



Address to Australia-Pacific Islands Business Forum

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While many of you here today would be well aware of RAMSI – and the role we've played in Solomon Islands since 2003, I thought before I talk about Solomon Islands economy and RAMSI's role in it – it would be appropriate to provide you with a little of the history and broader context of RAMSI's presence in Solomon Islands.

Most of you are probably aware that RAMSI – the Regional Assistance Mission to Solomon Islands – is unique in that it is a regional partnership between Solomon Islands and the 15 other member states of the Pacific Islands Forum tasked with rebuilding Solomon Islands institutions – including law and order - after five years of conflict and lawlessness between 1999 – 2003 that are known locally as *the tensions*.

In April of 2003, Solomon Islands Prime Minister, Sir Allan Kemakeza requested assistance from Australia to deal with what was effectively the collapse of law and order and largely as a result of this, the loss of effective governance particularly control of government finances in Solomon Islands. In response, the Australian Government approached the Pacific Islands Forum and it was agreed by the leaders of the Forum's 16 nations, that an assistance mission dealing both with Solomon Islands security and governance issues would be formed under the auspices of the Forum but led and largely funded by Australia. RAMSI – the Regional Assistance Mission to Solomon Islands – deployed on 24 July 2003 and 'Operation Helpem Fren', with an initial focus on restoring law and order and stabilising Government finances, began.

Overwhelming strong support from the people and Governments of Solomon Islands for RAMSI meant that these initial tasks – stopping the fighting, removing and destroying the weapons and stabilise government finances, while difficult, were all achieved well within the mission's first year. The fact that within 12 months of the deployment over 3000 guns had been collected and destroyed remains an achievement that the region can be justifiably proud of.

In reality this was just the start of RAMSI's work. While the guns were gone, the country – its economy, institutions and confidence - remained in a parlous state. The budget had moved from a small surplus in 1999 to a deficit equal to around 11 per cent of GDP just three years later. The state of the government's finances were symptomatic of the broader state of the Solomons' economy which had dramatically contracted as a result of *the tensions*, particularly in 2000 when the economy shrank by almost 15 per cent and then by almost ten per cent the following year.

Recognising the depth of the financial problems facing the government at the time, RAMSI's initial response was to provide emergency assistance in the form of the Budget Stabilisation Program. This program, which involved deploying economists and financial experts to key positions in the

Ministry of Finance, ran from July 2003 to October 2004. It was designed to re-establish the basic principles of sound financial management and prudent budget practices. It showed quick results – public sector financial management was stabilised, government revenues grew substantially, the payroll was cleansed, public servants were once again paid on time, and the budget of 2003 delivered a small cash surplus.

Our Economic Governance pillar was, along with law and justice, one of the three pillars under which RAMSI's assistance to Solomon Islands was organised. As these first two stabilised, RAMSI began to focus on the other area of its mandate, the Machinery of Government. That is the rebuilding of the nation's institutions of governance

RAMSI's direct assistance to the Ministry of Finance through the Budget Stabilisation Program was complemented by the broader economic benefits brought about by RAMSI's successful efforts to restore peace and stability. While this impact is difficult to quantify, there is no doubt that the dramatic improvement in the security situation that followed RAMSI's initial deployment helped to restore the confidence of both investors and ordinary Solomon Islanders, many of whom felt safe for the first time in years to take their produce to market, to send their children to school and to generally go about their normal business. In the years immediately following RAMSI's arrival, the Solomon Islands economy grew dramatically, though admittedly off a low base.

Having helped to stabilise the country's finances through the Stabilisation Program, the focus of RAMSI's assistance to the Ministry of Finance changed. It moved away from being a hands-on, emergency assistance program - to become one focussed on developing capacity - known as the Financial Management Strengthening Program. This program placed a greater emphasis on building the skills of local staff and developing and entrenching financial management systems that Solomon Islanders would be able to take over and run themselves as RAMSI advisers were gradually withdrawn.

Since the advent of this program in 2004, our emphasis has shifted from doing the work ourselves to more of a hands-off, advisory role. RAMSI advisers have been increasingly recruited not just for their technical skills, but also for their ability to develop the skills and self-confidence of their Solomon Islands counterparts.

The Financial Management Strengthening Program has now entered the end of its current life cycle, and we are developing a new program of assistance to the Ministry of Finance, to be delivered over the next four years. While the design of this new program has yet to be finally agreed between RAMSI and the Solomon Islands Government, its focus will be on further entrenching the capacity of Solomon Islander staff working within the Ministry of Finance to take the lead, and to perform key Ministry functions themselves.

