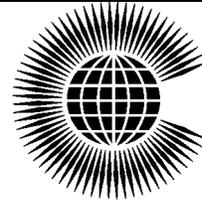




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Commonwealth Secretariat

Analysis of Social Policy Dilemmas in the Solomon Islands and Vanuatu

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Analysis of Social Policy Dilemmas in the Solomon Islands and Vanuatu¹

1. Introduction

Solomon Islands and Vanuatu are amongst the larger countries in the South Pacific region. However, they are also two of the poorest performing countries in terms of the social indicators. Like many small developing states in the Pacific, both Vanuatu and Solomon Islands at the time of independence had very poor development indicators. Their priorities were defined through national development plans and these included the development of appropriate social infrastructure such as schools, health facilities, roads, water supply, communication, as well as building capacity in the civil service and developing the human resources for the country. The economic strategy largely revolved around import substitution for growth and development.

A strategy well-grounded in the Keynesian economic theory was promoted in many newly independent countries, and Vanuatu and Solomon Islands were no exceptions. The potential for developing the manufacturing and services sector was limited and hence both Vanuatu and Solomon Islands pursued a strategy of economic growth based on developing their agriculture sectors and to some extent both were successful in developing those sectors. However, despite these strategies, both Vanuatu and Solomon Islands could be categorized as low growth countries, together with Papua New Guinea and Fiji. The economic progress in these two island countries has not been commensurate with their relatively high population growth. Solomon Islands population in 1975 was 190,000 and in 2008 it has grown to 490,000, thereby more than doubling its size in 33 years. The implicit average population increase between 1975 and 2008 has been 2.9 percent. Vanuatu's population in 1975 was 100,000 and this more than doubled to 220,000 in 2008, with an implicit average population growth of 2.4 percent.

Political instability in the Solomon Islands has seriously affected its growth rate in the last 5 years and similarly, political instability in Vanuatu has also affected its growth, although to a lesser extent. This has resulted in the fact that many of the social objectives of development in these countries remain unresolved and in some cases they have worsened.

In this paper we discuss the development strategies for both these countries, their social policies and how these may have been affected by government policies and other external pressures and challenges. Part two deals with the Solomon Islands and part 3 discusses the situation in Vanuatu. Part 4 discusses the political economy aspects of social policy development in both Solomon Islands and Vanuatu. The final part provides some concluding comments.

2. Solomon Islands

2.1. Introduction

Solomon Islands comprises of a scattered archipelago of mountainous islands that straddles Vanuatu and Papua New Guinea, and is 1800 km north east of Australia. It was discovered by the Spanish Explorer Alvaro De Mendana in 1567. In 1893 it was declared a British Protectorate until independence in July, 1978. Its population is predominantly Melanesian in origin with a small percentage being of Polynesian, Micronesian, Chinese and European descent. As a society it is not

¹ This research has been conducted for the UNRISD. We want to thank Dr Narend Prasad for his support and comments and for facilitating this project

homogenous with some 87 indigenous languages and 30 dialects spoken throughout the archipelago.

Both its physical characteristics, of being scattered across a vast ocean; and the non-homogeneous nature of its society present serious problems for the government when considering the development of the country. This poses problems in terms of communication, delivery of services, coordination of development programmes, prioritization of development goals and the national identity of its citizens. Like many newly independent countries in the Pacific, the Solomon Islands was also faced with serious development challenges. These challenges required building appropriate social infrastructure such as schools, health facilities, roads, water supply and communication, as well as building capacity in the civil service and developing the human resources for the country.

The country has recovered from the recent ethnic conflict with assistance of foreign countries and organizations. Australia and New Zealand had been at the forefront of the assistance and the country has made slow but steadfast recovery in all aspects, especially in relation to economy. Despite its recovery, the country still faces enormous challenges to address some of the long standing structural problems.

First and foremost is the need to sustain economic growth, experienced in the aftermath of the ethnic tension. This may involve reviewing some of its policies to ensure that they are conducive to the business community. It may also mean reviewing its priorities in terms of the sectors to which it directs its resources and funding to generate economic growth.

The second major issue facing the country is the lack of job opportunities available to its burgeoning population. While the number of jobs created in the market has been steadily increasing since the 1960s, it was still not sufficient to cater for the increasing population. While the population growth rate had reduced from 3.5 percent in 1986 to 2.8 percent in 1999, it is still high by international standards. At the 1999 census the country's economically active population was 218,696 whereas (according to data from 1998) only 34,061 jobs were created in the formal sector. This has implications for economic growth and poses potential social problems for the country. Countries in the Pacific region could address this issue collectively by negotiating with Australia and New Zealand for guest worker schemes and the latter has already implemented such a scheme, which hopefully will provide relief to countries such as Solomon Islands in the long term. Australia is also considering a guest workers scheme and will introduce some pilot schemes.

The third major problem the country must address is the unsustainable exploitation of its forests. Currently the government has turned a blind eye to the exploitation of the country's forests because it is one of the only source from which it can earn revenue and generate foreign currency. Revenue earned from the forestry sector contributes significantly to government revenue and it is feared in a few years time, if deforestation continues, government revenue could greatly decrease, which would have implications for the delivery of services and public goods and also may result in other unwanted social issues.

The fourth issue facing the country is lack of political stability in the country. At the present stage in the country's history, party politics at the national level is weak and therefore voters have a tendency to vote for candidates on the basis of their personalities and tribal and kinship ties. Therefore, in Parliament, members tend to move from one political grouping to another on how they perceive their constituency, or themselves as individuals, would gain from their political affiliation. Further more, the constituency itself had laid the platform for instability because of its recognition of the independent members as political group within Parliament. The constitution

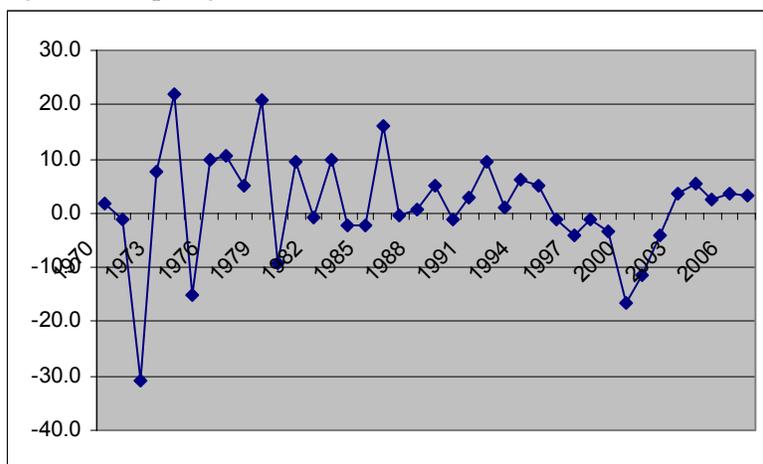
stipulates that the independent group elects a leader and that person is remunerated on a similar level to the Leader of Opposition. Candidates, on the eve of elections, therefore see no need to be aligned to any political party because they know that their views can be taken care of by the independent Group in Parliament.

This paper provides a general overview of the development and implementation of social policies in Solomon Islands during the period 1968, ten years before Solomon independence in 1978, to 2006. It traces some of the key development strategies and how social policy development and results may have been affected.

2.2. Economic Performance and General Development Strategies

The Solomon Islands is a lower-middle income country, with a GDP per capita in 2007 of 731.5 USD. Per capita growth over the period has been fairly low at 1.5 per cent. As shown in Fig. 1 below, growth in the Solomon Islands has been highly erratic, particularly in the 1970s with several years of dramatically negative growth. Aside from poor growth at the turn of the century, growth in the Solomon Islands has largely stabilized recently. The Solomon Islands is one of the most indebted countries in the Pacific region. The public debt to GDP ratio in 1997 was 70 percent but this climbed to approximately 120 percent in 2003 before declining to 80 percent in 2005 and 70 percent in 2006 (Dodhia, 2008).

Fig. 1: Per capita growth in the Solomon Islands 1970 - 2007



Source: World Bank. World Development Indicators (2009)

National Development Plans were developed for the Solomon Islands to establish priorities for development. They attempted to solve the problems of underdevelopment and poorly developed basic social infrastructure such as roads, water supply, health and education. However, like many development plans, the success is heavily dependent on the execution.

The late 1960s to the 1970s was a period when the economy was still in its infancy. Its natural resources still remained untapped, its agricultural sector remained undeveloped and its human resources were still untrained. Therefore its export base was still very narrow depending very much on the export of copra. The country also depended to a great extent on external aid. In 1969 for instance, external aid financed 41% of expenditure on monetary GDP and 80% of post-secondary, high-level manpower was provided by expatriates (BSIP, 1971-1973:5). The country was still run by the British government and colonial civil servants were responsible for formulating the countries plans and strategies.

The period 1968 to 1970 covers the Fifth National Development Plan (NDP), which aimed to generate economic growth in the domestic economy and therefore to reduce its reliance on external aid. In order to achieve its economic policy objectives the government's strategy was to develop the country's natural and human resources as a means of strengthening the economy. In particular the development strategy focused on exploiting its forests, minerals and also trying to develop its agricultural sector. To achieve this, an allocation of around 67% the total budget was allocated for projects that would facilitate development in these areas (BSIP, 1968 – 1970:3). However, because of ineffective policies relating to use of the revenue from the exploitation of forests and other natural resources the result has not been very promising.

The 1970s heralded a dawn of a new era for the country. This was the decade when the country and its people made earnest preparation for their political independence from Great Britain and sets the tone for a major transformation of the economy of the Protectorate (BSIP, 71-73:4). This was also a period when the citizens of the Protectorate would play a prominent role in the formulating of the nation's policies, including those concerning the country's economic development.

The Sixth Development Plan 1971 – 1973 focused on the primary and secondary sector, with the objective of raising domestically-generated growth through the exploitation of the country's agriculture, forest and mineral resources. In the period up to the 1980s, emphasis was placed on the agriculture sector with expansion of traditional crops as well as the introduction of new ones. This plan had the support and approval of the colonial government, which still had the majority of elected members.

In line with the previous plan, another aspect of the development strategy was the enhancement of its manpower through training. The intention was to produce quantity and quality manpower in line with the government's direction to localize management of economic and social development policies and encourage ownership in the private sector. In order to achieve this aim the government needed to invest more of its resources in education at the primary, secondary and tertiary level.

The Seventh Development Plan 1975 to 1979 covers the period of transition from colonial rule to an independent status and was the first time the country had entered into planning on a five year cycle. In this period, the country began to lay the foundation for a strong political, cultural and economic basis for the newly independent nation. The main development strategy for the country as outlined in the Plan was to achieve self-government and independence on sound political and economic foundation so that nationhood can be genuine and stable (Central Planning Office (CPO), 1975-1979:1).

The 1980s saw little change in the economic fortunes of an independent Solomon Islands, as the country was still heavily dependent on the primary sector as the engine of growth. Therefore, exports were mainly dominated by round logs, fish and copra. The manufacturing sector was largely insignificant, accounting for less than 4 percent of GDP (The World Bank, 1993). However, the first five year period of the 1980s was the first time the country was responsible for plotting its own destiny.

The Eighth Development Plan 1980 to 1984 occurred two years after independence and therefore gave government time to reflect on the direction the country was heading in terms of economic development. This was also the first opportunity for a Solomon Islands' elected government to shape the overall direction of the country's development. The government pursued a series of economic objectives as the basis for its economic policy during the first half of the 1980s. The basic

objective was to promote effective rural development which would enable many Solomon Islanders to share in the benefits of the country's development. The economic objectives that the government pursued to promote development were diverse. First, the government recognized the need to diversify its economy and increase its range of major exports. This would help the country to reduce its vulnerability to price decreases for its primary product and also increase its revenue base. Second, the Government aimed to encourage investment from both domestic and external sources as a way of creating more jobs and incomes. Third, it aimed to provide continuity in the growth rate as a means of improving the lives of its people. Fourth, the Government encouraged geographical and social distribution of economic activity. Fifth, the Government mandated that development aid should be used for development purposes in accordance with Solomon Island priorities, rather than becoming a disincentive to increasing self reliance. Sixth, it aimed to increase export earnings, in order to reduce dependence on foreign aid. Seventh, the Government committed to introducing fiscal and monetary policies that would be geared to development needs. Lastly, opportunities for earning income from producing cash crops and paid employment were to be increased.

The development strategy adopted by the post-independent government during this NDP period was to simultaneously build on an effective programme of rural development, which was expected to benefit the masses, and at the same time to forge ahead with development of the commercial sector. In rural areas, the programme would target the agricultural sector in terms of providing trained manpower, effective research and dissemination of information.

The Ninth Development Plan 1985-1989 is the third period of the five-year planning cycle. The overall objectives were to promote and safeguard the welfare of the people and the country as a means of achieving nation building. The government through its actions tried to achieve its development aspirations using various instruments of economic policy, which included both direct and indirect measures: They were (i) to put in measures that would influence market forces in the efficient allocation of resources; and (ii) direct measures necessary for intervention in the market in the provision of public good.

To achieve its overall objective the government pursued a number of development strategies. First, it aimed to develop of its human and natural resources through investment in social and economic infrastructure. Second, it aimed to facilitate an environment conducive for private sector investment and an active involvement of the government in strategic areas of the economy. Third, people and communities were encouraged to have direct participation in their development.

Like many developing countries which pursued import substitution policies, the strategy relied on borrowing to finance their infrastructure development and to develop their natural resources; therefore the Government became heavily in debt. The debt, as a percentage of GDP, increased from 18 per cent in 1980 to 60 per cent in 1987. The debt situation was indicative of the problems in the economy by the end of the 1980s, and therefore the 1990s saw an attempt to reform economic policies so that growth could be enhanced and better fiscal strategy could be achieved.

The 1990s heralded a new era for Solomon Islands in terms of poor economic performance. It was a period during which the country experienced major difficulties due to domestic policy and structural problems, as well as externalities relating to the global economy (N.Economic RRD:1). During the 1990s, the government's broad economic policy was to establish economic stability and foster economic growth and development. This culminated in the Policy and Structural Reform Programme initiated by the new government that came to power in 1997. The development strategy adopted was to formulate and implement a broad based programme of policy and structural reform. It was anticipated that with the assistance of its development partners, such an initiative would

restore economic stability, which would be important in fostering economic development in the country. The implementation of the SIAC government's new reform programme was, however, halted due to the ethnic conflict.

The 1990s development strategies were designed to facilitate the achievement of its economic policies and the overall aim was varied. On assuming power, the new government, the People's Alliance Party, noted the poor state of the economy and put in place a series of broad economic policies that would address it. First, it included a continued emphasis on developing its natural resources. Second, development of other sectors with potential for growth was prioritized. Third, the government aimed diversify the economy and develop selective industries. Fourth, policy tried to establish measures to increase savings for investment purposes and reduce imports. Fifth, investment was encouraged. Sixthly, there was an attempt to rationalize public expenditure programmes. Seventh, growth of the tourism industry was encouraged.

The economic policies of the New Coalition of Partners, from 1993, were to provide stability in the economy as well the impetus for economic development. First its fiscal policy was to ensure it reigns in public spending and government borrowing which had become excessive. Secondly, its monetary policy targeted low inflation, lowering interest rate, maintaining a stable and competitive exchange rate as well as maintaining an adequate level of external reserves. Thirdly, the government made a commitment towards providing a climate that would be conducive to attracting more foreign investment into the country.

Focus on implementing policies and programmes for economic recovery, social restoration and development when security and stability in the country was restored with the arrival of the Regional Assistance Mission to Solomon Islands (RAMSI). The broad economic policy during this period was to restore macroeconomic stability and income growth. This was expected to facilitate the enhancement and improvement of the quality of life and the living standards of all the people in Solomon Islands.

The overall goal highlighted under the National, Economic Recovery, Reform and Development plan was to enhance and improve the quality of life and living stands of all the people of Solomon Islands. Its economic policy objectives were geared towards achieving the overall objective as well as the restoration of economic stability and income growth and secondly the reestablishment of the foundation for sustainable growth and human development. Its development strategies to achieve this were the restoration of fiscal and financial stability and secondly revitalizing the productive sector and rebuilding supporting infrastructure, especially those destroyed during the ethnic tension.

If one were to compare the economic growth rates during the 1990s with population growth rates, it is very clear that economic growth rates have not kept pace with the population growth rates. Between 1978 and 1985 the GDP per capita has only increased slightly on average. The same is true between 1986 and 1993. More specifically if one considers GDP growth rate in the 1990s we note that the Solomon Islands had positive growth in the early 1990s but from 1997 to 2002 it had negative growth, with negative 15% during the civil unrest in 2000 (See Figure 2).

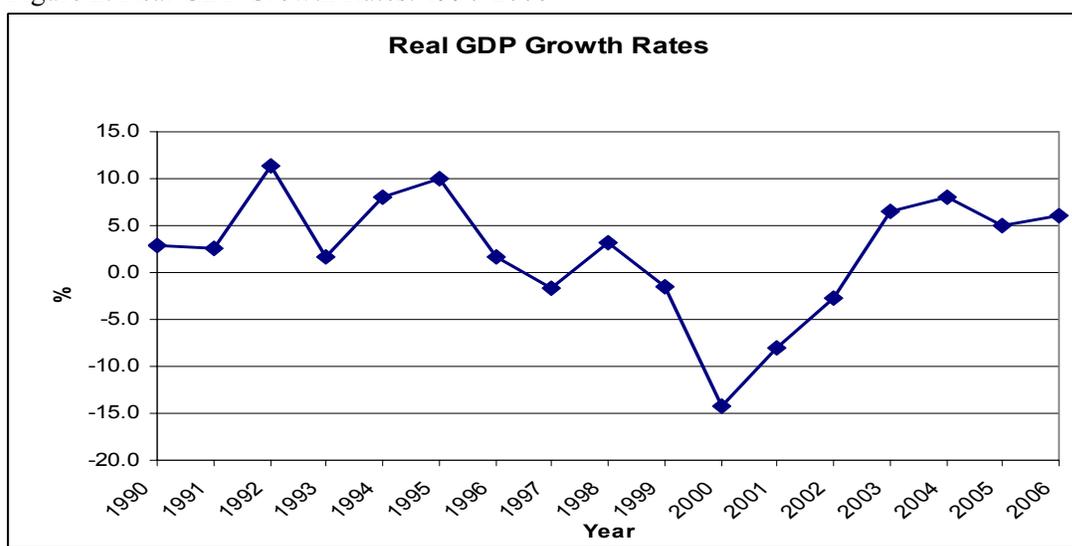
Table 1: GDP, and per capita GDP, 1978-2004 constant 1995 US\$ million)

Year	GDP (US\$ million)	GDP per capita	GDP per capita growth (annual, per cent)
1978	106.7	498.5	5.23
1979	133.3	601.7	20.7

1980	125.2	546.8	-9.1
1981	142.1	599.4	9.6
1982	146.3	595.8	-0.6
1983	166.6	655.3	10.0
1984	168.6	641.1	-2.2
1985	170.1	625.2	-2.5
1986	203.7	724.7	15.9
1987	208.7	718.6	-0.8
1988	216.2	721.2	0.4
1989	233.8	755.7	4.8
1990	237.9	745.9	-1.3
1991	246.5	749.9	0.5
1992	269.5	796.7	6.2
1993	274.9	790.1	-0.8
1994	289.2	809.0	2.4
1995	309.5	843.2	4.2
1996	320.3	850.1	0.8
1997	312.8	808.4	-4.9
1998	316.4	796.4	-1.5
1999	312.2	765.3	-3.9
2000	277.9	663.1	-13.4
2001	252.8	578.0	-11.5
2002	248.8	561.1	-4.4
2003	258.3	566.8	1.0
2004	273.2	583.8	3.0

Source: Data to 2001 is from World Bank 2003. Data from 2001 onwards is based on growth rates reported by International Monetary fund, 2004. *Staff Report for the 2004 Article IV Consultation*, International Monetary Fund, Washington, DC; and Asian Development Bank, 2005. Country programming mission to the Solomon Islands 2005, Mission Report, Asian Development Bank, Manila (unpublished).

