with the strongest circular migration links to larger, wealthier economies, with public sector officials often the beneficiaries of associated education and knowledge transfer opportunities. Given the aging populations and reported shortages of low-skilled labour in Australia and New Zealand, increasing labour access would also deliver direct economic benefits to these countries.

7. Conclusion: Continuity and Transition

There have been important improvements in living standards in Solomon Islands since the tension, many of them due to the regional RAMSI intervention. The overall structure of the economy has, however, changed very little. Despite concerted efforts to provide security and restore services, improve macroeconomic management, and implement improvements to the business environment, the Solomon Islands economy remains centred on logging and the Honiara-based public sector. Aid continues to support basic service delivery, spur significant employment and economic activity, and finance a large current account deficit. International technical assistance continues to play a vital role

in providing many of the state functions on which the private sector relies.

This should not be interpreted as evidence of failure. The structure of the Solomon Islands economy is consistent with fundamental facts of economic geography. All international evidence suggests that economic growth will be unevenly distributed across space, that it is attracted to scale and concentration, and that it is deterred by isolation and dispersal. There is, therefore, no reason to expect the emergence of a diversified, competitive economy in Solomon Islands, even under ideal business environment settings (which are, in any case, well beyond the current fiscal and technical reach of the government).

Recognition of geographical realities and the likely trajectory of development in Solomon Islands should inform important changes in the priorities and objectives of international development support. Over the short term, the focus of international development assistance must shift from broad reforms to enable a business-friendly environment, towards addressing the specific pressures associated with what is likely to remain an economy concentrated on natural resource extraction and the public sector.

Over the longer term, the convergence in living standards between Solomon Islands and nearby large markets will come only from deeper economic integration. Those living in small, remote towns in Australia or New Zealand often achieve very high living standards through accessing centrally provided services and by exploiting their ability to move to work in larger, more productive areas. It is not clear why these options should be denied to Solomon Islanders. Increased labour mobility, sharing of capacity, and joint responsibility for the functioning of public institutions and services would allow realisation of the full potential of the Solomon Islands economy. The regional economy has much to gain from a secure Solomon Islands, a highly productive Solomon Islands labour force (working wherever it is has most to offer), well-managed development of Solomon Islands' extensive natural resource wealth, and the shared creation and maintenance of an institutional environment, within which tourism and other

niche economic opportunities can be pursued by local and international investors.

Economic integration of this depth and breadth, while necessary, raises new and complex political questions. Enhanced co-production of state institutions inevitably exacerbates a moral hazard problem already apparent under the shallower integration of the RAMSI period: how can responsibility for basic services and functions be shared internationally without further reducing political accountability of Solomon Island's elected leaders? Equally, what risks are associated with Solomon Islanders being increasingly dependent on institutions and services supported by foreign governments that they have no means of holding to account? Discussion of the possible divisions of responsibility and shared accountability arrangements that such co-production will require is beyond the scope of this paper, but these questions will need to be squarely confronted if the necessary progress is to occur.

Author Notes

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Endnotes

- 1 The pace of revenue growth has slowed significantly since 2011.
- 2 The International Growth Commission suggests that sustained and rapid economic growth is likely to rely on the supply of international markets with higher value-add manufactured goods or services. This conclusion is based on exhaustive analysis of the experience of countries that have recently experienced episodes or rapid, private-sector driven growth.
- 3 There is some precedent for such international regulation. Canada recently passed amendments to its Corruption of Foreign Public Officials Act to allow broader enforcement when the entire illegal transaction occurs abroad. Recent attempts have also been made in both the United States and Australia to subject overseas operations of locally headquartered multinationals to domestic laws for the protection of human rights (Deva 2004). See Stiglitz (2007) for a review of the economic case for international regulation of multinational corporations and progress achieved to date.
- 4 The World Bank has successfully experimented with procurement processes to support the development of private sector road maintenance providers in Samoa, allowing increased domestic economic impact and reducing reliance on foreign contractors. Reliance on local providers has led to improvements in the quality and timeliness of maintenance work.
- 5 Mining developments seem unlikely to generate sufficient revenues to completely substitute aid flows even over longer time horizons, but especially in the short-term, given that lead times for development of identified mining projects will likely exceed the life of extractive logging activities.
- 6 Fiscal transfers play an important role in spatial redistribution between areas that are and are not favored by economic geography in many contexts. In the Australia, for example, the GST system plays a similar role in spatial redistribution, evening out some of the disparities in services between states that would otherwise accompany the concentration of economic activity in coastal cities and mining towns. Federal grants play a similar role in the United States.

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