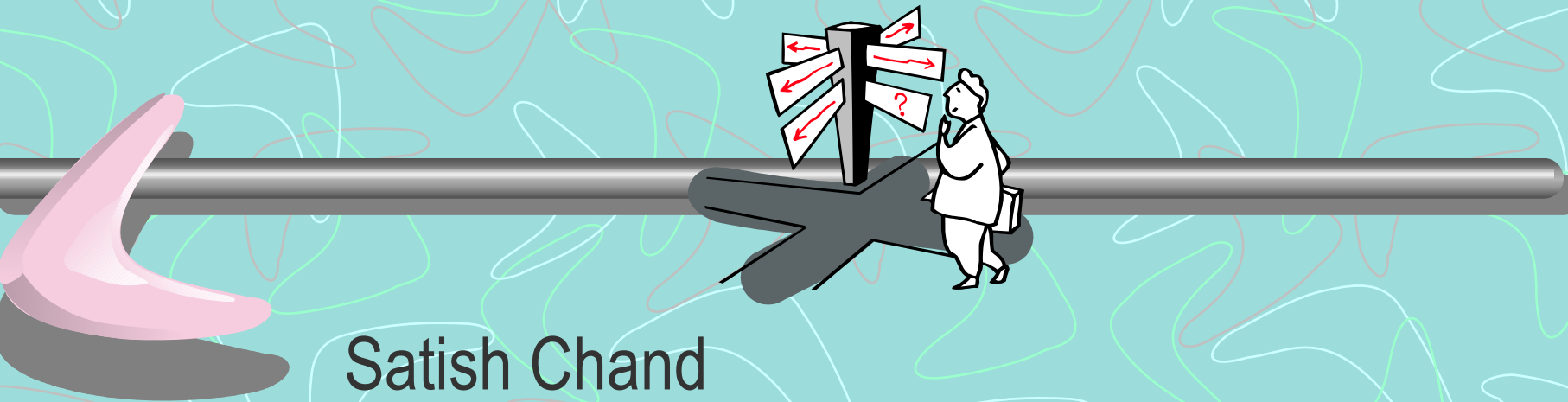


# The Developmental Challenge in Solomon Islands



Satish Chand

The Australian National University



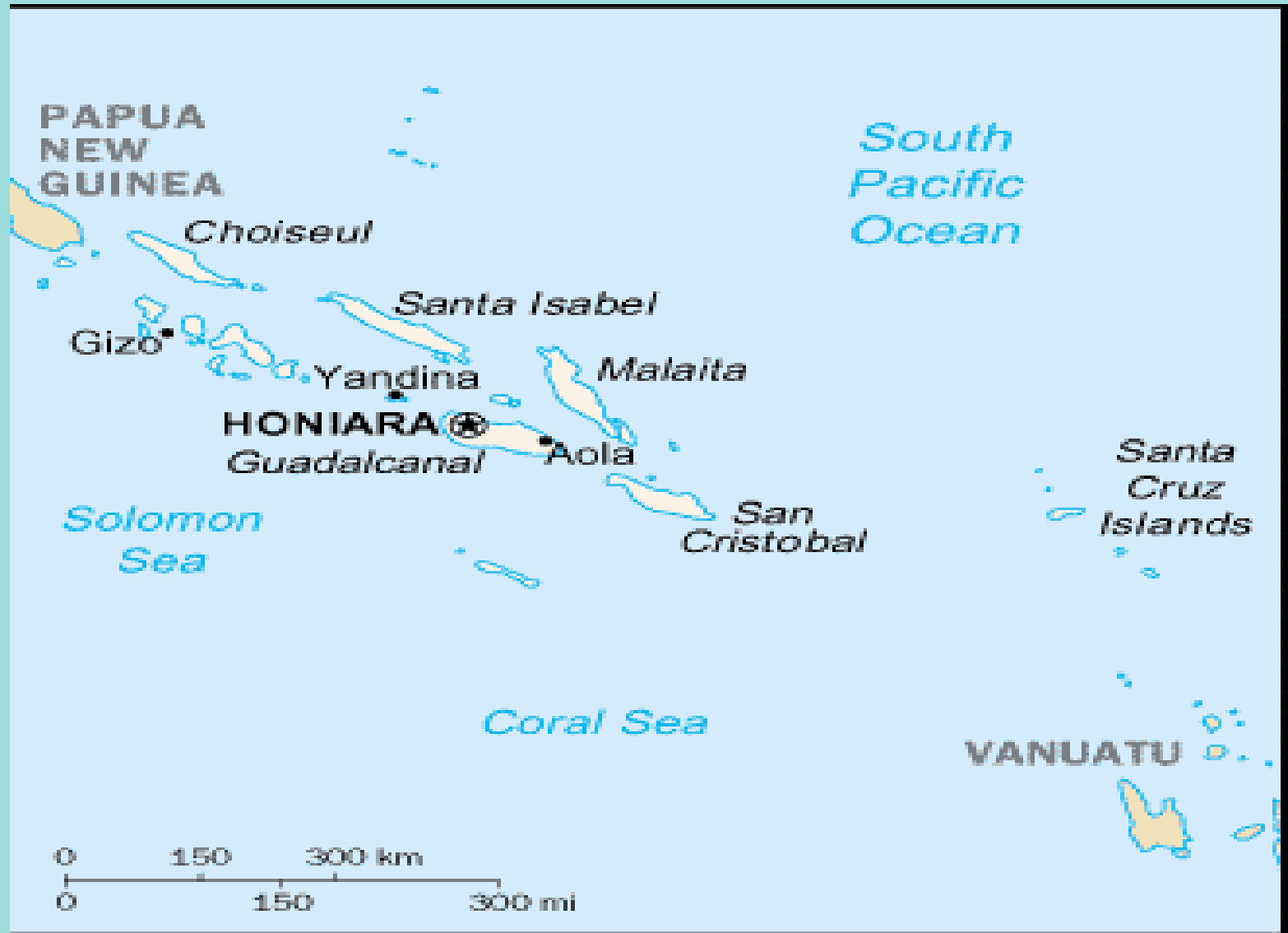
# Outline of presentation

1. Motivation
2. Background/Context/Some Stylised Facts
3. Conceptual framework to characterise the problem being analysed
4. Implications for planning and execution of a successful exit strategy
5. Sum Up

# Solomon Islands – where?



# Solomon Islands





# Some questions on the intervention

Q1: How should the success of RAMSI be judged?

Q2: When will RAMSI come to end? What is the exit strategy for RAMSI? How will progress towards exit be monitored?

Q3: How long can RAMSI be supported? Note that it has large costs and draws on a finite pool of resources.

# Some Basic Facts

- The economy contracted by 30 percent since the beginning of the conflict.
- Formal and cash economies have largely retracted into village and subsistence sector. (SIPL, SolT)
- The financial sector has nearly ground to a halt bringing private investment to a standstill.
- Inability of the public sector to meet its debt service obligations and arrears built over time to NPF, Commercial Banks, and private enterprise a large tax on growth of production.