Figure 2: Real GDP Growth Rates: 1990-2006



Source: ADB Online Database

During the 1990s (see Figure 2) inflation has generally been high. Between 1994 and 2007 it fluctuated between 6 and 13 per cent. This is very high compared to many other Pacific Islands. While the growth rates have improved in the last few years, inflation has continued to remain high. This level of inflation will obviously have serious implication for those on low income and their ability to remain above the poverty line.

Figure 3: Consumer Price Index: 1990-2007



Source: ADB Online Database

During the 2000 to 2002 period, in the aftermath of the ethnic tension, the overall objective was to continue to promote industries based on natural resources. The economic policy objective was to facilitate this was to achieve tangible economic growth in real per capita incomes and secondly generate more job opportunities and promote equitable distribution of benefits of development.

2.3. Traditional Social System

In the traditional Solomon Islands Melanesian social system, a hierarchy of institutions exist which serves to give meaning to a society. These institutions exist on the basis of land tenure system which binds together all persons within that group. In the Solomon Islands context, people's relationship to the land is an integral part of their relationship with each other.

First and foremost is the tribe, which is a larger grouping that is bound together on the basis of having descended from the first pioneer to have settled and populated that land. Those who are descendants from this first pioneer trace their relationship on this basis. Their relationship to the first pioneer and to the ancestral tribal land is an important element in the traditional social system because it serves as a mechanism to assist each other in times of need. It is a self regulating and managed system to provide welfare assistance.

The second important grouping is the clan. The first pioneer to settle the ancestral land allocates it on the basis of the matrimonial system. Land is allocated to each of the sons whose descendants will form the clan. Each of the sons and their descendants will have leadership and authority over the land that his father (the pioneer) had allocated to them. The son and his descendants will have authority over all living and non-living natural resources that existed on that piece of land. Those who are descendants in these clans are closely related and the ties to the clan land are far stronger than to the ancestral land. The obligations that persons who are descendants of the clan have towards each other are far stronger in the traditional social system.

The third most important body or grouping in the Solomon Island traditional system is the extended family. The extended family would consist of the brothers and sisters and families, uncles and aunts and their families as well as grandfather and grandmother. In the Solomon Islands society, the extended family is not restricted only to the close family relatives but can include other relatives who could be fairly distant from the western concept of an extended family. The Solomon Island concept of an extended family has greater implications for the welfare of the less fortunate in society.

In the Solomon Islands traditional society, the existence of the tribe, clan, and extended family has huge implications for social protection and the social safety net. The belonging to a tribe or a clan has put a sense of obligation on the part of an individual or group within that tribe or clan to assist others who may have fallen on hard times and could not provide for their families. Like the tribe, members of the clan expect support from each other in a wide range of social and political activities. A few examples of these are evident during deaths, marriages, warfare, gardening and communal work.

The extended family continues to play a vital role in the social system of Solomon Islands and is the backbone of the country's social system. While there is no welfare payment system or income support system, as practiced in developed countries, the extended family performs a similar role to these institutions in the traditional social structure context of Solomon Islands. In the event of the death of the head of the household, it is to the extended family that families of the dead would turn to in order to ease the burden of caring for the children. In this instance, some of the children will be allocated to be brought up by other relatives in the family. The extended family would also assist the widow or widower with the remaining children in the day-to-day provision and upbringing of family. In Solomon Islands societies, the aged are usually looked after by the eldest son and his family but the other relatives will also provide assistance when needed. In this context, the aged are not marginalized but their self esteem and dignity are restored because they are playing a prominent role in providing advice to the immediate family, extended family, the clan and when required to the tribe itself.

The fourth important grouping is the family. It is headed by the husband who is responsible for the welfare of the family. He ensures that their needs are provided for and that they are protected from danger. As the head of the household he is responsible for day-to-day planning and organizing as well as resolving disputes. The wife plays an important role in the family but in a supporting capacity to the husband. It is the responsibility of the husband and wife to ensure that needs of the family, especially the children are met, whether in their upbringing, their education or their marriage. The family in the Solomon Islands society is not an isolated entity and in this regard, plays a supporting role to the extended family by providing assistance to other less fortunate members of the extended family. The family is usually the body that cares for the aged as noted earlier and assistance may be provided from the extended family from time to time.

These traditional institutions, which continue to play a major role in social provisioning, go some way in explaining why government involvement in the direct provision of social welfare support is not well developed. Social welfare support such as direct income support for unemployed, sick and other forms of deprivation as provided in developed countries is non-existent in the Solomon Islands. The government mainly operates at the macro level by ensuring that the national social infrastructure, such as roads, water supply etc., is provided. The majority of the population in the Solomon Islands are rural subsistence dwellers and the community and family social networks provide a sustainable form of welfare maintenance.

2.4. System of Government and Politics

The colonization of Solomon Islands in 1833 heralded the beginning of a new era for the country, especially in its political development. Solomon Islands prior to the British annexation, was not unified but was a fragmented society under different leaderships, confined to tribal areas. In spite of this, politics was not new in the Solomon Islands villages as specialist leaders, seen the 'Bigmen', flourished in the community with their own type of politics (Moore:34). The colonization of the country by the British, however, was the first effort by any one ruler to unify the whole country under one umbrella of government. This was important as it was only in a pacified and unified society that the development of politics would flourish. Furthermore, the colonization of the country was important because the colonial government transplanted the type of government system to the colony, which, while alien to the people, would in time nurture the development of the country's political system. The British introduced the Westminster system of government, which has at its foundation, the practice of the principles of democracy. The colonial government, however, was not in a position to introduce the latter until the 1960s and 1970s in the wake of impending independence.

Pre-independence development

In order to appreciate the post-independence political development, it is vital that a brief overview be made of the political developments that occurred during the pre-independence period.

The Maasina Ruru movement played a pivotal role in the development of Solomon Islands' politics. While it was misunderstood initially, it was a movement that attempted to obtain more rights for Solomon Islanders from the Colonial government. They were organized into institutions to practice principles befitting any organization found under the Westminster system, and through this the people experienced some aspects of the democratic process. In the end the colonial government granted their wish with the formation of the Malaita Council. In time, 24 councils were set up throughout the Protectorate and *A Local Government Act* in 1963 made the 18 local regional councils and the Honiara Town Council elective (Moore, 2004:36).

An attempt at representation for the people occurred with the first elections for the the Legislative Council, held in 1964.. However, the electorate did not elect representatives directly but through the indirect system of election. The first real sign of the application of democracy within the country occurred in 1967, when those of voting age directly voted for their representatives to enter the Legislative Council. This was the first occasion when people of voting age in the country had a real taste of what it is like to exercise their freedom in casting their vote for the person of their choice. The status quo remained for the country's Legislative Council until 1970 with much fluidity in the way members were organized (Alasia, 1985).

The 1970 Constitution brought changes, with the Legislative Council becoming the Governing Council. Elections were held in 1970 for 17 seats. Later in 1972 the Governing Council was renamed as the Legislative Assembly and this saw the introduction of a Ministerial system with a Chief Minister overseeing a Cabinet of Ministers. The first Chief Minister was Solomon Mamaloni

and he appointed a Cabinet of Ministers to assist him in running the affairs of the colony. The Solomon Mamaloni government was ousted prior to Independence and it was left to Peter Kenilorea and his government to lead Solomon Islands to self government in 1976 and independence on 7 July, 1978.

Party politics in Solomon Islands emerged during the voting for the 1973 – 1976 Legislative Assembly. The parties which contested the 1973 elections were the People's Progressive Party and the United Solomon Islands Party. In the first general elections after self government, however, development of party politics took a reverse when only one party, the Nationalist Party, later renamed the National Democratic Party fought the election. A year after the elections the Rural Alliance Party, which was later re-named the People's Alliance Party, was formed.

Post-Independence Political development

Solomon Islands is a parliamentary democracy within the Commonwealth. The National Government comprises the Executive branch, Legislative branch and Judicial branch. The Executive branch comprises The Head of State, the British monarch, and is represented by the Governor General. The Governor General is appointed by the monarch on the advice of Parliament for a period of five years. The Head of Government or the Prime Minister is the other part of Executive branch and is elected from the party or coalition with the largest number of members. The cabinet forms the three legged Executive branch and they are appointed by the Governor General, on the advice of the Prime Minister, from among the members. The west minister system of government in many former British colonies has not worked for a number of reasons and a lot of literature exists on why it has not worked in many countries. The Solomon Islands is not a homogenous society as it is comprised of different tribes and ethnic groups. In this kind of environment there is always bound to be conflicts over resource allocation by governments.

The Legislative branch comprises the Parliament which is unicameral. It has 50 members who are elected from each of the constituencies for a period of 4 years. Those elected into Parliament must meet certain criteria before they can stand in the national General Elections. The third leg that completes the National Government is the Judicial branch. The Judicial branch comprises the court system in the country. The courts in operation in the country are the Local Court and the Customary Land Appeal Court (CLAC), Magistrate Court, High Court and Court of Appeal. The CLAC is tasked to deal with appeal cases on land. The Judicial branch is independent of Executive branch and therefore its decisions are seen to free from any influence from politicians.

Local government is based on a provincial system of nine Provinces. The Provinces are administered by an elected Provincial Assembly which is headed by a Premier and his Ministers. The other administrative unit in the country is the Honiara City Council. The latter is administered by an elected City Council and is headed by a Major. He is supported by a group of Ministers chosen from among the elected members.

The development of politics within Solomon Islands after Independence could best be described as stagnant and unstable. While political parties were formed prior to Independence, it was not fully developed and voters or the majority of members who contested under their banner during the elections did not understand their operations or policies. They were only interested in contesting under these parties' banner because of any perceived advantage that such an association may be a catalyst to their election to Parliament.

Since Independence the country has been governed by a series of coalition governments except on one occasion, when the People's Alliance Party won a majority and ruled between 1989 and 1993. The new National Coalition of Partners which assumed power in 1993 came with their own set of

policies to provide the framework for managing the country's affairs. While reportedly, there was difference but in the actual policy implementation the overall direction was the same.

The weak party politics which exists in the country has been one of the causes of political instability within the country since Independence. Since voters are less familiar with parties and their policies, their tendency would be to vote the person on his or her personality. Personality politics thrived in the political system of the country and nothing drastic has changed this pattern in the 21st Century. As a consequence, prior to the actual convening of Parliament, intense lobbying usually takes with the result members who may be voted under one Party banner may end up in another camp during the Parliamentary sitting..

The country's Constitution recognizes the "independent group" as a separate political grouping in Parliament. While the intention may have been noble by the creators of the country's Constitution, this political grouping has been the cause of political instability because they are a fragmented group who were brought together for political expediency. The Kenilorea government for instance was brought down after the Independent members resigned from cabinet (Larmour, 1983:253) and in 2007, the fall of Sogovare's Grand Coalition for Change government (Solomon Times, 4 Feb, 2008). Further more, the recognition of the Leader of the Independent Group by the Constitution also hindered the advancement of political parties (Ulufa'alu,1983:105).

While the Constitution also provides for votes of no confidence, the resignations of Ministers from Cabinet was often the cause of political downfalls in the 1980s, rather than the former (Larmour, 1983:252) during the 1980s. In recent years, governments have been brought down as Ministers walked out of Parliament with the fall of the Sogovare government in 2008 a case in point. A number of Ministers deserted the government before the downfall of the government was legitimized in the vote of no confidence that inevitably followed.

Two recent political developments will have profound impact on the country's politics and affairs in years to come. The first is the proposed Political Parties Integrity Bill which is aimed at introducing some control on members crossing the floor (Solomon Times, September 5, 2008). The intention was to have stability within governments. Such a stable environment would not only be beneficial for the government of the day and ultimately the nation, but also assist in the development of the country's political parties.

The second development arose in the aftermath of the ethic crisis that ravaged the country during the 1998 – 2000 period. This crisis had its roots embedded in the fabric of Solomon Island society and is not a novelty. During the post-Independence years for instance, some Provinces expressed their desire to separate from the country, because of the perception that they were not getting maximum return from the exploitation of their resources. The more vocal Provinces such Western Province showed their displeasure and made their point by boycotting the official festivities for Independence in 1978 (Premdas *et al.*, 1983:164). These issues were not adequately resolved at that time and laid dormant for a number of years until it was again revisited by the Provincial politicians who expressed the desire to have more power given to the Provinces through a Federal or State government system. This view has since been expressed in a number of documents such as the Townsville Peace Agreement and the Premiers' Buala Conference Communiqué (State Governments Task Force, 2001). If and when this proposal comes into fruition, it will change the political landscape of Solomon Islands forever.

2.5. Financial Institutions

The government recognized the importance of financial institutions to the country's development aspirations and therefore facilitated its development through relevant legislation and amenities. The

financial institutions that operate within its financial system play crucial roles in the country's economic development through management of the economy, facilitating readily available capital and boosting the investment portfolio in the domestic economy.

The country's financial system is a four tier structure. The Central Bank of Solomon Islands comprises the first tier with responsibility for monetary policy. The second tier consists of the commercial banks. The non-bank entities of the Solomon Island National Provident Fund (SINPF), Development Bank of Solomon Islands (DBSI), Home Finance Corporation and Credit Unions are in the third tier. The last tier comprises the Investment Corporation of Solomon Islands (ICSI) unions and insurance companies, a Money Transfer Agency and a Licensed Currency Exchange Bureau.

Central Bank of Solomon Islands

The forerunner to the Central Bank of Solomon Islands (CBSI) was the Solomon Islands Monetary Bank which was established in 1976. The CBSI was established under the Central Bank Act. The latter provides for its independence from government and was responsible for the country's monetary and exchange rate policies to ensure balanced growth and promote financial stability.

While the CBSI's primary role was to manage the country's economy, it also acquired a supervisory role with the enactment of the Financial Institutions Act in 1998. This enabled it to supervise licenses financial institutions and most non-bank entities. Its supervisory role over the non-bank sector was further strengthened with the issuance of the necessary government orders in August 2002. This brought the SINPF and DBSI under its supervision.

Commercial Banks

In the early years, the financial system consisted only of commercial banks. They were mainly branches of banks such as the Commonwealth Bank of Australia, Hong Kong & Shanghai bank. The current establishment comprises the ANZ Bank, Westpac Bank and Bank of South Pacific. The latter was a takeover of the only locally incorporated Bank, the National Bank of Solomon Islands.

The commercial banks main operation is in the capital, Honiara, but they have also extended their operations to the other Provincial Centers through their branches.

Development Bank of Solomon Islands

The DBSI has played an important role in the development of the rural areas. It has played a prominent role in the agricultural sector where it has given out loans for development in this sector. It has also played an important role among Solomon Island farmers and business men and women who have no collaterals to secure loans with the commercial banks.

In 1994 the CBSI took control of DBSI operations. It was found that the organization was insolvent and could not pay its creditors due to bad management practice. The CBSI took control to ensure the interests of depositors are safeguarded and moreover maintain stability in the financial system. The CBSI's control over the DBSI ended at the end of 2006 but was extended to the High court to the end of June 2007. The formation of the Development Bank was primarily designed to provide subsidized loan for the development of the rural sector. This could be considered a typical government intervention to improve the welfare of the rural people. Solomon Islands politicians like those in other newly independent countries found this sort of intervention very appropriate.

Home Finance Corporation

The Home Finance Corporation was established in 1990 by the government to provide loans for low to medium housing. Additional funding was provided by SINPF and the Asian Development Bank as well funds from the sale of newly acquired properties. Its operation as a lending agency came to a standstill in 1999 due to a lack of continued funding. The government has now agreed to sell the HFC to the NPF in 2007. Housing is a major social welfare issue in many of the Pacific Islands and this sort of lending institution is often the vehicle for providing low cost housing. The capacity of some these countries to manage these institutions have been a cause of decline of the institutions.

Investment Corporation of Solomon Islands

Initially the Investment Corporation of Solomon Islands (ICSI) started as the Government Shareholding Agency. The latter was formed in 1977 as a vehicle to facilitate government investment in major commercial undertakings. It changed its name to the Investment Corporation of Solomon Islands in 1988 but it has retained its primary role.

Through ICSI, government has held 100% shares in enterprises such as Solomon Airlines, Sasape Marina Limited and also retained part-shares in Solomon Island Plantation Limited, National Shipping Services, Solomon Telekom, Kolobangara Forest Products limited and Soltai Fishing. Most of these companies are loss making, but the Solomon Telekom, Kolombangara Forestry and lately Soltai Fishing have improved their profitability. ICSI's source of income is from its deposits and shares sold by CBSI.

2.6. Social Situation

The provision of social services at the macro-level in the Solomon Islands has always been the responsibility of the government as is the case in most countries. However, in contrast to the situation in developed countries, at the community and village level, the traditional social system still caters for social welfare provisions. Since the British established control over the country and its inhabitants, the provision of the public goods of health and education has been the responsibility of the successive governments while the involvement of other stakeholders, especially the churches has been complimentary. The churches involvement, while important, has been limited due to lack of capacity and finance. While in the 1960s and 1970s, the two public goods that dominated this sector were education and health, other areas also came into focus during the post-independence period.

In the 1960s and 1970s the provision of government services in the social sector was hampered by impediments such as the geographical setting of the country, lack of finances and the lack of skilled manpower. The situation improved throughout the 1980s, 1990s and into the 21st century as more emphasis was placed by the government on making improvements in the social sector.

2.6.1. Education

The central government has always played a prominent role in the education sector in terms of provision of resources, both financial and human. Church organizations have also played a key part in the provision of education both at the primary and secondary level. In 1969 for instance, there were 393 registered primary schools in colony, of which 17 were run by the government and local authorities with the rest run by the churches (BSIP, 1970:87).

While Education projects have consumed a substantial amount of the allocated funds in the 1960s, accessibility to schooling has been low for much of this period; both at independence in 1978 and during much of the post-independence period. In recognition of this shortcoming, successful governments throughout the period have made it their main priority to provide basic education for as many of the country's children as possible. In recent years this has been qualified to include

improved access to quality basic education to all children in the country by 2015. This is in line with the Dakar Declaration of Education for All, which Solomon Islands has committed to achieving.

Since the country's education is tied up with commitments made on the international forum we take a brief look at one of these. The achievements in the education sector are closely linked to both the commitments made in the EFA and education-related MDGs. Under the EFA initiative the countries made a commitment to achieve comprehensive early childhood education, universal primary education, promote lifelong learning, increase adult literacy, eliminate gender inequalities and improve the quality of education. Similarly, the MDGs focused on achieving universal primary education and promoting gender equality.

The achievement of both sets of commitments is interrelated. Despite the adoption of the relevant education MDGs, achieving all the EFA goals was critical for achieving all the MDGs through the direct impact of education on child and reproductive health and environment sustainability. The achievement of the education-MDGs, however, is not isolated but depends very much on the achieving the other MDGs such as improved health and access to clean drinking water, reductions in poverty and environmental sustainability

In order to gauge the status of education in Solomon Islands, the basic indicators to consider are the proportion of adults who are literate and the percentage of school aged population who attend school.

