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Statement by the Hon. **GORDON DARCY LILO**,
Governor of the Bank for the **SOLOMON ISLANDS**,
on behalf of the Pacific Constituency,
at the Joint Annual Discussion

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Fellow Governors, ladies and gentlemen, I am honored to address the 60th Annual Meetings of the World Bank and the International Monetary Fund. I would first like to congratulate the Government and people of Singapore on hosting such a well-run meeting.

I address this meeting on behalf of the Pacific Constituency of seven small island states¹. Our countries have a total population of 1.2 million people spread across several thousand kilometers of the western and central Pacific.

Our Pacific Constituency comprises seven culturally and physically very different nations. Despite our differences, however, our nations share some common economic features - both positive and negative.

On the positive side, we have generally strong and healthy people, still largely unspoiled natural environments and marine resources, significant tourist attractions, and for several of us, valuable forestry and agricultural potential. We all have access to relatively large programmes of bilateral and multilateral external assistance, and we are all active members of regional and international organisations.

On the downside, we really are small, remote and expensive places to do business, our populations have tended to grow faster than our economies could provide for them, and we have not made as good use of our domestic and external financial resources as we should have done - in particular infrastructure maintenance has been poor, corruption and a lack of transparency has impacted government performance, and our public institutions have lacked the capacity to deliver quality services. In addition, several of our members are heavily indebted and have no obvious means of repaying these debts and meeting either domestic development priorities or external commitments including Millennium Development Goals.

These problems are reflected in our recent history of poor economic performance. Over the last 14 years, Pacific constituency economies have contracted at an average rate of minus 0.3 percent per annum. This compares to a developing world average of 2.6 percent growth.

¹ These are Kiribati, the Federated States of Micronesia, the Marshall Islands (Republic of), Palau, Samoa, Vanuatu and my own country, Solomon Islands.

On top of these problems, external challenges exist. These include trade barriers and agricultural subsidies that restrict our ability to participate in global trade. We are also aware of our increasing vulnerability to natural disasters and climate change.

Against this background I am pleased to report that the Pacific constituency members are showing a commitment to deal with our problems. We are building on our strengths, becoming more accountable to our people, and managing our natural and financial resources more effectively.

For example, the continuing success of the Samoa economy in achieving an average growth rate of 4 percent per annum over the last five years, attests to the implementation of a comprehensive reform programme over the last 10 years. This involved tax and tariff reforms, liberalisation of the financial sector and the introduction of good governance principles and best practice policies throughout the public sector.

During the same period Vanuatu has initiated a comprehensive reform program that includes the restructuring of its public service sector. Partly as a result of this restructuring, which has improved conditions for private sector activity, real output per head in Vanuatu is now growing at an annual rate approaching 3 percent.

Tuvalu and Kiribati continue to supply trained seafarers to international shipping companies despite increasing competition from larger nations, and have also engaged in a comprehensive programme of adaptation to climate change with assistance from the Global Environment Fund and bilateral donors. Kiribati's prudent management of its entirely self-financed national reserve fund has attracted much favourable comment internationally.

Solomon Islands is emerging from a drastic contraction of the monetary economy caused by a civil war that emptied the government treasury, physically displaced 25,000 people and destroyed several major enterprises. Assisted by a regional assistance mission that restored law and order and re-established control of public finance, the government has stabilised the fiscal position and undertaken policy and administrative reforms to facilitate domestic and foreign investment and strengthen economic management.

One cornerstone of these improvements is the Pacific working together and harnessing our mutual energies. This is being done through a course of action devised and expressed as the Pacific Plan. The Plan complements national efforts in pursuit of economic growth for the Pacific region. I therefore urge the Fund and Bank to continue your support for the Pacific Plan and in particular those initiatives agreed upon at the recent Forum Economic Ministers Meeting (FEMM) recently held in Solomon Islands.

The task of raising the standard of living of all our people to acceptable levels presents a huge challenge. We are now so integrated into the rest of the world that a return to isolation and self-sufficiency is unthinkable. For some of our people permanent migration

to Pacific Rim countries or further afield will be the answer. For an increasing number, temporary migration and earning of income to send or bring home will become part of a normal life.

Dependence on external assistance to sustain an acceptable level of well being is here to stay for most small island states. And well-managed economic development, spearheaded by domestic and foreign investment from a dynamic private sector, and supported by an honest and efficient government, must underpin the whole fabric of nationhood.

Considering the common challenges we face at the national level, the Pacific Constituency is well aware of the importance of regional cooperation. We have identified initiatives including enhanced telecommunications, improved aviation security, cooperative efforts for solid waste management, expanded focus on renewable energy, customs harmonisation, and disaster preparedness and management as suitable candidates for regional cooperation to achieve economies of scale and high quality of service. In these efforts we need and welcome the continued support of the IMF, the World Bank and other international partners and agencies. This support is valued in several fields.

Studies such as the World Bank's report on the 'Cost of Doing Business' and the recently released study of labour mobility give us insights and information we could not have put together ourselves, strengthening our hands domestically and internationally. Country specific studies and reports also allow us to improve our policy frameworks and systems of government. Such developments are vital to improve the provision of government services, strengthen public sector accountability and create a supportive climate for commercial investment and economic development.

We want the Bank and the Fund to continue to provide high quality independent technical support when we request it. To be effective in the longer term this support must be designed to increase the skills of our people and so reduce our technical dependency.

As Economic Ministers, we value the independent advocacy of the Bank and the Fund in support of our economic reforms. This can help us to promote domestic acceptance of sometimes unpopular but necessary changes. To be effective, though, it is important that this advocacy shows understanding and responsiveness to the specific circumstances in each member country.

To improve the Fund and Bank's responsiveness to the needs of the Pacific Islands constituency and other small nations we welcome and support both agencies moves to increase their engagement and devote greater resources to our needs. We also welcome and support the debate on strengthening Fund governance and the review of arrangements with respect to quota and voice. We call on the Fund to quickly implement any commitment to increase basic votes or other decisions that increase the voice of those whose voice is smallest but whose need is greatest.

Finally, we note with appreciation the Bank and the Fund's efforts to improve financial resource allocations to small and vulnerable states through increased IDA allocations and the establishment of trust funds and endogenous shock facilities. The situation of the small island states requires imaginative measures, and this includes financing modalities, such as trust funds, that can overcome problems of small size, lumpiness and untimely fluctuations of inflows and outflows, and flexibility of end use, in a fully responsive, transparent and accountable manner.

On behalf of the Pacific Constituency, I look forward to further fruitful collaboration with both institutions.

Thank you, Mr Chairman.