As I speak to you today, RAMSI is continuing to aid the Solomon Islands Government in addressing a broad range of economic challenges. Not the least of these is the impact on Solomon Islands of the Global Economic Crisis. Although Solomon Islands had no exposure to the kind of toxic financial instruments that brought about the meltdown of global money markets, it has not been immune from the flow-on. RAMSI has, particularly through its advisers in the Ministry of Finance's Economic Reform Unit, been working closely with the government as it develops its response to the sharp decline in logging revenues, which has to this point been the most obvious local impact of the global economic crisis.

At the end of April this year, the Solomon Islands Government announced a raft of measures aimed at cutting its cloth to fit the tougher budgetary situation that it is now facing. These included placing a hold on 10 per cent of budgeted recurrent expenditure, a recruitment freeze, and reprioritising spending under the development budget. RAMSI is also represented on a recently-established Donor Co-ordination group that is discussing with the government how donors might be able to assist, as it formulates its response to the fiscal and balance of payment challenges it has.

Notwithstanding today's difficult fiscal environment, one of the principal objectives of RAMSI's economic governance program since its inception has been to help the Solomon Islands Government increase the amount of revenue it collects. RAMSI advisers working in the Inland Revenue Division of the Ministry of Finance have overseen a dramatic increase in government revenues in recent years, from SBD258 million in 2002 to an estimated SBD1.37 billion in 2008 – a rise of 430 per cent. Clearly, the reasons for this dramatic increase are many, including high rates of economic growth and record log exports. But RAMSI's efforts in improving levels of compliance have also undoubtedly played a key role.

RAMSI advisers have also played an important role in reducing the government's debt burden. When RAMSI arrived in Solomon Islands in 2003, the government was in default on practically all of its debt, which amounted to around 120 per cent of GDP. Under the terms of the Honiara Club Agreement, and with the assistance of RAMSI personnel in the Ministry of Finance's Debt Management Unit, the government is now able to service its debt in a sustainable fashion, and has seen its debt burden fall to around 40 per cent of GDP.

Another area where RAMSI advisers are playing an important role is state-owned enterprise reform. I think it is fair to say that many of the key state-owned enterprises, including the electricity and water authorities, are currently failing to provide an adequate level of service to the Solomon Islands population. Power cuts and complete lack of water are sadly the norm on a daily basis. At the same time, many of these enterprises are placing pressure on the government's bottom line – at a time when it can least afford it – because of their consistent failure to cover their costs.

RAMSI advisers have been working closely with the government to develop strategies that will improve the level of service these core service providers give to the business community and ordinary Solomon Islanders, whilst also easing the burden they currently place on government revenues.

It is important to acknowledge that some progress has already been made. The introduction of the State Owned Enterprise Act means that these types of operations are now required to provide regular financial statements to parliament. And a RAMSI-funded project to audit their accounts has recently been completed. This was a significant achievement, as some had not produced financial accounts since 1997. A small state-owned enterprise, Home Finance Limited, was recently sold to the National Provident Fund, and I also understand that, while progress has been slow, the government is pushing ahead with plans to privatise its shipyard, the Sasape Marina.

And, although it is not strictly speaking a state-owned enterprise, a few days ago the Prime Minister announced plans to expose the country's monopoly telecommunications provider, Our Telekom, to competition. This is excellent news for Solomon Islanders, who are likely to see much better mobile coverage and substantially-reduced call costs, if the recent experience of other Pacific Island countries that have recently embraced competition in the telecoms sector is anything

to go by. In the meantime, RAMSI advisers will continue to work hard to help the Solomon Islands Government address the ongoing challenges presented by other key state-owned enterprises, such as the water and power authorities, and Solomon Airlines.

More broadly and most recently RAMSI and the Solomon Islands Government have agreed on a comprehensive Partnership Framework which sets out in detail an agreed 'work plan' for both partners – RAMSI and the Government - in all areas of RAMSI mandate. This work plan includes in many areas specific targets and indicative time frames for jointly agreed goals under the three RAMSI pillars. It is hoped that the joint monitoring and evaluation of the progress made under this framework will also produce joint responsibility for the outcomes of the partnership framework; effectively a map of the stepping stones of RAMSI's gradual but ultimate draw down from the Solomon Islands as we complete the tasks we had come to do.