Literacy

Prior to pre-contact with the Europeans and the introduction of civilized rule, Solomon Islanders had no reason to read and write and were content to merely acquire knowledge from their forefathers, which would sustain them and their families in their immediate environment. With the advent of civilization and introduction of systematic governing and commercial system by the colonial government, being able to read and write increased ones capabilities to access resources and interact with one's physical, socio-cultural and economic environment to improve quality of live.

There is hardly any data available on the literacy rate in the 1960's, 1970s and 1980s for Solomon Islands but anecdotal evidence suggests that the country fared poorly in this area. In the 1970 census, in order to obtain a measure of the "literacy" ratio, respondents were asked by enumerators whether they had attended Standard 7, the highest standard in the primary schools. A total of 7,581 Solomon Islanders or roughly 4.7 percent of the population had attended Standard 7, although it is important to note that the census was restricted to Melanesians and Polynesians (BSIP, 1970 Census:87). While this is a crude measure of the literacy rate in the country, it does point to high illiteracy amongst the population. The literacy rate was not computed during the 1976 census but this can be deduced from the figures for school attendance. The attendance figure corresponds to 5.5% which could be taken as the literacy rate for the country. The figures show that in the 5 years from the 1970 census, the improvement in the literacy rate for Solomon Islands was negligible.

The 1980s brought no major improvement in terms of the literacy rate in percentage terms, particularly as the population growth rate was phenomenal. From the 1986 census, it has been computed that 9,627 persons aged 10 years and over attended Standard 6 up to university level. This corresponds to 3.4% of the population who could read and write. While this figure does not correspond to the country's literary rate, it does give a crude indication of literacy. On the basis of this figure alone, things had not improved substantially by this date, which is understandable given

cyclone *Namu* occurred during the census year and a large number of students had dropped out due to lack of facilities or lack of finance to sustain them through the school year.

Literacy levels for the country were only computed systematically in 1990s and the new millennium. The sources of information on the country's literacy level for the 1990s is the 1991 literacy survey and the Pacific Human Development Report, 1999. Another source of information from the 1999 census has been discounted since the measure obtained was not based on sound methodologies, reflecting self-reported literacy, which may be biased as those who are illiterate, may be embarrassed to answer the question to the contrary, thereby admitting that they cannot read or write. On the basis of the 1991 survey, 38 percent of the total adult population was considered to be literate (SIG, 2002:19), which was a significant increase from previously. In the Pacific Human Development Report 1999, the literacy rate for Solomon Islands for 1998, using the same method as before decreased to 30.3 percent. These figures compare poorly with other Pacific Island countries (PICs). In the Pacific Human Development Report, 1999, Solomon Islands literacy rate of 30.3 percent is seen as poor since it is only higher than Papua New Guinea with the lowest literary rate of 28.2 percent. It is markedly lower than a lot of PICs with literacy rates approaching 100, including Niue and Tonga, with literacy levels of 97 percent and 99 percent respectively (PIHDR, 1999:13). The literacy level for Solomon Islands improved to 43.8 percent in 2004 (Digest of Education Statistics, 2005:30). The latter, however, should be taken with caution given it is based on pupils who have reached Standard 6 and not on adult population.

One of the main reasons why the literacy rate has remained poor is that the population growth and growth rate of school age children has not been commensurate with the facilities and school places. According to Narsey (2009) Solomon Islands, Vanuatu and Papua New Guinea will face 15%, 13% and 12% growth in potential demand for primary school places (see table 2 below). The Solomon Islands will need to provide places for an extra 21 % of secondary age children. As a result, Solomon Islands would need an extra 412 primary and 366 secondary school teachers if it is get all the school age children in the school. In addition to the teachers, Solomon Islands would need an additional 41 primary and 23 secondary schools.

Table 2: Expected Growth of School Age Populations (2009-2015) Percentage Change

Age group	Fiji	New Caledonia	Vanuatu	Solomon Islands	PNG
Primary Ages 6 to 13	-2	-4	13	15	12
Secondary Ages 14 to 17	2	-4	1	21	11
Tertiary places Age 18 to 21	10	3	8	13	12
Total Population Growth	4	9	16	16	14

In the latest Educational Experience Survey on education, language, and literacy experience in Solomon Islands the Asian South Pacific Bureau of Adult Education and Coalition on Education in Solomon Islands, more light was shed on the latest situation regarding literacy in the country. In a survey conducted on a sample of 2,301 persons on two locations in the country, it was found that only 17 percent of the respondents were literate; 42.7 percent semi-literate and 40.2 percent non-literate (ASBAE 2007:10). This is a massive drop from the literacy rates indicated previously and should be a cause for alarm for the government and stakeholders alike. While the effort made in

the survey is commendable, it would be of interest to see what result a wider survey would conjure should and therefore this should be conducted in the near future.

School Enrolment and Attendance

A priority Solomon Islands shares with most developing countries is the need to increase the proportion of children who attend school. Solomon Islands is committed to achieving universal primary education under the EFA and Millennium Development Goals by 2015 but it has been an elusive goal for Solomon Islands during the review period. School attendance in the 1960s and 1970s was low given the lack of schools and qualified teachers at the time.

The 1986 census reported that 34,837 students attended Primary School between the ages of 0 to 24 years, the total number for this age group is 208,425. The real figure may be slightly lower since this includes those between 25 – 29 year olds but it would not be too far off. On the basis of the age group only 16.7 percent of the age group attended primary school, while the majority or 83.3 percent of the age group did not attend primary school.

The census in 1999 provided recent information on school attendance for the age group 5 - 29 years, although the more realistic age group to focus on from pre-school to the end of secondary school is 5 – 19 years. For this age group, 55 percent were reported as attending school, 43 percent did not attend school while the remaining 2 percent did not indicate school attendance. This was an improvement from the 1986 census and the reason for this improvement could be attributed to the inclusion of pre-schools as part of the education system and the increase in the number of primary and secondary schools. While pre-schools did not exist in 1986, the total number of pre-school students stood at 11,041 as indicated in table 3. The improvement in attendance is also attributed to the coming on stream of Community High Schools (CHS) into the education system. In 1986 there were no CHS but by 2003 these entities had increased to 237 (Digest of Education Statistics, 2005:12). The general improvement in attendance at school was also reflected in the narrowing of the gap between the two genders in terms of enrolment.

The new millennium heralded an expansion in the education system with an increase in the number of schools built at the Early Childhood Education (ECE) level as indicated in table 3 below.

Table 3: **Number of Schools in the Solomon Islands by Type 2003 - 2005**

School Type	2003	2004	2005	% Change 2004/05
ECE	237	289	316	9.3%
Primary	582	547	537	-1.8%
CHS	102	105	111	5.7%
PSS	16	15	15	0.0%
NSS	10	10	10	0.0%
TOTAL	947 966		989	13.2

Source: Digest of Education Statistics, 2005

The new millennium also saw a general growth in the enrolment of students at all levels from the previous decades. Enrolment at the primary level increased from 21,086 in 1970 to 94,345. Enrolment at the secondary level also saw a general increase in student numbers from 1,701 in 1976 to 25,037 in 2005. Pre-schools were introduced recently and as indicated in Table 2, enrolment rose marginally from 11,041 in 1999 to 11,225 in 2005. The latter represents around 28

percent of total cohort in the age group 3-5 years (estimated at 40,639) for 2005 (GOS 2007). The enrolment represents just over a quarter of cohorts in this age group and although significant should be treated with caution since it also includes overage pupils.

The Gross Enrolment Ratio (GER) measures the number of pupils enrolled in a given level of education, regardless of age, expressed as a percentage of the population in the relevant age group. The Net Enrolment Ratio (NER) is a measure of the number of pupils for a given level of education expressed as a percentage of the total population in that age group. The figures for GER indicate 68 percent and 17 percent for 2004 for primary and secondary enrolment respectively. This is an indication that some students who are not in the age group have enrolled at the pre-school level maybe due to a lack of access to primary schools. It also indicates that a high number of students in the age group are not attending pre-school. This may also indicate that the number of spaces available at pre-school level is not sufficient for population.

At this stage, the country's aspiration to achieve the goals in both the EFA and education-related MDGs, which aim for universal primary education and improvement and expansion of pre-school, are yet to be realized. The NER for the country showed a marked improvement from 39 percent and 56 percent for the two census periods and rose significantly to 80.7 percent as reported in the Solomon Islands government *Digest of Education Statistics 2005*. Universal primary education is still elusive but the enrolment statistics indicate that the country is making progress in achieving it if it remains committed.

Secondary school enrolment, measured by the Gross Enrolment Ratio (GER), has not been satisfactory. GER fell from 31 percent to 30 percent between 2003 and 2004 respectively this was also supported by the NER which showed a 1 percent reduction from 20 percent to 19 percent in 2003 and 2004 respectively (GOSI 2005:24). This implies that the majority of students in the secondary age group are not attending Secondary school. The reason being that there is an insufficient number of places at the Secondary school level to cater for those leaving Standard Six.

Table 4: Solomon Islands Pre-school and Primary School Growth Projection 2007 - 2010

Year	2007	2008	2009	2010
Projected Preschool population ages 3 -5 ^a	40,568	41,360	42,050	43,157
Projected Primary Population ages 6-12 Scenario 1 ^a	88,789	89,793	91,737	91,751
Enrolment projections Scenario 2 ^b	99,670	102,461	105,330	108,279

Note:

a Based on 1999 census

b Based on actual enrolment in 2005, calculated on a straight line increase of 2.8% growth a year. Original data in source scenario 2 not used due to error found in their calculation of enrolment figure for 2005.

Source: Solomon Island National Education Plan, 2007

Non-attendance

Despite receiving considerable attention in policy-making, the Solomon Islands has not been able to provide universal education and this is reflected in indicators such as children's non-attendance of school. There are various reasons for children not attending school in Solomon Islands but the key factors are financial and cultural constraints.

In the pre-independence period, the lack of funds to pay schools fees and other related school expenses plus the cultural insignificance of sending to schools would have played a part in a relatively large number of Solomon Islanders not attending school. In the post-independence period things did not change. While parents realized the importance of education as more people had access to employment opportunities in the public sector, the means to put many of them in the schools were not there.

Data obtained for the census of 1976, 1986 and 1999 have been used because they provide a realistic snapshot of respective period in which they were conducted. Data from table 5 shows that persons aged 10 years and over who were not attending any school on census day had increased greatly from 105,687 for the 1976 census to 221,968 in the 1999 census. Most of these may have already completed their education but some are out temporarily and hope to resume in the future.

In the latest two censuses of 1986 and 1999, the largest group of non-attendees were those who have had some years of primary education. The second largest group was those without any formal education. For the 1986 census, the opposite was true with the largest group of non-attendees being those without any education and the second largest group being those with some years of primary education. The other groups such as those who have had some senior secondary education, vocational and tertiary are of a smaller number. Furthermore, the results from the census highlights a change in educational level in the inter-census period. According to the 1976 census, which is representative of the inter-census period 1966–1976, the majority of persons (around 51 percent) 10 years and over were not attending educational institutions. The dominance of this group was reduced for the inter-census period 1976–1986 and 1986–1999 to 40 percent and 27 percent respectively. This decrease was compensated for by an increase in non-attendance at secondary and higher education. The change in education level was expected given the expansion of the education system over these two periods. The representation of those with no education in the country's population would be further reduced as accessibility to education improves in the future.

Table 5: Distribution of population aged 10 and older, not attending education institution, by census year and by highest level of education obtained

Highest level of enrolment obtained	Census Year						Percentage	
	1976		1986		1999		Increase	
	Number	Percent	Number	Percent	Number	Percent	76-86	86-99
Total	105,687	100.0	157,888	100.0	221,968	100.0	49.4	40.6
No educ. ^a	53,640	50.8	62,761	39.8	60,330	27.2	17.0	-3.9
Std 1-6	47,589	45.0	78,991	50.0	122,607	55.2	66.0	55.2
Form 1-3 ^b	2,289	2.2	10,788	6.8	21,449	9.7	371.3	98.8
Form 4-6 ^b	1,413	1.3	3,554	2.3	6,931	3.1	151.5	95.0
Vocational	268	0.3	599	0.4	2,127	1.0	123.5	255.1
Tertiary ^c	488	0.5	1,195	0.8	8,524	3.8	144.9	613.3

Note: a. Includes pre-school in 1999; b. 1976 census Form 1-2 and 3-6, respectively

c. Only including university in 1976 and 1986

Source: Report on the 1999 Population & Housing Census: analysis, 1999 (p. 70)

2.6.2. Health

The health of a nation is important because it provides the base for a productive society. For developing countries such as Solomon Islands, the health sector has been on an Achilles heel, which is yet to be fully developed. The drawback can be attributed to the lack of funding and the lack of sufficiently trained human resources. The lack of funding has also translated into the shortage of facilities available throughout the country. This section will focus on health indicators such as infant mortality and life expectancy for the country.

The government focus from the 1960s through to the 1970s was on developing preventive medicine with emphasis on eradicating communicable diseases such as malaria and tuberculosis. The government also focused on the provision of health services in the rural areas given the fact that the majority of its population is rural. The delivery of health services throughout the country, however, was hampered by poor communications, lack of trained medical personnel and the competition for resources from other sectors of the economy.

Out of the 375 required only 211 were in post and the situation for doctors looked dire with ratio of doctors to population of 1:6,000 (BSIP, 1971-1973:166). In the 1971–1973 period, the priority in the development plans was on income-producing sectors of the economy, which has precluded major expansion of health services (BSIP, 1971-1973: 159). The government's priority in the 1980s changed with a policy to improve the coverage of basic health services in the rural areas. The country's health sector comprises the Curative Services through a referral hospital, provincial hospitals, a Mental hospital and specialist services offered in the urban areas, especially Honiara. The Primary Health Care comprises Health Centres, Clinics and Aid Posts in the rural areas. While medical facilities in urban areas are manned by nurses and doctors, the rural medical facilities are manned by nurses and nurse aids.

Mortality

As a health indicator, the focus on mortality will consider both infant and adult mortality. Data on mortality is an area of concern since in most instances it is understated. Data on health systems is unreliable, for example in cases where patients have acute diseases such as cancer and where the chances of survival is minute, such persons usually discharge themselves to return to their homes in the Provinces and those who die are never reported to hospital authorities for the purpose of updating the statistics.

Infant Mortality

Infant mortality in the country is ascertained from the responses of women aged between 15 and 50 years of the number of children they had and those who are diseased. This is expressed in Table 4 where the proportion of dead children as reported in the four recent censuses are expressed as the number of dead children per thousand live births. The table shows a decline in mortality in the last 30 years for women of all ages. The decline in mortality between 1970 and 1999 was almost 75 percent (Report on 1999 census: analysis: 90). The data from the age group (20-24) shows that infant mortality rate decline from 36 to 40 per thousand around 1984 and had fallen to 26 and 30 respectively by 1997 (Report on 1999 census: analysis: 91)

Table 6: **Number of dead children among children born alive to women in different age groups, expressed per thousand children born alive in the SIs**

Age group	1970 ^a	1976 ^b	1986	1999 ^c
15-19	69	57	33	22

20-24	87	62	40	28
25-29	115	80	44	31
30-34	145	109	52	35
35-39	173	142	65	42
40-44	213	167	90	46
45-49	241	221	124	56

^a Melanesians and Polynesians only

^b Melanesians, Polynesians, Kiribati and Chinese only

^c Total population

Source: Report on the 1999 Population and Housing census :analysis

The Infant Mortality Rate for Solomon Islands for the period 2000 to 2005 is 21 and this compares quite favourably with the figures of 24 and 55 for Oceania and the rest of the World respectively (World Resource Institute). The data was compiled by the Population Division of the UN Secretariat. The data showed that the IMR in Solomon Islands had over the last 17 years from a high of 96 per 1,000 live births to a low of 21 per 1,000 live births. This is a significant reduction in the IMR and it may be due to the improved delivery of services and a focus on the Primary Health Care services that affects the majority of Solomon Islanders, especially those in this age group.

Table 7: Infant Mortality Rate for Solomon Islands: 1980-2005

Year	IMR
2005 ^a	21
2004	21
2003	21
2002	21
2001	21
2000	21
1999	66 ^b
1989	96 ^c

Source

a. Water Resource Institute

b. Report of the 1999 Population & Housing Census

c. South Pacific Community

Life Expectancy

The level of life expectancy has shown a slight improvement over the years. While the 1986 census had reported an average life expectancy of 60.1 for the 1980-1984 period, this rose to 61.1 in 1999. The level of life expectancy for women was higher than that reported for men. In the 1980-1984 period, the rate for women was 59.9 for men and 61.4 for women. In 1999, life expectancy for women rose to 61.6 against 60.6 for men. In general, life expectancy improved during the 1980s and 1990s.

Health Infrastructure

There are 3 different levels at which health facilities are provided. They range from the Aide Posts to the National Hospital (see table 8). The Aide Posts are the first contact point for the health care system in the in country. It is the most basic facility available and offers only basic medical services, which are performed by paramedics. As is the case for other Pacific Island countries, the health facilities have pyramidal structure the hospital at the Apex and Aide Posts at the bottom.

Table 8: Health Facilities in Solomon Islands 1997 - 2008

Year	Hospital	Clinics	Aide Posts
2008	9	146	158
2007	8	146	158
2006	8	146	158
2005	8	146	158
2004	8	146	158
2003	8	146	158
2002	8	146	158
2001	8	146	158
2000	8	146	158
1999	8	146	158
1998	8	146	158
1997	8	146	158

Source: Ministry of Health

As indicated in the Table 8 the level of health facilities available in the country has not increased over the 11 year period from 1997 to 2007. The number of Aide Posts, Clinics and Hospitals remained stagnant over the period. Over the 12 year period, the only change occurred in 2008 when the number of hospitals increased by 1 with the building of Good Samaritan hospital on Guadalcanal Province.

The National Referral Hospital provides more specialist services as indicated by the type of Beds on offer at the hospital. The level of service offered is very high and therefore manned by Specialists, General Practitioners, Nurses and Paramedics. The two Provincial hospitals of Gizo and Kiluufi are the next in line the service they offer while Buala, KiraKira and Lata operate less specialist services. The lack of data on the other two smaller government hospitals at Taro and Tulagi as well as the two Church run hospitals meant we do not have the complete picture although it gives more than an adequate picture of the facilities due to the capacities of the larger hospitals under scrutiny.

While the Provincial health facilities may not offer specialist services, they do offer the Primary Health Care (PHC) service that much of the rural population depends on. It was estimated that more than 29.9% of the country's population depend entirely on PHC services (SIG, 1999:22). This has implications for the country's priority in terms of where it would focus its priority in terms of funding. In fact the government has now acknowledge this with 56% the Health Budget expenditure allocated to Provincial health services while the other 44% is to maintain, sustain and strengthen the national health functions in support to the provincial health services (Ministry of Health, National Health Plan 2004-5).

One certainty that the trend in health facilities points towards is the need to increase their numbers in the face of a rising population. While the population is projected from the 1999 census population of 409, 042, after the 2009 census, the number of health facilities have remained stagnant. The need for further health facilities has been further justified in the face of improving health indicators such as the fertility rate, crude birth rate and crude death rate.

2.6.3. Poverty

Poverty in Solomon Islands is less visible than in other parts of the world but this should not detract from the fact that there are groups and people within the country who are in a disadvantaged position compared to others in the country. A better and more recent analysis is not available.

Evidence from household income and expenditure surveys of the early 1990s shows that income was disproportionately shared amongst the population. This is more pronounced in the urban centres where 1 percent of the households share 50 percent of the earnings (PHDR, 1999:17). The situation in the new millennium had shown no marked improvement for income equality as shown by Table 9.

