

**SOLOMON ISLANDS\*****PETER BOYERS, Governor**

It is an honour and a pleasure to make this statement on the occasion of the 38<sup>th</sup> Board of Governor's Meeting. Given this opportunity, allow me to congratulate Mr. Haruhiko Kuroda on his appointment as the President of the Asian Development Bank. We believe that with his vast wealth of experience, commitment, vigour and vision the Bank would continue to appropriately address the needs of its members.

A return to law and order in the last two years has provided the Solomon Islands with a new opportunity to put its economy on a sustainable path of economic development. However, given our high level of debt (over 100% of GDP) our balance sheet is still fragile.

To facilitate further economic growth and financial independence, the Government is concentrating its efforts on several broad reform areas that are targeted to reduce the debt servicing burden, remove business barriers and encourage private sector business.

The economic recovery, post conflict, has steadily continued in the Solomon Islands with real GDP estimated to be 5.5% in 2004, mainly through export related production, primarily logging, and donor related activities. Revenue growth has stabilised following the rapid economic recovery in 2004 facilitated by a return to stability. The large increases in revenue that caused the surplus in 2004 will not be repeated as the economy is now at a stable level. Further, revenue earned from logging is set to deteriorate in coming years, as current logging rates are unsustainable.

The Solomon Islands has continued to benefit over the last 21 months from the presence of the Regional Assistance Mission to the Solomon Islands (RAMSI). There are RAMSI technical advisers working alongside Solomon Islanders in a number of key areas, including: Law and order, Finance, Health and Education. The Government is grateful to all those countries that have contributed to the RAMSI effort and in particular, the Australian and New Zealand Governments who also provided Budget support funds in 2004 to assist with funding recurrent Budget activities. The presence of RAMSI has seen an overall increase in general public and business confidence.

The Government would also like to recognise the support provided to the Solomon Islands by the ADB and World Bank through the provision of technical assistance programmes to help progress the Government's reforms. The Government welcomes the continuation of this partnership long into the future. To this end the Government notes that the Solomon Islands, like many smaller member countries, has a lot of country specific issues and therefore requires any assistance to be tailored accordingly. Consequently, the Solomon Islands would welcome a more flexible approach by the ADB when dealing with smaller countries. In addition, while we are very grateful for the strong commitments from the ADB thus far, the facilitation of agreed projects must be expedited without further delay.

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\* Statement circulated but not delivered.

The Solomon Islands is still heavily reliant on donor funding for the provision of critical recurrent activities. ODA comprises around 50% of Solomon Islands GNI, with Solomon Islands being the highest recipient of ODA in the Pacific. Given the tight fiscal situation ahead the Solomon Islands will be unable to respond to any requests by donors to take over activities that they are currently funding, many of which are critical to maintaining the law and order initiatives. We are, however, committed to being a financially sustainable, independent nation. We are building forward Budget estimates and planning Government outputs to become less aid reliant in critical recurrent activities. We are also trying to service our debt obligations and prevent them from increasing further, though, we are not currently managing to fully service all our debts.

Over the last year the Government has made some positive steps in managing its debts, restructuring a significant part of its official domestic debts comprising of bonds issued to commercial banks and the National Provident Fund. Prior to the restructuring over 75% of these bonds were in default. The restructuring is estimated to have saved the Government over USD \$17 million over the next 15 years and has also seen the rejuvenation of the domestic financial sector. The Government has also continued to meet its payroll, superannuation and trade creditor forward commitments as they fall due, whilst at the same time also making some small part payments to domestic trade creditor arrears holders, which have greatly assisted in supporting local business and the domestic economy.

The current level of debt (external and domestic) has placed an unsustainable debt servicing burden on the Solomon Islands. On current projections the Government would require around 25% of its recurrent Budget to service and pay its maturing debts, more than what has been made available to fund these debts. In addition, a large financing requirement is projected for the Solomon Islands into the medium term and with no real access to borrowing, Budget cutbacks are likely to occur unless some debt relief can be provided. Whilst ADB and World Bank arrears were cleared by the Government of Australia with the Solomons currently managing these payments, a large portion of the country's debts are still in default.

The Government has started negotiations with its external creditors but has had limited success on this front. Given that the Solomon Islands does not qualify for HIPC or Paris Club, traditional debt relief fora have not been able to be relied upon. Therefore to manage the external debt situation the Government is proposing a round table process where it negotiates with its external creditors (including multilateral and private creditors). As part of any conditionality attached to any debt relief granted the Government is prepared to commit to continue to implement its current economic, structural and other reforms.

The Solomon Islands, like other member countries, recognises the significance of managing debt for medium term fiscal stability and strong economic growth. Stability and growth are precursors to the reduction of poverty, attaining financial independence and achieving MDGs, as well as reducing the dependence on aid. We would, therefore, urge the ADB and creditors of all countries to remain flexible and open in their approach to addressing the issues of all member countries with substantial debt burdens.

Finally, may I also take the opportunity to sincerely thank the Government and people of Turkey for the generous hospitality accorded to all delegates.