- Some rebound in exports and budget revenues.

# Broad trends in the SI-aggregates

	Start	End	Change (% GDP)
GDP (US\$m)	372 (1998)	283 (2002)	-89 (31%)
Present value of debt (US\$m)	0.0 (1997)	146.5 (2001)	146.5 (52%, ?)
Inflation	13.0 (1997)	8.5 (2001)	Stable (?)
NFA (\$USm)	49.374 (1999)	18.859 (2002)	- 30.514

# SI is not the poorest or smallest economy: Some Basic Indicators

Indicator	SI	PNG
Population ('000s; 2002 estimate)	443	5,300
Per-capita GDP ( \$US, 2001 estimate)	580	590
Fertility rate (2001)	5.3	4.4
Life expectancy (2001)	69 (?)	57

# Some stylised facts on the conflict

- Principally between two parties (GRA/IFM and MEF from two neighbouring islands – has been building up over time and erupted into fighting by mid-1999.
- The economy had been stagnant leading to the crisis.
- Commonwealth sponsored peace initiative of October 1999 failed (PMG from Fiji and Van)
- TPA signed (except by Keke) in October 2000 – failed as fights for compensation (TWN – US\$25m loan) intensified. Expatriates + NGOs (?) left in March 2002. (Peace Council continued to function.)
- Armed gangs began extorting ‘compensation’ from MoF while access to basic services rescinded.