Table 9: **Gini Coefficient for Total Annual Expenditure – Solomon Islands, Urban and Rural**

Gini Coefficient for Total Annual Expenditure – Solomon Islands, Urban and Rural		
Solomon Islands	Urban	Rural
0.361	0.286	0.316

Source: HIES Nation Report 2005/06, 2006

A broad measure of inequality is shown through the Gini coefficient which measures the concentration of income (expenditure). The Gini coefficient will be equal to zero if income is distributed equally and if one person owns all the income, with all others having no income, the Gini coefficient will be equal to 1. Table 9 shows that inequality as measure by the Gini coefficient is 0.361 for Solomon Islands and 0.286 and 0.316 in the urban and rural areas respectively. This indicates that a wide income inequality in Solomon Islands and indicates that there is higher inequality of income in the rural areas compared to the urban areas. Although household income surveys are intended to measure income inequality, this has been difficult given most people do not derive much of their livelihood from cash but rather from semi-subsistence production. The drawback is that it is difficult to assign a financial value to the latter. Consequently, the Human Poverty Index was developed, which combines various other forms of human deprivation.

The HPI for Solomon Islands according to the Pacific Human Development Report 1999 indicates a poor performance compared to most of the Pacific Island countries. Solomon Islands HPI was 49.1, one of the lowest in the region, along with its two Melanesian neighbours Vanuatu and Papua New Guinea with scores of 46.6 and 52.2 respectively (UNDP, 1999:18). This was a poor result compared to PICs such as Niue, Tonga, and Cook Islands with HPI's of 4.8, 5.9 and 6.1 respectively (UNDP, 1999:18). The low scores for the latter indicate low levels of poverty whereas Solomon Islands' high score indicates widespread poverty. In some quarters, poverty in the country is regarded as very serious, more so than in many Asian countries, including Bangladesh (Tisdell, 2000:74)

Table 10: **HDI and HPI Indicators for Pacific Island Countries**

HDI

HPI

Country	1980s	1998	rank	1998	rank	
Palau	0.635		0.861	1	108	8
Cook Is-		0.822	2	6.1	3	
Niue	-		0.774	3	4.8	1
Fiji	-		0.667	4	8.5	6
Nauru	-		0.663	5	12.1	9
Tonga	-		0.647	6	5.9	2
Samoa	-		0.590	7	8.6	7
Tuvalu	0.495		0.583	8	7.3	4
FSM	-		0.569	9	26.7	12
Marshall Is	-		0.563	10	19.5	11
Kiribati	0.279	0.515	11	12.6	10	
Vanuatu	-		0.425	12	46.6	13
Solomon Is	0.179		0.371	13	49.1	14
PNG	0.224		0.314	14	52.2	15
Tokelau	n.a		n.a	n.a	7.6	5

Source: Pacific Human Development Report 1999 (p. 13,16, 18)

Since the Solomon Islands have made a commitment to the MDGs, this is a pointer to assess how it has performed. The relevant MDG was the commitment to eradicate extreme poverty and hunger. The first target is to halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.

2.6.4. Crime

As shown in table 11, the crime rate has been increasing and the trends in the 1990s shows that it is a serious social problem. The ethnic crisis has also added to lawlessness, especially in the urban areas.

Table 11: Cases of crime accepted by Police 1981 - 1992

Year	Number of Cases
1981	2,918
1982	3,044
1983	2,804
1984	2,821
1985	3,286
1986	5,219
1987	5,995
1988	3,577
1989	3,604
1990	4,773
1991	4,571
1992	4,711

Source: Solomon Islands 1993 Statistical Yearbook, 1995 (p. 139)

2.6.5. Labour force

The country's labour force figures have been affected by the growth rate of the population over the years. The population of the Solomon Islands grew from 160,998 persons in 1970 to 409,042 persons in 1999 and the 1970-1986 and 1986-1999 inter-census growth rates were 3.5 percent and 2.8 respectively. The increase in population also influenced the structure of the population, especially those in the age group 14 years and over. The latter (economically active population) is an important grouping for planners because this is the group from which the country's labour force is drawn.

In the 1960s, the economy was still in its infancy with only the primary sector being the centre of economic activity and job opportunities. As more investors invested in the other sectors prior to independence and post-independence, the overall number of job opportunities increased.

Formal employment as indicated in Table 12 represents jobs created in the monetized sector. Employment has grown every year since 1960 except for the decline in 1968, 1987, 1995 and 1997. Data is not available for the 1999 to 2006 period but it is expected that due to the closure of major companies resulting from the crisis employment figures for the three years from 1999 will show a reduction in numbers.

The primary sector, comprising agriculture, forestry and fishing, has been the major employer of the country's work force as indicated in Table 12. The primary sector comprises. In 1960, more than half of the total employment was created in the primary sector and despite subsequent decline it was still substantial relative to the other sectors, accounting for 21 per cent of employment in 1998. While the public sector's contribution to total employment has been significant throughout the period, most employment was created in the private sector. Another point of interest is that some of the jobs in existence during the 1960s up to 1970 reflect the level of development for example, during the 1960-1970 period; employment as domestic servants was significant. This showed that not many other employment opportunities were available in other sectors and also that the output of the education sector was still very low.

The total working age population in the 1976, 1986 and 1999 census was 100,891, 156,327 and 249,168 respectively. The economically active group from the total workforce was 21,454, 133,498 and 218,695 for the 1976, 1986 and 1999 census. The representation of the formally employed from the economically active group, however, showed that only 13,690, 24,026 and 39,761 were employed for the three census years. Therefore, those employed in the formal sector represent a small percentage of the economically active group. It also showed a far smaller representation of the total work force with 14 percent, 15 percent and 16 percent employed in the formal sector in the three years. This is worrying given that a large segment of the total workforce, who should be contributing to the country's economic growth, was not utilized. In figures released for the 1976, 1986 and 1999 census, as indicated in Table 14, a sizeable portion of the population was not in active paid work. This is a reasonable proxy for unemployment in the period under review. Ironically figures for the 1970 census only indicates around 28 percent not in paid work and there was an improvement for the 1999 census with around 40 percent of the population in paid work.

To address this, government should put in place measures to encourage investment in the private sector that would generate more employment opportunities for the increasing number of Solomon Islanders leaving the education system each year. The employment growth rate required would account for the population growth which although had decreased to 2.8 percent in 1999, was still high comparison to other countries.

Table 12: Employment in Solomon Islands : 1960 – 1998

Sector	1960	1967	1968	1969	1970	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Agriculture	3047	2281	2406	2325	2245	3657	3848	4270	4350	4136	4697	4961	5229	5176	3879
Forestry	2281	550	911	928	914	1603	1537	1677	1586	1774	1540	1534	1570	1973	1448
Fishing		3			23	575	648	886	878	831	824	1118	1240	1262	1281
Mining & Explorations		78	121	65	214	1121	1984	2082	1807	1832	1798	1753	77	101	87
Manufacturing		608	729	817	746								1738	1771	2170
Electricity & Water	485			99	95	211	220	254	244	301	386	323	315	328	307
Construction	312	670	906	1056	754								1466	1385	1084
Retail & Wholesale													2566	2491	2699
Transport & Telecom		754	890	610	720	1477	1450	1439	1753	1418	1933	1882			
Finance						222	241	303	352	444	499	537	525	604	693
Public Administration	2167	3809	3859	4288	4102	2622	2545	4027	2219	4273	2207	2224	2353	2345	3556
Trade & Commerce		623	698	628	580	1863	1911	1863	2139	2178	2115	2285	2149	1888	1251
Domestic Servants	2189	750	780	800	800										
Other Services		1964	1236	1461	2497	3079	3202	3222	3522	3772	4110	4192	4768	4702	5338
Total	8408	12090	10536	13077	13690	16214	17560	18541	18606	19307	20081	19056	23996	24026	23793

Sector	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture	4105	4220	3928	3877	4097	3330	3523	4157	4093	3809	3356
Forestry	1643	1906	2159	2356	1161	2376	3399	4040	3313	2709	2658
Fishing	1218	1405	1449	1471	1097	2400	2623	2623	2844	2579	1412
Mining & Explorations								32	38	62	1412
Manufacturing	2312	2286	2285	2113	2040	2844	3766	1417	1612	1665	4348
Electricity & Water	297	296	294	341	386	245	307	631	703	650	387
Construction	1240	1355	1384	1071	1109	977	907	1474	1925	1638	1187
Retail & Wholesale	2396	2714	2637	2849	3201	3390	3732	3921	4066	3844	4641
Transport & Telecom	1477	1450	1348	1580	1418	1723	1852	1427	1972	1777	1878
Finance	699	755	866	781	1195	1144	1131	1291	1422	1602	1183
Public Administration	3367	3164	4027	3290	4273	4303	4377	6244	6198	1016	4261
Other Services	6091	5887	5745	6902	6865	6845	7792	4080	8567	5057	8750
Total	24845	25438	26122	26631	26842	29577	33409	31536	36846	26408	34061

Note:

- Transport and Domestic Servant applicable 1960 – 1970 and for the former, also 1978-1984 period
- Transport data includes data for 'seamen' for the 1960 – 1970 period
- Other Services data includes data for miscellaneous for the 1967 – 1970 period
- Data for Mining & manufacturing lumped together for 1978 – 1984 period

Source :(a) *Labour Force Statistics*, Honiara, 1982 - 1993

(b) Sixth Development Plan 1960 -1970

(c) 1999 CBSI Annual Report, 2000 : 1995-1998

(d) 1998 CBSI Annual Report, 1990 : 1994

Table 13: Solomon Island Population 14 Years and over not working

Category of Work/Year	1976	%	1986	%	1999	%
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	Total Pop.		Total Pop.		Total Pop.	
Not Active in paid work						
Male	34898	17.7	51916	18.2	68650	16.8
Female	44524	56.0	65417	22.9	92410	22.6
Not Stated						
Male	7	0.004	264	0.09	163	0.04
Female	8	0.004	586	0.5	214	0.05
Total not active in Paid Work	79,437	27.9	118,183	41.4	161,437	39.5

Source: Report on the 1999 Population and Housing Census
 Report on the 1986 Population and Housing Census
 Report on the Census of Population 1976, vol. 1: Basic information

In the case of the Solomon Islands economic stagnation during the late 1990s and 2000s led to serious underemployment and unemployment, accounting for more than 40 percent of the male population. In 2007 for example, the working age population in the Solomon Islands was, 307,800. Of these only 57, 472 (17.6 percent) were in formal sector employment and about 250,328 (81.3 percent) were underemployed or unemployed. The National youth policy (NYP) estimates that youth drop-outs were as high as 60,000 (15%). The high rate of unemployment amongst youths translates into serious social problems such as crime. In addition, there high rate of urbanisation as a result of declining rural opportunities has created new social problems in the urban areas.

2.7. Social Policies

The development of the country's social policies cannot be isolated from other developments that took place in the Solomon Islands. The focus on economic, development, through trade, through exploitation of natural resources and building human resources consumed much of government efforts in the period. This is not dissimilar from other small developing countries with a long and protracted colonial past. In terms of social policies the Solomon Islands, like many other small developing states, concentrated on education and health as major priorities, with some attention on the housing sector. In the case of the Solomon Islands, trade unions and other non-governmental organizations were not a prominent feature in promoting social service provision and therefore, demand driven development of social services was largely absent.

Development of social services reflected the low level of economic development occurring in the country at that point in time and the problems associated with population growth. The quantity and quality of services provided in the 1960s and 1970s for instance cannot be equated with those in the 1980s and the periods thereafter. In the 1980s, GDP growth rates while fluctuating showed an increasing trend and Solomon Islands developed its natural resources for exports which included timber and fisheries. In pre-independence period, the quality of services and its impact were hampered by lack of skilled manpower and lack of infrastructure. While these impediments were still prevalent during the post-independence period, improvements were made and therefore the social services provided were of a higher quality and had far reaching coverage.

The provision of social services has always been the responsibility of the government. Churches also played an important role in the social sector but the coverage of their services has been limited

due to financial constraints. This has put the government in a position to shape the quality and breadth of the services it offers to its population although social provisioning has remained low. The government played a pivotal role in shaping the country's social sector through the policies developed and implemented over the years. These policies could be viewed from three fronts. Firstly, in the early part of the review period, government policy was designed to address the shortcomings in the social sector. Secondly, government policy was in reaction to donor agencies. Thirdly, government policy in the early part of the 21st century could be seen as an outcome of a major crisis.

In the Fifth Development Plan (1968–1970) the main focus in the government's social policy was to develop the country's natural and human resources with the objective of strengthening the economy to enable the standard of living in all sections of the community to be raised. The Sixth Development Plan 1971–1973 had no overall policy as such but its policy objective in the education sector was to develop a national integrated education system in primary and secondary level in which all stakeholders will participate. Its social and political objective was to achieve significant reduction of income inequalities between social groups and between urban and rural areas.

The 1985–1989 NDP was based on the strategy of a balanced approach to development. It recognizes that economic development is not an end in itself but a means of improving well being of the people and nation. The government's social policy during the 1985–1989 period extended the previous plans' focus on social services. In the 1990s declining levels of economic growth put further strain on government's budget for social services. However, the emphasis continued to be on basic needs of goods and services and on approaches that facilitate equitable distribution of national wealth and national unity. The social policy framework aims to ensure consumption needs for food, nutrition and housing are met; provide increased education, health and other social services; reduce the socio-economic gap between social groups and geographical areas; and to promote social harmony and unity.

In the 2000–2002 period, the government developed the Peace Plan 2000. It was a pragmatic plan to restore normalcy to the country. The Sogavare government outlined its policy objective which was to promote equitable distribution of the benefits of development and improve the social conditions of families, especially in the rural areas. The National Economic Recovery, Reform and Development plan 2003–2006 was also a pragmatic plan. Its focus was on rebuilding the economy and country after the destructions it incurred during the period of ethnic unrest. The broad social policy outlined for the country was therefore to restore basic social services in health and education.

In Solomon Islands income tax is progressive with those on the lower income level paying a lower percentage. The four income brackets for taxation purposes are:

\$1 - \$15 000	11%
\$15 000 to \$30 000	\$1650 + 23% of excess
\$30 000 to \$60 000	\$5100 + 35% of excess
\$60 000 and over	\$15600 + 40% of excess

The Solomon Islands also has a goods tax and elements, which tends to be more regressive. However, a higher sales tax (15 per cent) applies to imported goods, which includes most luxury goods, compared to local manufactured goods (10 per cent) and an even lower tax (5 per cent) on rice, which is a staple food of the low income earners and rural dwellers. This has a progressive effect since it has shifted the tax burden to high end consumption and decreased a tax burden on low end. The government could improve the progressiveness of the goods tax by zero rating certain goods, regardless of whether they are imported or manufactured locally. In the Solomon Island

situation, the effect of the sales tax is far reaching given that 80 percent of the population who live in the rural areas are subsistence farmers with no regular wage and yet they are also levied the sales tax since it is charged on all goods and services.

2.7.1. Health

The focus here concerns public health expenditure and does not take into account expenditure on health in the private sector. Public health in Solomon Islands has always been funded by the government as is the case in all Pacific Island countries and is supplemented by international aid.

Government allocation of financial resources to the health sector has always been generous as indicated in Table 13. This is understandable given the importance of the sector to the well being of its citizens and economy of the country. In saying that, it should be noted that the raw figures mask the allocation of resources between the centre and the provinces. The Asian Development Bank Report, 1997 has noted that a disproportionate share of the health budget is allocated to the central area of Honiara, mainly for the hospital-based curative treatment while a small portion is allocated to the health system in the provinces which have the majority of the country's population. The country's expenditure on health is similar to other Pacific Island countries. Government has been committing a fair proportion of its recurrent budget to health although in certain years it has decreased. For example, Table 13 shows that government's commitment decreased from a high of 17.3 percent of total government expenditure to 9.9 percent in 2003.

Table 13: **Government Expenditure on health 1991-2001 in the Solomon Islands**

Year	Health	
	Recurrent Budget	As % of total govt exp.
1975	1.607	17.3
1976	1.318	12.3
1977	1,608	11.5
1978	1.650	10.7
1979	1.941	9.5
1980	2.612	9.6
1981	3.053	8.8
1994	34.4	13.5
1997	48.8	11.8
1998	48.7	13.4
1999	53.2	11.5
2000	61.5	16.2
2001	66.9	14.9
2003	68.0	9.9

Note: a. Denominated in millions of SIS

Sources:

- (a) 1975-1979 recurrent budget data based on SIG, 1980 (p. 31)
- (b) 1991-1993 data based on Saadah at al, 1996 (p. 31)
- (c) 1994-2001, Solomon Islands Government, 2002 (p. 88)

2.7.2. Education

Education has been a priority area for successive governments and this is reflected in government expenditure indicated in Table 14. The data for government expenditure is based on the annual

budget allocation. The government's expenditure during the 1975 – 1981 and 1991-2001 period averaged around SI\$2.6 and SI\$62.6 million respectively. This was 15.3 and 18 percent of total government expenditure respectively for the two periods. Government expenditure on education was similar to other Pacific Island countries. Table 14 showed that government spending on education saw a dramatic increase between the two periods from an average of SI\$2.3 million to a massive SI\$62.6 million. As a percentage of total government expenditure, however, it only increased by 15 percent.

It increased markedly in 2005, where as a percentage of total government expenditure, expenditure on education rose to 25.97 percent (DOES, 2005:39). While government expenditure on education reflects a generous budget allocation, it has been pointed out that it has been skewed towards the upper and post-secondary school levels and therefore has not achieved the outcomes warranted by such expenditure (ADB, 1997:120). In 1999, 20 percent of the operating cost in the recurrent budget was allocated to primary education, compared to 20 percent for secondary education and 70 percent for tertiary education (SIG, 2002:54).

Table 15 shows drastic change in the redistribution of the total education budget for 2004. While in the previous decade, more funds were allocated to the upper and post-secondary levels, the emphasis was more on basic education.

Table 14: **Government Expenditure on Education 1991-2001 in the Solomon Islands**

Year	Education		
	Budget ^a	As % of total govt exp	As % of GDP ^b
1975	1.081	11.6	1.8
1976	1.922	18.0	3.0
1977	2.393	17.0	3.7
1978	2.658	15.5	3.4
1979	3.205	14.4	3.1
1980	3.846	14.1	3.0
1981	3.053	14.3	2.4
1988	24.2	20.5	6.2
1989	22.8	16.8	4.9
1990	30.3	20.0	6.4
1991	34.2	15.1	6.6
1992	35.6	17.6	5.3
1994	46.9	18.3	4.8
1997	63.5	15.4	6.5
1998	64.3	17.2	4.5
1999	77.7	16.8	4.9
2000	70.0	23.3	4.8
2001	66.4	20.1	4.6
2002	55.6	22.2	3.6
2004	108.0		5.4

Note:a: Includes both recurrent and capital expenditure b:Based on nominal GDP denominated in Solomon dollars

Sources:

1975 – 1978, Statistics Office, 1980

1988 – 1990 : World Bank, 1995 (p. 12)

1991 – 2001, Solomon Islands Government, 2002 (p. 88)
 Ministry of Education 2002 Annual Report
 Ministry of Education 2004 Annual Report

Table 15: **Expenditure by sector (% of total education)**

Sector/Year	2004
Early Childhood	2.8%
Primary	48.0%
Secondary	32.2%
Tertiary	16.6%
TVET	0.3%
(Other)	0.2%

Source: Digest of Education Statistics, 2005

2.7.3. Solomon Islands National Provident Fund

The SINPF was established in 1976 purposely as a compulsory saving scheme for all wage and salary earning workers. It imposes a compulsory levy of 12% which is shared between the employer and employee. While the SINPF's primary role was as a compulsory savings scheme for workers, it has now come to play a prominent role in the country's financial market and in recent years it has been a source for lending, mainly from the government and Quasi-government bodies. In June 1996, its total exposure, including loans guaranteed to Provinces and direct loans to the government was \$149 million or 53% of the fund's total assets (ABD, 1997:14). The social welfare emanating from such schemes only benefit a small section of the population comprising mainly the public sector employees and small number of private sector workers. Unless the private sector grows significantly the coverage of the SINPF would be remain very small.

2.8. Other Factors affecting the social development in the Solomon Islands

The Solomon Islands is a widely dispersed country, which implies constraints to connectivity. Like many other Pacific Island countries it is prone to natural disasters such as cyclones, earthquakes and tsunamis. Natural disasters have been a burden to the country in terms of costs for the repair of infrastructure, the rehabilitation of cash crops and its population. The costs associated with cyclones has been high in terms of resources used in the rehabilitation and has been a constant setback to the country's development.

Cyclone Namu

While a number of natural disasters cyclones have struck the country over the last 46 years, only two stand out because of the devastating nature of the destruction they left. Firstly, Cyclone Namu which struck in 1996 was very costly in terms of the massive destruction to infrastructure and crops. While, the Tsunami of 2007 left a path of destruction in the country with infrastructure and houses destroyed, it had occurred outside the period of review but its costs would run into millions when it is determined.

The Solomon Islands economy deteriorated during the 1990s due to fiscal indiscipline. The Government budget deficit, for instance, rose from \$27 million in 1990 to \$55 million in 1991 and was estimated to be \$71.2 million in 1997 (GOS 1998:7). In recognition of the precarious financial situation the country was in, the Solomon Islands Alliance for Change (SIAC) that assumed power drew up the policy for economic reform programme. The intention of the reform programme was

to restore macroeconomic stability. Unfortunately the programme was not fully implemented because the SIAC government was unseated after a few months in a vote of no confidence.

Ethnic Tension

The 21st century also ushered in significant changes to the Pacific Island countries. The pressure from development and globalization had added fuel to an already simmering tension under the surface. In Solomon Islands, such a tension exploded during the ethnic tension that began around 1999. It was a disaster of diabolic proportion with impact far greater than any of the natural disasters which had struck the country in the last 47 years. The government which assumed power during this period was another unstable coalition. and its first response to the ethnic crisis was to draw up the Peace Plan.

The Peace Plan was viewed as a short term measure to immediately address not only the ethnic and tribal crisis, but to also address the serious economic and social crisis that resulted in the aftermath of the ethnic tension. The Peace Plan was hatched during the ethnic crisis when stability was yet to be brought to the country and there was no semblance of normalcy. The Peace Plan has to be viewed in this context. The National Economic Recovery, Reform and Development Plan 2003–2006 was developed in response to the ethnic crisis that hit the country in 1999. The situation in the Solomon Islands has returned to normalcy and the country may be on a path to economic recovery. However, in terms of the social indicators, it is still one of the countries in the Pacific which is at the lowest rank of the ladder.

The Australian-led Regional Assistance Mission to Solomon Islands (RAMSI) went into the Solomon Islands in 2003 and is still there. The objective of this sort of intervention has been to help the Solomon Islands build its economy and promote peace and stability amongst the diverse ethnic groups in the Solomon Islands. However, despite RAMSI, the violence again erupted in the capital Honiara in 2006 and much of the capital was burnt down. Analysis of the role of RAMSI shows that many Solomon Islanders at the local level are still suspicious of some of the activities of RAMSI and this is probably why it is creating friction between different groups in the country (Allen, 2006).

3. Vanuatu

3.1. Introduction

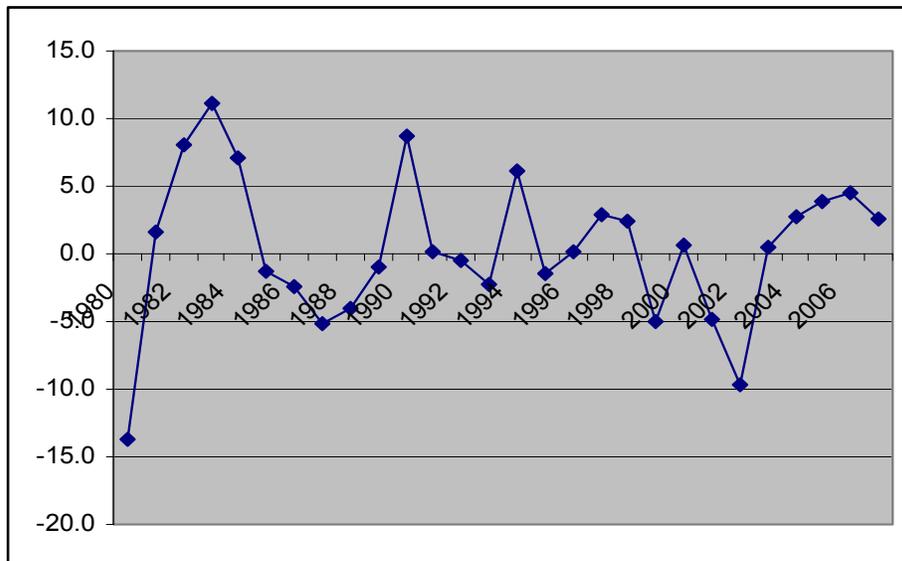
The Republic of Vanuatu is an archipelago of some 80 islands roughly 2,300 kilometers east of Australia. Prior to independence, in 1980, it was colonized by France and Great Britain and administered as a joint condominium. It has a population of some 225 thousand of which the majority are Melanesians with about 74 languages spoken throughout the archipelago. The majority of the population resides in the rural areas and is mostly engaged in subsistence agriculture. Commercially, cattle, coffee, cocoa and copra are produced for the export market which form the main stay of the economy but in more recent years tourism has made great inroads as a major contributor to the country's Gross Domestic Product.

Vanuatu is classified as a lower-middle income country, with a per capita GDP (constant 2000 USD) of \$1275. This is fairly low for the Pacific region, as only Kiribati, the Solomon Islands and Timor-Leste have a lower income level. However, the data shows that Vanuatu has not progressed considerably since 1983, when the per capita GDP level (constant 2000 USD) was \$1240, above the levels of Samoa and Tonga, which have since been characterized by a higher per capita GDP levels. As will be discussed in more detail in later sections, according to the UNDP Human Development Report (2007/08), Vanuatu is a medium human development country, ranked 120 out of 177 countries.

3.2. Economic performance

The economic growth performance in Vanuatu has been low and fluctuating, as shown in the graph below. The average growth since independence was 0.4 per cent, which although disappointing is comparable to the growth rates in the rest of the region. Immediately on independence, there was a marked decline in GDP per capita, the result of civil disruptions that accompanied independence, there was a subsequent recovery but in general in Vanuatu a year of growth was interspersed with a year or couple of years of decline. the growth trajectory has been more favourable in recent years, with positive growth since 2003.

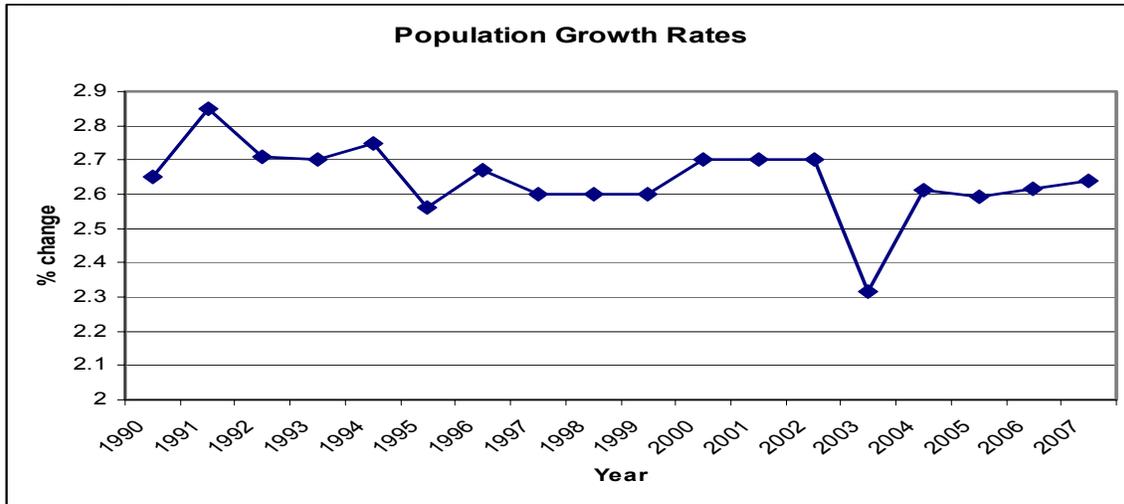
Fig. 3: Growth Trajectory in Vanuatu



Source: World Bank, World Development Indicators (2009)

In addition to the somewhat modest economic growth, Vanuatu has been experienced a relatively high levels of population growth. As shown in figure 4 the average population growth rate has been more than 2 percent. While in the same period the per capita GDP has been only increasing modestly (see Figure3)

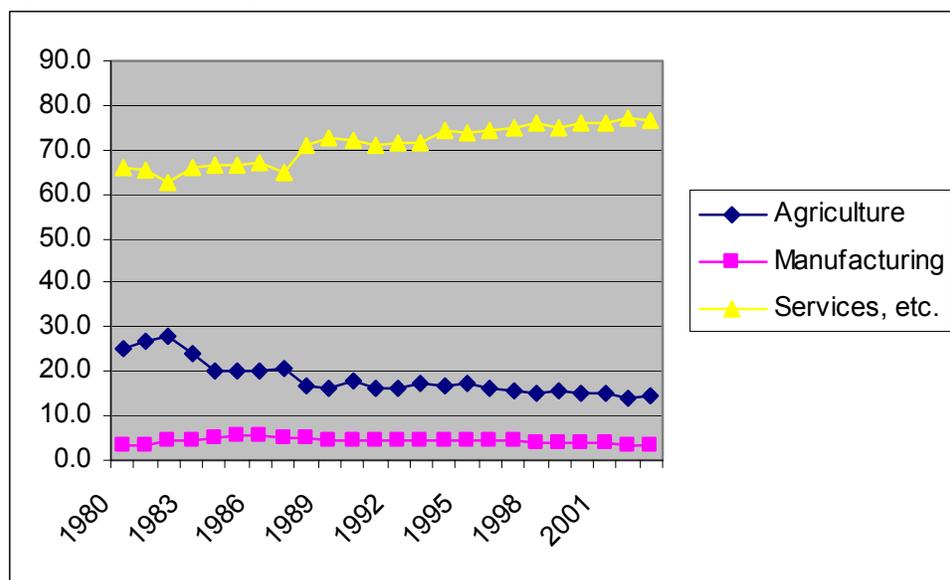
Fig. 4: Population Growth Rates



Source: ADB Online Database

The economy of Vanuatu is predominantly rural, with around 75 per cent of the population in rural areas and, for the most part, engaged in subsistence agriculture (WDI 2009 and ADB 2002). Vanuatu’s economy is traditionally focused on the export of cash crops, particularly, Copra, as well as timber, beef and cocoa. However, tourism and the financial sector also play an important role, which is growing in significance. The trends in the sectoral composition in Vanuatu are shown below. The graph (figure 5) shows that the contribution of agriculture to GDP has declined, whereas services have become increasingly important contributor to GDP.

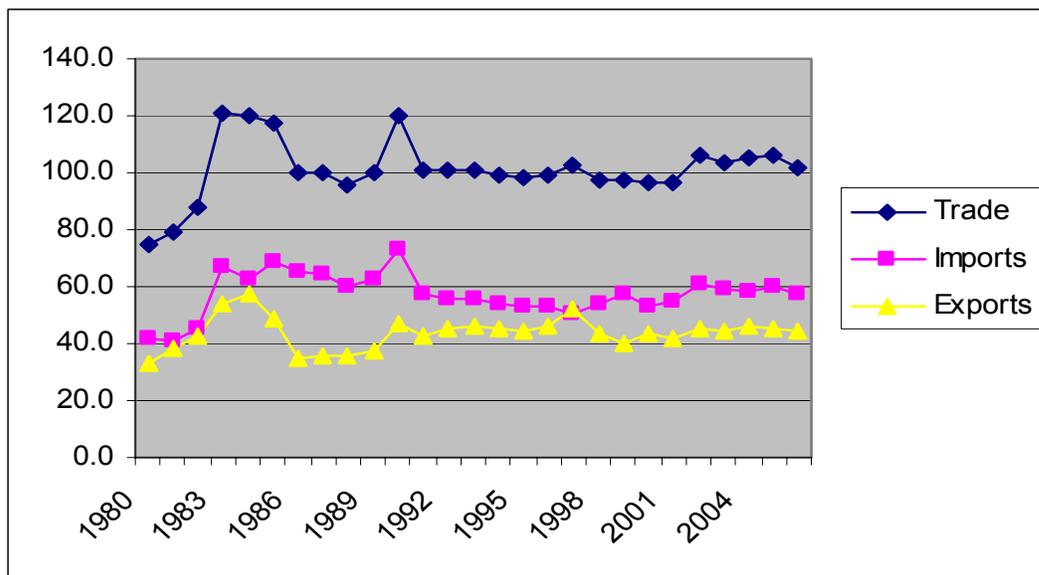
Fig 5: Sectoral Composition of Vanuatu



Source: World Bank, World Development Indicators (2009)

Vanuatu is a very open economy, in terms of trade as a percentage of GDP, which since the early 1980s has been persistently above or around 100 per cent. Imports have been fairly consistently above exports, leading to a deficit on Vanuatu's current account. However, the deficits have been largely offset by official and private transfers (particularly the former). However, aid has fallen considerably since independence as in the early 1980s, aid as percentage of gross national income was around 40 per cent, whereas the the last few years has been around 12 per cent. Remittances have been fairly low throughout the period (especially when compared to Samoa, where it has been over 20 per cent of GDP in the last few years) at around or less than one per cent. Large degree of openness and reliance on tourism and official transfers has meant that Vanuatu is highly vulnerable and dependent on external conditions.

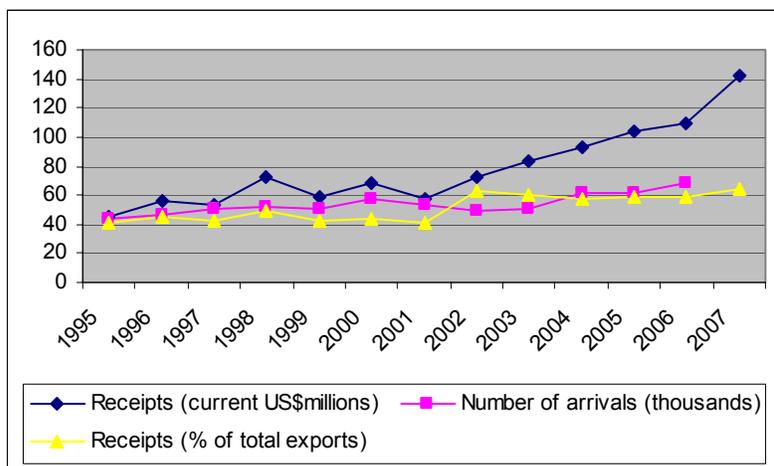
Fig. 6: Vanuatu's external economy



Source: World Bank, World Development Indicators

The graph below shows the trends in international tourism in Vanuatu, this shows that there have been upwards trends in receipts (in terms of value and as a percentage of total exports) since 1995.

Fig 7: International tourism trends in Vanuatu



Source: World Bank, World Development Indicators (2009)

3.3. Development Strategy and Economic Policies

Vanuatu's colonial past is somewhat different from other Pacific Islands countries in that it was governed by two countries, Great Britain and France. This meant that both colonial powers were responsible for their own administrative, judicial, health and education services which resulted in a lot of duplication and waste of resources. Also there seemed to be a lack of interest in the long-term development objectives as short term plans which were aimed to conjure up support from the locals for either of the colonial powers against their rival. In this context, after Vanuatu gained independence, it had to review the previous structure and services that were developed and delivered by the two powers to avoid duplication and ensure a more efficient use of resources. Some of these issues, particularly related to the education policy still remain and Vanuatu has to create a delicate balance especially where issues of language are concerned. Vanuatu has both English and French as a medium of instruction and sometimes it has not been easy the country to adopt appropriate educational policy interventions.

The situation facing the country in 1978 was grim as the inherited economy underdeveloped, impoverished and structurally unbalanced (Government of Vanuatu 1981:2). One of the major concerns at independence was to rectify the structural problems that arose from the duplication of services between the two administrations and the shortage of skilled labour, high illiteracy and poor infrastructure that resulted (Browne 1989). At independence, the formal sector was restricted to the urban areas under foreign ownership and the non-formal, small holder commercial subsistence sector was under-capitalized and underproductive. Vanuatu was also heavily reliant on copra exports for 80% of its foreign exchange and foreign trade accounted for 90% of its GDP (GOV 1981:2).

The government that came into power at independence had the unenviable task of merging the two systems into a single approach for governing the country. Its development strategy during the First National Development Plan 1982-1986 was to achieve economic self reliance, to better utilize natural and human resources and to diversify, strengthen and expand the economic base. It pursued a policy of import-substitution, in line with policy trends elsewhere in developing countries, and put great deal of emphasis on developing the social infrastructure. Towards its objective of self reliance, the government aimed to earn most of its revenue its import taxes and from its exports. It also set out to meet a larger portion of recurrent expenditure from domestic revenue, contribute some revenue to the development budget and meet its manpower requirement from the domestic pool. Its diversification policy was implemented through establishing a number of resource based projects and the expansion of the tourism infrastructure.

The country did make some progress in meeting these four objectives but ultimately this led to other problems which hampered the achievement of self reliance. Firstly, there was inadequate level of trained human resources in both the private and public sectors which was a drawback to implement its policies. Secondly it was not able to achieve certain objectives due to unavailability of resources, land disputes and uncertainties regarding financing. However, the country was able to achieve some major developments in the agriculture sector through initiative such as a major cocoa and coffee project, a copra rehabilitation programme which included support for replanting of coconut trees and marketing of copra produced by the farmers, a village based fisheries project and expansion of the tourism infrastructure (Republic of Vanuatu:3). Positive trends were experienced in the primary sector as revenues were boosted due to increase in prices for its primary products. It also made some inroads into achieving fiscal independence through the replacement of budgetary aids with a comprehensive range of indirect taxes (Republic of Vanuatu:3)

During the second National Development Plan for the period 1987-1991, the country's development strategy shifted to consolidating what it had achieved in the first National

Development Plan. This was somewhat achieved through the development of human resources and an improvement in management. This also meant the development of various training institutions and implementing training programmes in both the private and public sector. To support this strategy, the government continued to invest in the social and physical infrastructure to ensure it provided the best returns from public and private sector projects. Another of the government's broad economic policy during this period focused on investment. It encouraged investment in social and physical infrastructure.