# A simple Prisoners Dilemma to characterise the impasse

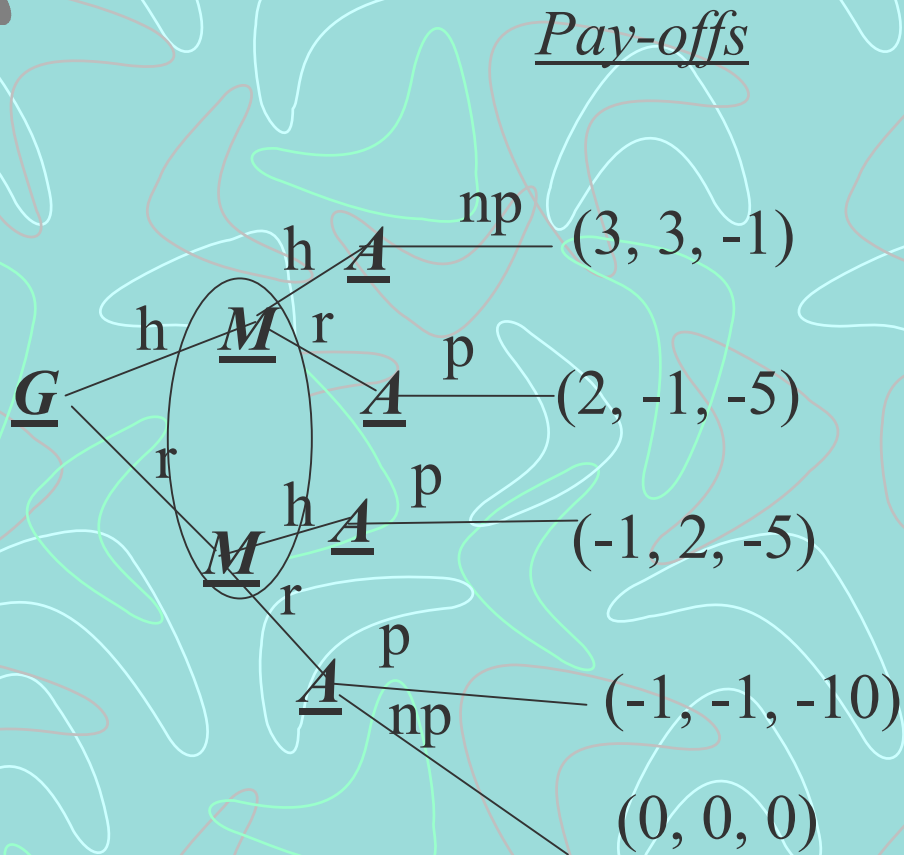
MEF



G  
R  
A

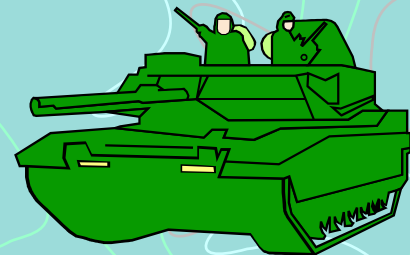
	Hand-in (h)	Retain (r)
Hand-in (h)	(3, 3)	(0, 4)
Retain (r)	(4, 0)	(0, 0)

# Introduce the Peace Agent (A)



## *Comment*

After intervention



Else “Cheap talk”


Before intervention

**Question:** How can cooperation be maintained on departure of A?

# Internalising a credible peace agent

(Objective: Change pay-off structure of the game)

**M**

	<b>Cooperate</b> <b>(Continue with peace)</b>	<b>Defect</b> <b>(Revert to fighting)</b>
<b>G</b> <b>Cooperate</b> <b>(Peace)</b>	(3, 3, -1) [Y ≥ 7]	(2, -1, -5) [Y ≥ 7]
<b>Defect</b> <b>(Fight)</b>	(-1, 2, -5) [Y ≥ 7]	(-1, -1, -10) [Y ≥ 12]

# Peace without the Peace Agent

(Prisoners' Delight: Peace as the self-fulfilling equilibrium)

**M**

**G**

	<b>Cooperate (Peace)</b>	<b>Defect (Fight)</b>
<b>Cooperate (Peace)</b>	(5, 5, 0) [Y = 10]	(0, 4, 0) [Y = 4]
<b>Defect (Fight)</b>	(4, 0, 0) [Y = 4]	(0, 0, 0) [Y = 0]

# Sum-up

- Easy to be wise in ‘hindsight’ but can see reasons why past attempts at peace failed – ie due to “cheap talk”
- Absolute primacy of the need to see the economy grow to internalise the costs of monitoring peace and being able to credibly demonstrate its ability to draw on external resources to stamp out defection. [ie link the game across space and time]
- The virtuous effect of growth to peace to stability possible if economy grows sufficiently rapidly to induce cooperative behaviour w/o threat of punishment –
- SI-intervention is a development challenge, its success will be judged as such. RAMSI must recapitalise SI sufficiently to enable it to reach the self-sustaining eqblm.