The Third Development Plan 1992-1996 proposed a series of key policy areas to support the reorientation of the economy. The Government formulated a national population policy aiming to relieve pressure on land and growth. In the area of primary commodities, extension services were developed to assist farmers produce crops urban markets and export. There was also a comprehensive review of the taxation system, with a limit on capital investment and export-oriented business concessions, also duty exemptions on raw materials imports were to be phased out and the import duty rate was reduced to less than 40 per cent. In addition, a Foreign Investment Code was adopted to promote foreign investment and investors were to be levied a proportion of turnover for the training of ni-Vanuatu staff. Lastly, there was a review of the public service, through which, public enterprises and joint ventures, particularly of transport activities, were to be managed on a commercial basis and privatized where appropriate. The Government discussed with development partners the possibility of using development funds for maintenance of major infrastructure projects and considered loan finance for urban projects with cost-recovery guaranteed. There was also a review of the exchange rate policy,

In the 1990s, the political instability and numerous changes in government delayed much needed reform as it was difficult to obtain consensus (ADB 2002). In the early 1990s prudent macroeconomic policies were followed, resulting in low inflation, healthy foreign reserves and low debt levels. However in the late 1990s, severe macroeconomic problems became apparent, particularly regarding the balance of payments (Duncan and Nakagawa). In addition, many government institutions were performing badly (Gay 2004). In general, Vanuatu's economic performance in the 1990s hasn't been impressive. It was plagued by low investment with confidence eroded by structural weakness and a history of political instability. The country had nine successive governments between 1995 and 2005. In recognition that these deep seated issues were a hindrance to the country's progress, the government agreed that reform was necessary. The result was the Comprehensive Reform Program (CRP) which was aimed at arresting a perceived policy crisis and downturn in economic performance.

The CRP which started in 1997 was supported by the Asian Development Bank with \$20 million for the reform programme (Gay, 2004:28). It had five main objectives.

- (i) Renewing the institutions of governance;
- (ii) Redefining the role of the public sector;
- (iii) Improving public sector efficiency;
- (iv) Encouraging the private sector to lead growth;
- (v) Improve social security.

These objectives were backed up by aims as well as the actions on to be undertaken by the relevant Ministry or department. In terms of its impact on the country, there were those who were apprehensive about its success (Chand 2002) and those who felt the CRP was less successful (Gay 2004).

Vanuatu like other Pacific Island countries has a history of persistent trade deficits. How a country performs in international trade does have implications for other indicators in the economy such as poverty, GDP per capita human capital and social protection. The CRP, however, ignored the

wider problem that the country has and that is; its chronic trade deficit (Gay 2004:30). Its trade deficit went from 7 percent of GDP in 1983 to 38 percent in 1990(Gay 2004:26). These were in line with high imports the country has against its exports. The trade deficit continued during the duration of CRP programme.

The CRP could have addressed the trade deficit through measures aimed at economic volatility. Since the country is prone to natural disasters and its export base is narrow, it could put in measures to widen the economic base and to target other exports not price dependent. One of the areas to improve on was tourism because of its huge potential to contribute to agriculture by creating demands for food crops but this was also ignored. Furthermore its reform programmes such as sale of government assets which amongst other initiatives aimed at reducing the size of government and encouraging export did not materialize because the necessary legislation to facilitate competition were not approved.

The CRP did not have any positive impact on GDP per Capita and the implications for poverty, although not quantifiable was also depressing. It also had a negative impact on government revenue. Since GDP was stagnant and saddled with a rising population growth rate, GDP per Capita declined. According to UNESCO, the Vanuatu government lost over 3.5 billion vatu [about US\$35 million] in revenue due to the wrong sequencing of privatization and corporatisation (Gay 2004:30). Therefore the fund flowing through to the rural areas for the poor families was severely affected and this may have had repercussions for the alleviation of poverty at that level.

One of the reasons for its apparent lack positive impact can be attributed to how the CRP was devised originally. The CRP was not carried through in a sequence which would have put in place a series of measures such as cutting start-up costs to forming advocacy groups aimed at facilitating an efficient implementation of the programme. The programme, however, was not put through sequencing because there was insufficient ownership by local policy makers (Gay 2004:34). Furthermore while Parliament accepted it, those who will be implementing the policy must also accept. The changing of governments in 1999 and 2000, however, meant that new civil servants and policy drivers were not familiar with the programmes and had no ownership of it.

The CRP programme did have success in addressing objectives 1 to 3. It resulted in more transparency in decision making and lessened the risk of abuse in the area of investment by removing out the Minister from the vetting process. The emphasis on good governance also bore fruit with a more modern public sector in outlook and accountability. In the same arena, the introduction of a new public service code has also reduced nepotism.

The CRP performed poorly in terms of its financial appraisal (Gay 2004:31). According to the CRP document, it envisaged redirecting resources to the delivery of social services (Government of Vanuatu 1999:2). While education was given emphasis other social sectors such as health were also included. The intension of the CRP, however, must be seen in the context of its financial performance. In our previous analysis it was shown the CRP led to a fall in revenue, stagnant GDP growth, a decline in GDP per Capita, slump in foreign investment and persistent trade deficit during the period. The result was a decline in available revenue to deliver quality service in the education or health sectors. It could also mean delivering the same level of funding but would not forge ahead with expansion in the education sector to achieve its target of universal education for every child and education for all ni-Vanuatians.

Several issues remain. Vanuatu in recent years has been low and unstable although there has been some recovery recently. Another major issue facing the country is the creation of more job opportunities for the growing population. Its population growth rate of 2.7 percent at the 1999

census is still high by international standards. In terms of job creation, however, the country was only able to create 14,102 jobs in the formal sector in 1999. The number of jobs created was way below the economic active population and is a cause for concern given its implication for growth and social costs.

The other issue facing the country is the need to improve its infrastructure. There is a need to expand its road system and its utilities in the outer islands. Since the county is fragmented there need to be a good transport and communication system put in place between the provinces. If shipping is the best and cost effective mode of transportation then this needs to be strengthened through government policy and support. Vanuatu's domestic connectivity is poor and it is affecting the delivery of social services in many of the outer islands. It is this which has in the recent years forced many of young people to move to Villa which is the capital city. The problem of urbanization in Villa is likely to become a serious problem in the future.

3.4. Traditional social system

Vanuatu shares a similar traditional social system to other Melanesian countries. Land is an important entity in the life of a ni-Vanuatuan family and is the source of wealth, life and relationship in the context of Vanuatu.

In Vanuatu, the customary title to the land is entrusted to the first born male by the father who held the title of the land. If the first born child is a female, the land owning rights will be bestowed on the eldest male child in the family. In the event that the family who holds the customary land title bears no male child, the title will be passed to the first born female in the family. Further more, if the customary landowner is barren, the family would adopt a male child to whom the land ownership rights would be bestowed. A female landownership system does exist in Vanuatu but only in limited areas and overall the majority follows the male ownership of customary land.

As part of the traditional social system, social protection of the weak, orphans, the aged and those who might have fallen on hard times is a communal responsibility. The important body in this context is the *nakamal*. It is a community of households who are related to each other and is headed by a chief. The chief is the customary land title holder for the *nakamal* and he is the leader of the community. The existence of a number of *nakamals* will form a tribe.

It is within the *nakamal* that the social safety net exists. If for instance a family loses their father or mother, the responsibility for rearing some of the children will fall on their aunts or uncles who are living within the *nakamal*. Their new guardians will be responsible for this child from childhood until the child has been married. In this way, the community ensures that the children's needs are taken care of while lessening the burden on the widow or widower.

With regards to care for the aged, the first born son who is living within the *nakamal* will have direct responsibility for housing a father or mother who can no longer fend for themselves. The other brothers and sisters will not disregard their obligation to the father and and/or mother but would provide assistance from time to time. Daughters who may have married into other *nakamals* would not shirk from their responsibility and would also provide assistance to their parents through their eldest brother who has direct responsibility for the couple.

The responsibility for proving assistance to those in a vulnerable position also falls on the *nakamal* through their members. Members of the *nakama* will assist widows or widowers in the clearing, tilling and planting of new gardens. They will, on occasions assist those in this category in providing wood for their fuel and any chores that require more manpower or strength. Their assistance, is unlike, the western concept which is limited to a certain period but would always be

available whenever needed and required through the future years. Such assistance would only be withdrawn if the spouse has married or if the children have grown and are in a better position to take care of their parent.

3.5. System of Government

Vanuatu was condominium, arising from an Anglo-French Convention, which was signed in the Vanuatu (formerly New Hebrides) in 1906. This declared that the colony would be jointly administered by the two powers (Sope, 1980:17), which resulted in a complex administration of parallel systems in the new colony. With no integrated public expenditure programme, administration and financing was organized according to each power's responsibilities, including separate education systems and laws that were applied in the each jurisdiction. In the pre-Independent era there was no representation of the local population in the decision-making process as the Colonial governments made all the decision affecting the livelihood of the people.

One of the contentious issues during this period which was to have an effect on political developments in the country was the ownership of land. Land was important to the Vanuatu people and was an integral part of the culture (Van Trease, 1987:2). Land purchases occurred early in the country's history such the first recorded sale of land in Vanuatu on Tanna. Over time, more of the country's land was sold to Planters that had settled in increasing numbers in the second half of the Nineteenth Century. These sales and subsequent transactions would later lead to protest movements such as the one instigated by Jimmy Stevens, as detailed below.

Independence was not given to Vanuatu on a silver platter. It had to be earned and the Church played a part, albeit, indirectly, in gaining Independence. It was the Anglican trained Priest Walter Lini who along with some like minded ni-Vanuatu nationals who sowed the seed for independence. Earlier on in his career, Lini and his group organized themselves into the New Hebrides National Democratic Party in 1974, which later became the Vanua'aku Pati. Walter Lini was elected the Party leader and carried the nation to Independence in 1980. They had great support from the people because not only did they wrest independence from the two colonial powers but, under their leadership, a secessionist movement on the island of Santo led by Jimmy Stevens was successfully quelled.

Vanuatu is a parliamentary democracy, which through the constitution, created a republic headed by a president. The National government comprises of the Executive branch, Legislative branch and Judicial branch. The Executive branch comprises the Head of State, Head of Government and Cabinet. The Head of State is the President, who is elected by an electoral college for a 5-year term. The Head of Government is the Prime Minister, who is leader of the party with the majority of members or coalition of members. The cabinet is appointed by the Prime Minister and is responsible to Parliament.

The Legislative branch comprises two bodies. The first is the Parliament which is unicameral with 52 seats. Members are elected from the constituencies for a period of 4 years. Members of the public who wish to contest the General Elections must satisfy certain criteria before they are nominated as candidates. The second body is the National Council of Chiefs or Malvatumauri. The members of the latter body are elected by their peers and they provide advice to government on matters concerning custom and traditions. They also on instances, make recommendation for the preservation of Vanuatu's language and traditions.

The Judicial branch comprises of the Island Court, Magistrate Court, Supreme Court and Court of Appeal. The Chief Justice of the Supreme Court is appointed by the President after consulting the Prime Minister and Leader of Opposition. Other Supreme Court judges are appointed by the

President on the advice of the Judicial Services Commission. The Court of Appeal includes two judges from the Supreme Court and senior judges from other common law jurisdictions in the region.

Local government is based on the provincial system with six Provinces and has two municipal councils in Port Vila and Luganville. The Provinces are administered by a body of both elected and appointed members. Members are elected every two years. A President is elected from among the members of the Provincial body.

By the first elections of 1983, however, the seeming stability exuded by the Vanua'aku Pati prior to Independence was broken. The Vanua'aku Pati experienced disharmony, as Ministers were sacked or resigned for disagreeing with the party hierarchy. In spite of this, the Vanua'aku Pati won all the elections between 1979 and 1991 with Lini as Prime Minister until 1991. During these years, while there was only one major player, there was hardly any uniformity amongst the members of the party and this had implications for stability in the country. The party split in 1991 and Walter Lini, among others, left the party.

The founding party, the Vanua'aku Pati was a grouping formed with the uniting aim of gaining independence for Vanuatu. The party was well organized with party branches in the main centres and further more had support from its supporters both locally and internationally. However, instability experienced in the Vanua'aku Pati paved the way for the formation of the other parties. The National United Party for instance was formed by Walter Lini himself after leaving the Vanua'aku Pati. The Melanesian Progressive Party, and other smaller parties, no longer exists.

When the United Moderate Party gained the government from the Vanua'aku Pati in 1991, it was the first time in nearly two decades that a party other than the founding party came to power. The United Moderate Parties, however, is a combination of the opposition parties and the party was formed after all agreed to come under one banner. This change also saw a period of instability as no one party was able to command a majority in Parliament to form a government and all the governments since then have been a series of coalitions of parties. Since the era of relative stability experience during the Vanua'aku Pati's reign from 1980 to the 1990s, there have been constant votes of no confidence in the governments of the day and frequent changes of Prime Ministers. Since Walter Lini was Prime Minister in 1991, there have been 7 Prime Ministers elected with three of these re-elected to Office twice and Serge Voho, three times. Their elections or downfalls were usually the result of no confidence motions.

While the development of party politics in Vanuatu was welcoming, it has not resulted in the stability experienced in more established democracies like the United Kingdom or closer to home, Australia. This maybe because the parties are not well founded in terms of established policies and also more importantly, the parties are a new phenomenon and it may take many more years before the ordinary voters is educated about the functions and operations of such entities.

3.6. Financial Institutions

Vanuatu has a dual financial system with one based on domestic sector and the other catering for the offshore financial centre (OFC). The financial systems and institutions that operate within the country and are responsible for determining financial policies are the Reserve Bank of Vanuatu, the commercial banks, the Development Bank of Vanuatu (DBV) and the Vanuatu National Provident Fund (VNPF).

The government under the Banking Act of 1970, provided institutions with incentives such as exemption from oversight by the government and tax free status. However they were prohibited

from transacting with Vanuatu residents (IMF, 2002:16). Despite its presence (albeit on paper) over a long period of the country's history, its contribution to the Vanuatu economy has been very limited (IMF, 2002:18).

Reserve Bank of Vanuatu

The Reserve Bank of Vanuatu (RBV) previously operated as the Central Bank but changed to its present name through an amendment to the Central Bank Act of 1980 in 1989. The RBF has authority and supervisory powers over the commercial banks, the DBV and the VNPF and aimed to ensure the continued financial stability in the financial sector. It did exercise its power in 1989 when the Vanuatu Savings Bank was placed under its interim management.

The objectives of the RBV are contained in the Central Bank Act of 1980. They are (i) regulate the issue, supply and availability of money; (ii) supervise and regulate banking business; (iii) promote money stability; (iv) promote a sound financial structure; (v) foster financial conditions conducive to the orderly development of Vanuatu; and (vi) advise the government on banking and money matters

In line with its regulatory role, the RBF is required to hold statutory reserve deposits on behalf of the commercial banks. It also has the power to set minimum and maximum interest rates on time deposits and loans and the ceiling for loans. The RBV has not exercised these powers to date.

Commercial Banks

The four commercial Banks in operation in the financial sector are the Australian owned ANZ and Westpac Banks, as well as Bank de France and the National Bank of Vanuatu. The latter is the only locally incorporate bank with other three being branches of international banking conglomerates.

Development Bank of Vanuatu

The DBV was established in 1982 by the government through an Act of Parliament. Its purpose was to facilitate and promote economic development of the nation's resources with emphasis on the agriculture, fisheries, manufacturing and tourism. The DBV was tasked with the responsibility of providing capital to those who wish to develop business enterprises in the latter sectors but who lacked the initial resources. Initial funding was provided through an initial share capital by the government but this has been augmented with borrowings from the latter and International Financial Institutions such as the Asian Development Bank.

The DBV operation has been beset with problems during the 1990s due to non-performing loans. An enquiry launched by the Ombudsman's Office, found that due to political influence and mismanagement, the DBV had lost millions of dollars as a result of these non-performing loans as the management had ignored established policy and sound management practices in administering the bank's loan. The Development Bank of Vanuatu was eventually dissolved in Parliament in September 1998.

The failure of the development bank explains why much of the rural sector, where families were engaged in agriculture and fisheries, did not do well and have not been able to improve their living conditions.

Vanuatu National Provident Fund

The VNPF was established in 1986 under the Vanuatu National Provident Fund Act (Cap 189) and commenced operation in 1987. The VNPF is a compulsory saving scheme into which both the employee and employer contribute for the benefit of the former, with the purpose of paying

pensions and investing members' fund in order to obtain a better return. The VNPF is a self-supporting entity due to the various investments it has within the economy.

The VNPF was mired in controversy during the 1992-1995 period due to its problems with housing loan scheme. Housing loans were extended to people including politicians who did not have the ability to make repayments and this almost led to a collapse of the institution. The Ombudsman's Office carried out an investigation into the housing loan scheme and found that it was not administered according to sound financial principles as most of the loans were taken up by politicians and their supporters, often without any proper assessment and safeguard. The failure of the scheme was attributed to political influence and bad management practices.

Since its inception, the VNPF has grown to be an organization of some 35,000 members as at 1997 (ROVO, 1997:7). It has not only grown in membership but has also extended its services, which now includes housing loans, education loans, death benefits; the option of pension benefits has now been abolished.

While the VNPF is an important institution, its coverage is still very small as it only includes people in formal employment, both civil servants and those employed in the private sector. Vanuatu's current working age population is 114,000 (Hughes and Sodhi, 2008). Of this only 23,801 (20 percent) are employed in the formal sector. About 90,199 (79 percent) are unemployed and underemployed. In addition, the majority of the total working age population (45,100 or 40 percent) are underemployed or unemployed males. On annual basis, about 4,899 people enter the labour force each year. These shows that majority of the people are not covered by any social protection policies in Vanuatu. The response to this, however, is the strong social networks, family and kinship ties which takes care of those not covered by the formal sector policies.

3.7 Social Situation

In the pre-independence period, the provision of social services was mostly the responsibility of the colonial government. The British and French ran separate health and education systems. After Independence, the new Vanuatu government unified these two systems providing one system for social service provision as this duplication of systems and high illiteracy were identified as major structural problems at this time. The churches also played a role in the provision of some health services and ran some schools in the country but not on the scale as the two colonial powers did. In the urban areas they provided water, sanitation and housing for workers. In the rural areas piped water was also provided to the communities.

Social conditions in the Pacific Island countries, including Vanuatu, improved in the 1990s; particularly in comparison to the 1980s. However, in spite of these positive trends there are still areas in which the country could improve particularly the need for further improvements in education and health infrastructure. After independence the focus has been on education and health and often the extent of poverty is not considered carefully. In fact, in some case, policy makers sometimes even consider poverty non-existent purely on the basis of daily provision of food for families. The social conditions in Vanuatu would be best considered through its provision of social services such Education and Health Services to its population. Social protection policies under the Vanuatu National Provident fund covers those employed in the formal sectors. Housing conditions are also a problem but often not considered carefully in the mainstream social policy development.

In terms of the Human Development Index, Vanuatu in 2006 ranked 123 out of 179 countries, which is classified as a medium human development. In the regions, this puts Vanuatu behind Samoa, Tonga and Fiji but above other Pacific Island countries such as Solomon Islands and Kiribati. This level of human development is roughly what would be expected for its income level.

3.7.1 Education

Literacy

Vanuatu had one of the lowest literacy rates in the Pacific in 1978 with only its two Melanesian neighbours having lower rates. As table 16 indicates that the literacy rate, for 199x, were very low for Vanuatu, with levels of illiteracy lower only in the Solomon Islands and Papua New Guinea. Literacy rates for both males and females were very low with adult literacy being less than 40%. The situation remains difficult as Vanuatu's population continues to increase. However, this has been changing and Vanuatu is making progress towards better literacy rates, according to data from the 2008 Human Development Report 77.3 per cent of people aged 15 and above are literate (based on 1999 to 2006 data), this figure compares poorly with Tonga and Samoa, both of which have close to 100 per cent literacy rates. The level in Vanuatu is similar to the Solomon Islands.

Table 16: **Gross primary and secondary enrolments and literacy rates for adults for selected Pacific Island countries**

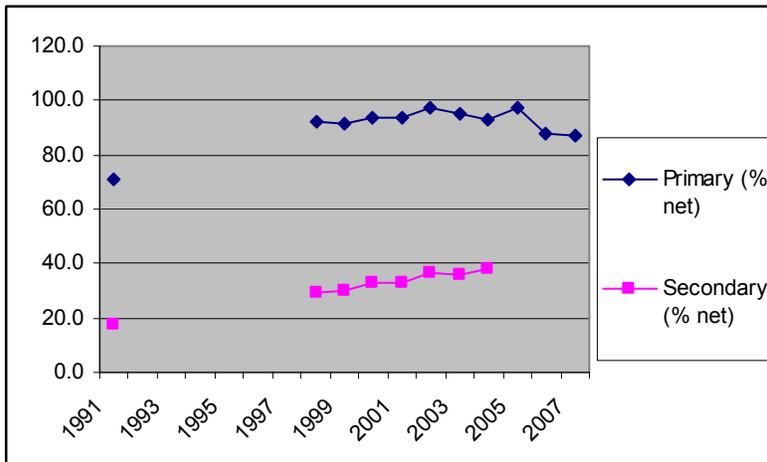
Country	Enrolments		Illiteracy (%)
	Primary	Secondary	
Cook Islands	77	45	7
Fiji Island	-	36	7
FSM	83	44	29
Kiribati	77	44	8
Marshall Is	26	79	26
Nauru	96	34	5
Niue	96	53	3
Palau	90	67	9
PNG	31	23	72
Samoa	94	70	4
Solomon Is	39	24	70
Tokelau	96	61	9
Tonga	90	67	1
Tuvalu	88	34	5
Vanuatu	72	22	66

Source: Based on UNDP, 1999 (pp. 13, 110)

School Enrolment and Attendance

Although the country has been independent for a number of years, access to education has seen little improvement. In 1998 as indicated in Table 16, only 72% of children in the age group 5-14 years were enrolled in primary schools. Enrolments at the secondary school level also show a discouraging figure with only 22% of the children in the age group 15-19 years attending Secondary school. Figure x below shows data on net school enrolments, from the World Development Indicators database, this shows a dramatic increase between 1991 and 1998, particularly in the case of net primary enrolments which increased from 70.6 to 92 per cent over the period. The net secondary enrolment increased from 17.3 to 29.6 per cent over the same period. In the last few years, net primary enrolment has decreased slightly. Tertiary enrolment increased slightly in the period 1999 to 2004, from 4 per cent to 4.8 per cent. Similarly to other social indicators this is lower than the levels for Samoa, Tonga and Fiji but higher than the level in the Solomon Islands. In terms of tertiary enrolment, the level is similar to that of Tonga.

Figure 8: Net Primary and Secondary enrolment 1991 - 2007



Sources: World Bank, World Development Indicators (2009)

3.7.2 Health Indicators

Mortality

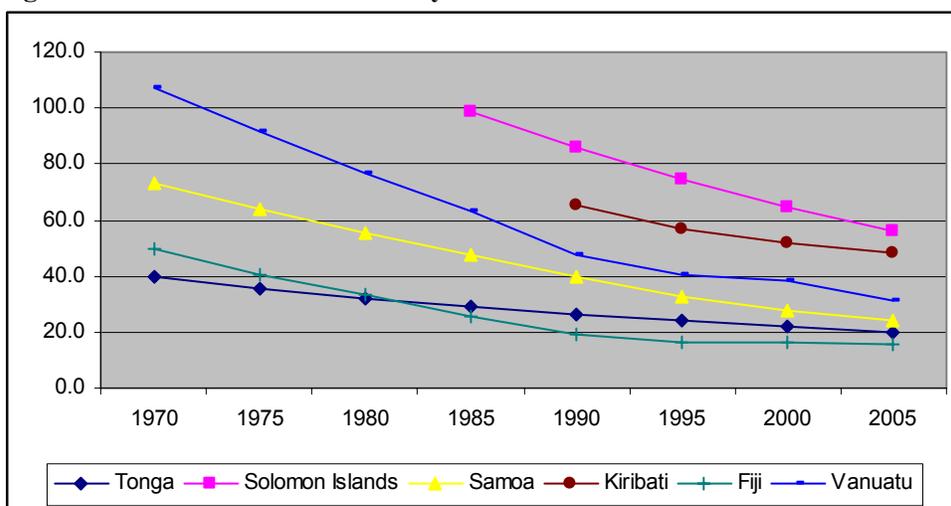
Data on mortality for Vanuatu is only available on hospital deaths, because of deficiencies in the vital registration system (Taylor, 1990:6). Such data should also be treated with caution since data for chronic diseases such as cancer would be under represented since such patients are usually sent home to die.

Communicable diseases are the main cause of death in the Melanesian countries such as Vanuatu. Prevalence rate is high for Vanuatu with 15,240 cases reported and rate per 1000 of 71.90 (ESCAP, 2005:54). While the number of deaths may not be reported this would have been masked by the bad reporting system of deaths currently in place. Malaria is less of health problem now than in Solomon Islands and Papua New Guinea but number of reported cases and deaths may rise in the future as malaria becomes resistant to the traditional drugs.

Infant mortality

Infant mortality had improved markedly over the years, particularly between 1970 and 1990 as shown in Figure 9. While the 1967-1979 figures may have been an estimate, what is important is the general trend of improvement. From an infant mortality of 94 in a 1,000, about 15 years ago, it has improved to 45 in a 1000 births and the most recent data shows that it is down to 33 (See table 19) In comparison to Kiribati, Papua New Guinea and the Solomon Islands Vanuatu has done well. This is a reflection in the improved medical services which has seen a general improvement in infant mortality. The rate of 31 per thousand births in 2005 is comparable with the regional average for East Asia and Pacific of 24.9 in the same year.

Figure 9: Trends in infant mortality rate



Source: World Bank. World Development Indicators (2009)

Table 19 Social indicators of development

	Solomon Islands	Papua New Guinea	Fiji	Vanuatu
Life expectancy	61 ^a	57	69	68
Illiteracy rate (adult)	..	35	7	..
Primary school enrolment rate (data for 2000)	56	77.4	94.7	78.2
Under 5 mortality rate (per '000 live births) ^b	73	88	22	33
Under-weight children (per cent of <5yr olds, data for 2000) ^b	21.0	24.9	15.0 ^c	12.1
Fertility rate	5.3	4.4	2.7	4.4
Forecast population growth rate (2004-15) ^b	2.3	2.2	0.7	2.7
Incidence of malaria (per 100,000 population, data for 2002) ^b	16,170	1,430	-	6,930
Death rate from TB (per 100,000 population, data for 2002) ^b	14.8	56.0	0.4	16.3
Number of known HIV / AIDS cases (date)	2 (2/2004)	7,320 (8,2002)	142 (12/2003)	2 (12/2003)

^a Data from Solomon Islands National Statistics Office, 2005. *Social Statistics*, Government of Solomon Islands, Honiara.

^b Data from Secretariat of the Pacific Community, 2004. *Pacific Islands Regional Millennium Development Goals Report 2004*, November, Secretariat of the Pacific Community, Noumea.

^c Data for 1990.

Source: Data for life expectancy and fertility rate (that is, the number of live births per '000 women) are for 2001 and extracted from World Bank 2003. *World Economic Indicators*, World Bank, Washington, DC.

However there is a significant difference in the IMR between urban and rural areas. This is understandable given the improved health services in the urban areas and also the existence of referral hospitals in such areas.

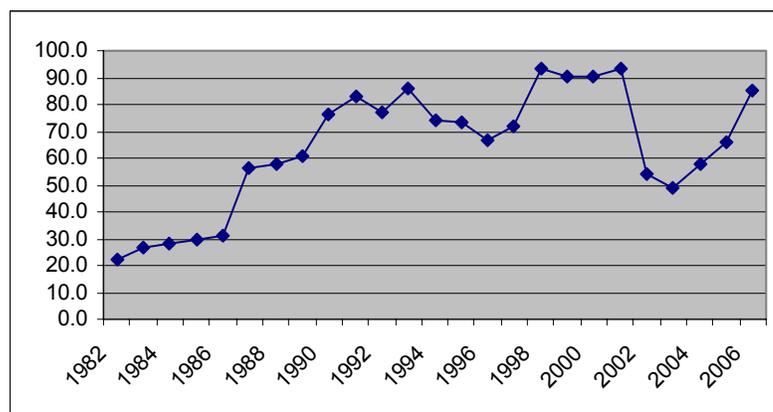
Life expectancy

Data for the period 1974-1978, obtained from the 1979 census give a life expectancy at birth of 56.2 years for males and 53.7 years for females which is an overall life expectancy of 55 years while life expectancy at age 15 was 50 years and 49.6 years for males and females respectively (Taylor, 1999:27). The recent figure showed that life expectation at birth had improved by 20 percent from 55 years to 66 years in 1998 and was comparable to most Pacific Island countries with the exception of Cook Islands and Niue which exceed this value (UNDP, 1999:16). Data from 2006 (WDI) shows that the life expectancy further increased to 69.8 years, which is higher than most countries, including Fiji (with the exception of Samoa and Tonga).

Access to Health

The data on births attended by skilled personnel is fairly high at 88 per cent (2006, based on WDI 2009) although this does not compare well with other countries as it is lower than in Fiji, Kiribati, Marshall Islands, Palau, Samoa and Tonga. Also, the figure has remained fairly constant since 1994, when it was 87 per cent. Also the number of hospital beds per thousand people has shown a decline over the period 1970 to 2003 from 10.7 to 2 per thousand. The level of immunization of DPT since soon after independence has increased dramatically, especially initially. However, there was a notable decline and recovery in recent years.

Fig. 10: Immunization Rate in Vanuatu



Source: World Bank, World Development Indicators

Crime

Table 20 shows the crime rates in Vanuatu. Compared to Fiji and Papua New Guinea, Vanuatu is considered a relatively crime free society but as the figures show, crime is increasing. As Vanuatu becomes more urbanized, especially with the concentration of people in Port Villa, crime rate is likely to increase further. This also suggests that with urbanization, social cohesion, community values and close community bonding is affected and it is one of the factors that contribute to a bigger crime rate. Vanuatu's population is projected to increase by 22 percent between 2007 and 2015 (SPC PRISM Data base) and this is likely to cause further strain on the urban infrastructure and availability of employment. This could cause social friction and crime rate amongst different communities could increase in future.

Table 20: Crimes Committed in Vanuatu 1996 – 2001

Crime Category/Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	
Against Person	406	265	n.a	845	373	424	295	n.a	287	
Against Morality		37	26	n.a	56	78	60	105	n.a	64

Against Property	730	709	n.a	730	744	1,031	611	n.a	457
Against Public	171	86	n.a	178	163	188	89	n.a	108
TOTAL	1,344	1,086	n.a	1,889	1,358	1,703	1,100	n.a	916

Source: 1996 – 2001: Statistical Yearbook of Vanuatu, 2002:2002 – 2004: Url: www.spc.int/prism/country/Stats/Social/CRIME/crime

Labour Force

Table 21: **Employment in Vanuatu: 1986 – 2002**

Sector	1996	1997	1998	1999	2000	2001	2002
Agriculture, Fishing & Forestry	998	954	730	706	748	836	905
Manufacturing	1696	1622	1240	1199	1273	1423	807
Electricity & Water	208	200	162	147	156	174	107
Construction	1118	1068	828	790	838	937	1497
Wholesale & Retail	3292	3146	2410	2327	2466	2758	2770
Trade, Hotel/Restaurants	2177	2082	1591	1539	1631	1824	1300
Transport & Communication	1372	1310	1002	969	1027	1152	1590
Financial & Insurance	607	580	443	429	455	510	367
Other Business Services	710	678	518	502	532	790	312
Other Services	895	855	632	633	671	750	637
Domestic Service							1909
Education							2000
Government Services	5167	5140	5012	4861	4475	3894	2513
Total	18240	17635	14568	14102	14272	15048	17385

Source: 2002: ILO, 2006:1996 – 2001: Statistical Yearbook, 2002

3.7. Social Policies

The government did not indicate any broad social policies in the First National Development Plan 1982–1986. It instead developed a series of specific objectives that it aimed to achieve in Health and Education sectors, these areas were identified, at independence, as structural problems that needed to be resolved.

At Independence Vanuatu inherited two health systems from the two colonial powers which were a duplication of resources and manpower and therefore, unaffordable. The government therefore spent the first National Development Plan period rationalizing the facilities and services that became part of its unified health system. The plan aimed to provide a basic physical, mental and social services for the nation and promote and maintain high standard of health nationally. This included ensuring health services were accessible to all communities and in particular to upgrade services in low income areas. The plan also aimed to achieve efficiency within the Ministry of Health and in its delivery of services and to unify the provision of health services especially in the areas of teaching and training and Mission health units

In the Health sector, curative system includes the referral hospitals and specialist services that are offered from the urban areas, especially in Port Vila while its Primary Health Care system is the main type of health services offered in the rural areas. The backbone of the rural services includes the health centre and dispensaries. The government is still responsible for the provision of

sanitation, water and housing for its workers in urban areas. It has also provided piped water to the communities in the rural areas but the coverage remains poor.

Curative services are provided by the government through four levels of health facilities; Hospitals, the Health Centres, Dispensaries and Aid Posts. The Aid Post is the most basic form of health facility offering basic services in the villages. The Dispensaries are a level up from the Aid Posts and offer additional health services as well as been manned by a nurse. The Health Centre's operate on a much higher level with more specialized services than the first two facilities and is usually manned by doctors and nurses. The Hospitals offer the most specialized services in the country and comprises the Provincial hospitals and the two referral hospitals. It should be noted that the referral hospitals operate on higher levels and offer more specialized services than those located in the Provinces.

A comparison to the data for 1982 and the period starting 1991 indicates that some levels of health facilities had increased. The number of Dispensaries and Aid Posts increased by just over 19% and 57% respectively, an indication of government's emphasis on its Primary Health Services at the expense of Health Centre facilities which in fact experienced a reduction of around 43% between 1986 and 1991. Between 1991 and 2001, the number of health facilities has basically showed no change.

The lack of upward trend in health facilities in recent years suggests that recurrent funds for the health sector for capital development have been reduced or remained stagnant since 1990 as the government focuses on other priority areas. While data on the 2002 to 2008 is not available, what is prudent for the government to do is to review the health sector to ensure that the health services it offers is commensurate with the population growth rate and therefore is meeting the needs of the people. It is projected that the population of Vanuatu will grow by 2.5 percent between 2007 and 2015 and therefore the government will need to make large investments in the health infrastructure if it is to achieve some of the targets in the Millennium Development Goals (see further discussion under the MDG section).

As shown by Table 24 the health expenditure over the years has been around ten per cent of GDP, almost half of that for education and on average it remained roughly the same between 1981 and 2003.

Table 24: **Recurrent Expenditure on Health 1981 – 2000**

Year/	Gov't Recurrent Expenditure ^a	Health Recurrent Expenditure ^a	Health R. Exp. / Govt R. Exp. (%)
1981	2,371	275	11.6
1982	2,486	353	14.2
1983	2,565	367	14.3
1984	2,825	406	14.4
1985	3,316	436	13.1
1986	3,651	441	12.1
1987	3,638	408	11.2
1988	3,960	456	11.5
1989	4,051	424	10.5
1990	4,943	457	9.2
1991	4,693	484	10.3
1992	5,112	517	10.1

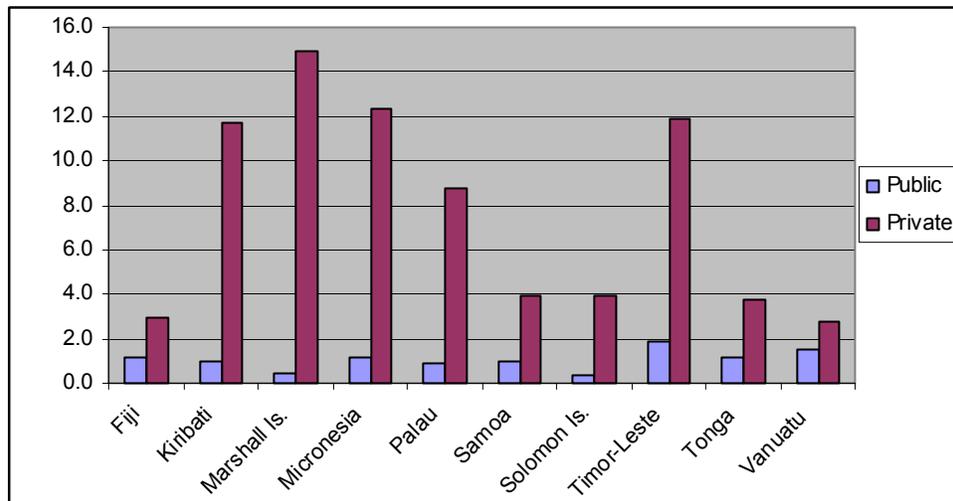
1993	5,373	612	11.4
1994	5,451	490	9.0
1995	6,411	581	9.1
1996	6,800	655	9.6
1997	6,423	825	12.8
1998	7,118	819	11.5
1999	7,232	842	11.6
2000	7,259	878	12.1
2001	7,199	908	12.6
2002	7,230	926	12.8
2003	7,192	925	12.9

Note: a; Denominated in millions of Vatu

Sources: 1981: Second National Development Plan 1987 – 1991; 1982 – 1989: Third National Development Plan 1992 – 1996; 1992 – 1996: ADB, Economic Performance & Reform Issues, 1997 1997 – 2000: Vanuatu: Selected issues and Statistical Appendix
2001 – 2003: IMF, 2005

Using data from 2005, public health expenditure as a percentage of GDP was 1.5 per cent, which is low internationally (six per cent of GDP is the global average), but compares well with the rest of the region. Also, private health expenditure is quite low; accounting for 2.8 per cent of GDP, of this 50 per cent is made up by out-of-pocket payments, which represent regressive forms of health financing. Overall the amount of public health expenditure per capita is 67 current US dollars, low compared to the rest of the region.

Figure 11: Public and Private Expenditure as a percentage of GDP



Source: World Bank. World Development Indicators (2009)

There are many challenges that persist in the health sector. In particular, there is a lack of people who are skilled enough to undergo medical training and therefore a lack of skilled medical professionals. Also, there is an urban bias in health expenditure and distribution of personnel, with the two main hospitals being well-staffed compared to the more provincial hospitals. The health system in Vanuatu has suffered from underfunding (Connell 2008).

Education

In the education sector, the objectives of the First National Development Plan were to ensure a full system of Class 1 to 6 for all children over 6 years of age and providing for an increase in Primary School numbers by one fifth (18 percent), with a common curriculum in the English and French languages. In addition the plan aimed to extend the primary class provision for more pupils by providing Practical Classes 7 and 8, for more than half of the pupils who are not selected for academic secondary education, with a common curriculum in English and French languages. The plan also aimed to provide for the education or training of primary school teachers in the English and French language media of education, by means of a common teacher education programme and train instructors for the increasing capacity of Practical Classes 7 and 8. As part of the legacy of dual systems, it was necessary to assess the curriculum and produce a common curriculum for the English and French language. At the tertiary level, the Government aimed to formulate policy decisions on the provision of education both internally and externally while continuing with current tertiary level institutions and scholarships.

The government's Second National Development Plan 1987–1991 also drew on these social objectives as guidance for development of the social sector. The government provides and is responsible for the quality of education offered in the country. The structure of the country's education system comprises of pre-school, 6 years of primary schooling, 4 years of junior secondary school studies, 3 or 4 years of secondary school studies, technical or vocation education and attendance at the University of the South Pacific or other universities in metropolitan countries for the small minority of students who successfully complete Year 13 or Year 14 and are awarded scholarships.

Vanuatu, as other countries in the region has obligation to meet two of the International commitments; Education for All (EFA) and the Millennium Development Goals MDG). EFA aims to improve early childhood care and education, universalize primary education, ensure adequate access to training schemes, improve adult literacy, reduce gender inequalities and improve quality. The MDGs reinforce the commitment to universal primary education and gender equality. The government has already prioritized four of the EFA goals to focus on over next few years. The government recognizes that the EFA and MDG are interrelated with the achievement of one of the goals under either of them. The government also recognizes that education can be used as a tool in the fight against poverty. Therefore the EFA Action Plan for Vanuatu is an important tool to develop education to achieve a number of the MDGs.

Table 22 shows that while the expenditure on education as a percent of total government expenditure was on the increase in the late 1980s, it began to decline in the 1990s. However, it picked up from the early 2000's.

Table 22: Government Expenditure on Education 1987–2003

Year/	Gov't Recurrent Expenditure ^a	Education Recurrent Expenditure ^a	Education R. Exp. / Govt R. Exp. (%)
1986	3,651	946	25.9
1987	3,836	926	24.1
1988	3,960	997	25.2
1989	4,051	860	21.2
1990	4,523	888	19.6
1991	4,693	926	19.7
1992	5,112	1,079	21.1
1993	5,373	1,128	21.0

1994	5,451		1,233		22.6
1995	6,411		1,330		20.7
1996	6,800		1,269		18.7
1997	6,423		1,396		21.4
1998	7,118		1,582		22.2
1999	7,232		1,732		23.9
2000	7,259		1,843		25.4
2001	7,199		1,932		26.8
2002	7,230		2,065		28.6
2003	7,192	2,074		28.8	

Note: a: Denominated in millions of Vatu

Source: 1986: World Bank, 1992; 1987 – 1996: ADB, 1997; 1997 – 2000: IMF, 2002
2001 – 2003: IMF, 2005

Future trends indicated that Vanuatu like Solomon Islands and PNG would face increasing demands for education infrastructure. Table 23 shows expected growth of school age population. In the case of Vanuatu primary population is likely to increase by about 13 percent between 2009 and 2015 and for this it would extra 146 teachers and about 15 primary schools.

Table 23: Expected Growth of School Age Populations (2009-2015) Percentage Change

Age group	Fiji	New Caledonia	Vanuatu	Solomon Islands	PNG
Primary Ages 6 to 13	-2	-4	13	15	12
Secondary Ages 14 to 17	2	-4	1	21	11
Tertiary places Age 18 to 21	10	3	8	13	12
Total Population Growth	4	9	16	16	14

Source: SPC PRISM DATA BASE

In women and development its overall objective was to realize the potential of women as partners and beneficiaries of the development process in Vanuatu. This is an important area for the government if it wishes to have women contribute more significantly to the country's development.

3.8. Response to Crisis

Vanuatu has been prone both to natural disasters as well and this has caused instability within its economy. The instabilities to be considered in the section arose not from the causes of natural disasters but rather they were man made. It was the making of the country's own citizen. Both occurred in the 1990s, a period when the country experienced great instability.

1998 Crisis

The Vanuatu National Provident Fund as outlined in a previous section is a saving scheme that was established purposely to safeguard the interest of workers welfare, especially pensions for their retirement. A few years after it was established the government through the Minister responsible directed that it operate a housing loan scheme which was mismanaged due to political influence from the government. In administering the loan VNPF management has paid total disregard for sound financial principles and as a result many of these loans were found to be nonperforming with little hope of recovering the loan and interests. In fact the enquiry found that the total loan

disbursed were equivalent to 1/3 of the VNPF's total asset (ROO, 1997:6). The VNPV was in a precarious position and its collapse would bring instability to the financial sector.

Members of the VNPF rioted in January 1998 sparked by the report of the Ombudsman that pointed to misuse of members fund in the housing loan scheme due to political influence and mismanagement. This prompted the government to direct the VNPF Board to allow members to withdraw their funds. The unconditional withdrawal by members of their savings depleted VNPF's resources and caused instability in the financial system due to increased liquidity. At the same time due to the expected devaluation there was an increase in capital outflow which led to a reduction in the country's international reserves from 6-months to less than three months by the end of 1998 (IMF, 2005:13).

The Reserve Bank's response was to develop new instruments that absorbed liquidity and tightened financial control. This was the Preserved Reserve Asset (PRA) and the Open Market Operations. The use of the two instruments retained liquidity and restored financial stability and the confidence in the country's currency. These instruments have gradually become the main tools for managing liquidity. The Comprehensive Reform Programme, as discussed earlier, was largely a response to these crises.

4. Some Comparative Analysis of Solomon Islands and Vanuatu Social Development Indicators and its MDG targets

This section provides some discussion of social development indicators of Solomon Islands and Vanuatu compared to other small states in the Pacific. With respect to poverty (see table 25) Solomon Islands recorded a national poverty of 22.7 percent based on the 2005/2006 household income and expenditure survey. Vanuatu recorded a 40 percent national poverty based on the 1998 household income survey. Noticeable is the higher level of poverty in the urban areas in both Solomon Islands and Vanuatu.

Table 24: Poverty headcount ratio (% of population below the national poverty line)

Country	MDGI 1b: % of Population Below Basic Needs Poverty Line			
	National	Urban	Rural	Year & Source
Cook Islands	12.0	-	-	1998 HIES
Fiji	25.5	27.6	24.3	1990/91 HIES
	34.4	31.8	38.1	2002/03 HIES
Kiribati	50.0	51.0	50.0	1996 HIES
Marshall Islands	20.0	-	-	1999 Census
FSM	27.9	29.5	32.9	1998 HIES
PNG	37.5	-	-	1998 HIES
Samoa	20.3	23.3	17.9	2002 HIES
Solomon Island	22.7	32.2	18.8	2005/06 HIES
Tonga	22.3	23.6	22.8	2001 HIES
Tuvalu	29.3	23.7	23.4	1994 HIES
	25.9	29.8	24.7	2004/05 HIES
Vanuatu	40.0	-	-	1998 HIES

Source: ADB, World Bank, UNDP Estimates, Pacific Regional MDG Report 2004

Prevalence of underweight children below five years is higher in Solomon Islands than in Vanuatu (see table). The only other country which has a higher percentage is Papua New Guinea. In terms of MDG 1 Target 2, table 26 shows that the prevalence of underweight children is high in Marshal

Islands and Kiribati. On the other hand Samoa has shown remarkable improvement in the prevalence of underweight children. FSM, PNG, and Solomon Islands and Vanuatu have shown no or marginal improvement. There is no data available on Palau, Tuvalu and Nauru. In the case of Niue, HIES Report of 2000 record 0% prevalence of underweight children below five years of age.

Table 25: Prevalence of underweight children below five years of age

MDGI 4: Prevalence of underweight children below five years of age (%)		
Country	1990	2000
Cook Islands	-	10.0
Fiji	15.0	
Kiribati	5.1	13.0
Marshall Islands	19.0	27.0
FSM	13.3	15.0
PNG	29.0	24.9
Samoa	6.0	1.9
Solomon Islands	23.0	21.0
Tonga	1.6	2.0
Vanuatu	-	12.1

Source: Pacific Regional MDG Report, 2004, ADB

Primary education across most of the regions in the pacific is compulsory and free and similarly education happens to be a major component of national budget in all PICs. All PICs recognize and ensure that all males and females and even children have access to basic education.

On MDG 2, table 26 shows that the net enrolment levels have increased in Vanuatu (5%), Kiribati (23%), PNG (17%) and Solomon Islands (43%) whereas Marshall Islands and Nauru have shown a decline in their net enrollment ratio by 20% and 15%. Interestingly the region's average has increased by 4.5% between 1990 and 2000. Figures also suggest that 7 PICs have achieved an enrolment rate of approximately 90% or higher.

Table 27: Net Enrolment Ratio in Primary Education

MDGI 6: Net Enrollment Ratio in Primary School (%)		
Country	1990	2000
Cook Islands	-	92.3
Fiji	92.0	94.7
FSM	93.7	92.3
Kiribati	76.2	93.5
Marshall Islands	89.7	84.1
Nauru	75.1	60.3
Niue	-	90.2
Palau	81.8	76.2
PNG	66.3	77.4
Samoa	82.0	87.0
Solomon Island	39.0	56.0
Tonga	91.6	89.4
Tuvalu	98.2	99.6
Vanuatu	74.5	78.2
Country Average	79.8	83.4

Source: Pacific Regional MDG Report, 2004, ADB

Another indicator on MDG 2: *Proportion of pupils starting grade 1 who reach grade 5* based on the Pacific Regional Progress Report (2004) show that for the eight PICs for which recent data are available, five show survival rates of approximately 90% or higher. Other PICs show a fall since 1990s, reflecting the difficulty some families have in affording education for their children. The average rate across countries also shows a decline by 4.1% since 1990. There is few data available on *literacy rate of 15-24 years of age* and no accurate recent data are available for a number of PICs. Figures suggests that eight PICs have achieved literacy rates of 90% or higher between 1990 and the present. The average rate across these countries has also increased by 13% between 1990 and 2000. Although data is a bit sketchy, both Solomon Islands and Vanuatu seem to making progress but it seems both will not meet the MDG targets.

Table 28: Proportion of pupils starting grade 1 who reach grade 5 & Literacy rate of 15-24 year-olds

Country	MDGI 7: Proportion of pupils starting grade 1 who reach grade 5		MDGI 8: Literacy rate of 15-24 year-olds (%)	
	1990	2000	1990	2000
Cook Islands	100.0	98.2	-	93
Fiji	91.4	88.4	-	99
FSM	-	66.9	71	-
Kiribati	98.0	-	92	-
Marshall Islands	88.0	86.1	74	-
Nauru	-	92.0	-	-
Niue	-	90.5	95	100
Palau			-	91
PNG	58.1	56.8	61	62
Samoa	-	84.0	96	99
Solomon Island	85.0	-	62	-
Tonga	84.0	-	-	99
Tuvalu	95.8	-	95	-
Vanuatu	90.2	91.2	34	-
Country Average	87.8	83.7	76	89

Source: Pacific Regional MDG Report, 2004, ADB

Goal 8 reflects on the ways developed countries in partnership with developing countries can help to developing countries achieve the seven MDGs. Developed countries efforts is in providing additional development assistance, market access and debt relief will to a large extent determine if some of the PICs can achieve the targets and sustain them. Historically PICs have been receiving high amounts of Official Development Assistance (ODA) in per capita terms due to the vulnerability of their economies. The Pacific regions share of global aid assistance is declining but aid assistance in per capita terms still remains high. PICs also face significant trade deficit due to their small size of economies, remoteness, lack of infrastructure, low levels of FDI inflows etc. Developed countries have committed themselves to increase their share of ODA to developing countries to 0.7% of their GNI. Trends are that ODA level in the pacific could decline in future and therefore it becomes a primary challenge for PICs to secure external finance since achieving MDGS in PICs depends on it. Both Solomon Islands and Vanuatu seem to be managing their budgets better. Debt service as a percent of total exports has declined between 1990 and 2000. Vanuatu seems to be doing better than Solomon Islands in this area.

Table 29: ODA in SIDS as proportion of their GNIs and Debt Service as % of Exports of Goods and Services

Country	MDGI 37: ODA received in SIDS as proportion of their GNIs		MDGI 44: Debt Service as % of Exports of Goods and Services	
	1990	2000	1990	2000
Cook Islands	-	-	-	-
Fiji	3.8	1.78	12.0	2.1
FSM	29.8	41.5	43.0	22.0
Kiribati	35.97	21.86	13.3	8.7
Marshall Islands	31.2	48.5	39.8	61.4
Nauru	-	-	-	-
Niue	-	-	-	-
Palau	-	27.7	-	-
PNG	13.3	8.3	-	-
Samoa	29.0	11.7	5.8	10.8
Solomon Island	22.1	23.9	11.9	6.9
Tokelau	-	-	-	-
Tonga	25.4	11.9	2.9	2.8
Tuvalu	-	-	-	-
Vanuatu	30.6	21.0	2.1	1.1
Country Average	24..57	21.81		

Source: SPC MDG Database 2004

5. Political Economy of Social Policies in Vanuatu and Solomon Islands

The discussion on social policies in any country invariably involves the discussion of economic and politics, following from the tradition of Adam Smith and David Ricardo when they referred to the relationship between the two as political economy. Segura-Ubiergo (2007:1) defined the welfare state ‘as a repertoire of state-led policies aimed at securing a minimum of welfare to its citizens- that is , protecting them against the risks of unemployment, sickness, maternity and old age and providing an adequate accumulation of human capital through public investments in health and education’. Segura-Ubiergo also provides an interesting review of the main theories that define a welfare state and this is related to the thematic papers for the overall study of social policies in small states.

There are at least three sets of theories that explain the development paths of welfare states in developed countries (Segura-Ubiergo, 2007). These include (1) theories that explain the economic policy path that countries undertook such as industrialization or import substitution agriculture, (2) those that focus on the outward oriented economic policies emphasizing trade openness and exports and (3) theories that deal with democracies, political ideologies and workers organizations including more recently the role of NGOs.

In the case of Vanuatu and Solomon Islands, the colonial history explains the political evolvment and the development of welfare policies. Unlike developed countries, which have had long histories of the development of democratic government, both in the case of Solomon Islands and Vanuatu the experiment with democracy was almost imposed by the granting of independence.

In her thematic paper, Hintjens (2008) explores the idea of consensual and participatory forms of democracy. For the Solomon Islands and Vanuatu, both these forms of democracy are important. In both these countries the tradition of democracy or the practice of genuine democracy has always been difficult. In fact, in both these countries, the system of traditional social systems, kinship ties,

the chiefly system and the system of communal ownership of land has blurred the full and efficient operation of a democratic system. Unlike in large and developed democracies, the form of participation by citizens is dependent on the type of demands that put on governments. In addition, these demands determine how elected politicians react and enact legislations for the development of appropriate social policies. Often, politicians get elected through traditional ties, tribal relationships and chiefly links and therefore there is no interest to involve the citizens in any kind of consensus building on social policies that could produce more optimal outcomes.

In the developed countries, democracy is accepted as a precondition for the development of welfare states as most developed countries which are welfare states have had democracy as given and guaranteed. However, many developing countries did not have a history of democracy nor is there a guarantee that those that did will continue to have one. In the case of Latin American countries Segura-Ubiere (2007) finds that 12 out of 14 or 86 percent who had democratic rule were better welfare states. In the case of both Solomon Islands and Vanuatu democracy has been largely maintained even though there have been occasions where it has come under strain. Other factors such as the level of economic development have not allowed these countries to develop better social and welfare policies.

In the second thematic paper, Bertram (2008) points out the need for the state to intervene in the provision of welfare to its citizens and these have always been accepted in the developed and established democracies. Even when the overwhelming emphasis in the developed economies has been to create small governments they have not been able to move away from this responsibility. As pointed out by Bertram (2008) the state has to develop appropriate institutions to deliver the social services. However, for many developing countries, the first step is really to achieve the level of economic development that would allow these countries to develop those institutions and deliver these social services. In fact if economic development through high levels of economic growth is sustainable, then it would be easier to develop those institutions.

In many small states, and this case, in both Solomon islands and Vanuatu, the overall economic growth has been poor and not commensurate with high levels of population growth. Analyses of the development of welfare states suggest that as countries develop, there is a major social and economic transformation, dislocation of populations, change in economic organization and production. When these changes take place, there are people who will be left behind and it is the responsibility of the state then to take care of these people. In fact, applying Wagner's Law, of increasing state activity, it is appropriate to expect that as countries develop, growing state activity will go towards developing social welfare². In the case both Solomon Islands and Vanuatu, the problem has been lack of economic development, but the dislocation and transformation of social and economic organization has still occurred. More people are underemployed, more are unemployed, more are moving towards the urban centres, yet social policies and welfare provision has not been increased.

Another, critical factor related to economic development is the issue of trade openness. This is a debate that many small states are having in their countries. Organisations of small and vulnerable economies as a group in the World Trade Organisation (WTO) negotiations have over the years pointed out the vulnerability of small states to more trade openness and the erosion of preferential trade agreements. In many of the developed countries this debate is still there where interest groups such as farmers, trade unions, NGO's still argue for what Garret (2000a) call a *compensation policy* and invariably this compensation is in the form of increased welfare benefits and support through

² For a recent analysis of the Wagners Law, see Boix, 2001.

maintenance of subsidies and also through non-tariff protection.³ Small states are therefore legitimately asking for similar compensation policies from developed economies and their own citizens, trade unions, NGOs are asking for domestic compensation from their governments.

The Solomon Islands is a member of the WTO and Vanuatu is in the process of acceding to the WTO. More important for both these countries and indeed it is for all other Pacific Islands and Caribbean small states, regional trade agreements and negotiations. In the case the Economic Partnership Agreement (EPA) with the European Union has split the Pacific small states, with Fiji and Papua New Guinea signing the interim EPAs. It is now possible that both Vanuatu and Solomon Islands will also sign the deal. However, more important than the EPA is the negotiations that would take place in the next two years on the Pacific Agreement on Closer Economic Relations (PACER) which is an agreement between the 14 Pacific forum member countries and with Australia and New Zealand. Australia and New Zealand are two major trading partners of the Pacific Island countries and two of the main aid donors to the region. In addition, however, both are keen to move Pacific islands towards a more and advanced state of economic integration. They are expected to use the PACER plus negotiation to ask for more and open trade policies compatible with WTO agreements. The debate in the Pacific Island countries including that in Solomon Islands and Vanuatu is what will be the economic cost of adjustment to achieve more open trade agreements with Australia and New Zealand. The expectation of loss of revenue from reduction in tariff, lower income taxes and higher indirect taxes, and its implications on the poor and vulnerable has received a lot of attention. How the Solomon Islands and Vanuatu deal with these issues is going to be an interesting one as this will determine whether negotiations are going to be successful.

The relevance of Baldacchino's (2008) discussion of the power of jurisdiction is going to be useful in determining the success of the impending trade negotiations with Australia and New Zealand. While the indicators that he uses to assess the power of jurisdiction are relevant for both Solomon Islands and Vanuatu, the effectiveness of those indicators are questionable. While both have had democratic systems of elections, political parties, control over resources and international trade, the institutions governing these are weak. Often these powers collapse because of traditional, chiefly and kinship ties which do not allow these indicators to be realized efficiently. In the case of Vanuatu democratically elected governments have not lasted for more than a year or two because of other factors such as chiefly and traditional obligations and change of political alliances on a regular basis. This sort of instability has not allowed Vanuatu to attract sustainable levels of investment. This has affected its ability to develop better social systems as well as it has not allowed it to negotiate better deals with its aid donors and partners. In fact the weak and unstable governments in the past in Vanuatu have created conditions for exploitation of natural resources such as forestry by unscrupulous international investors. This has also been true in the case of the Solomon Islands.

To address the weak national jurisdictional resources, the Pacific Islands states have embarked on more and better regional cooperation so that where their national capacity and resources are small they these could be pooled together at the regional level so that services and negotiations could be better delivered. There are several examples where this has been successful. The funding of the University of the South Pacific by regional governments is a very good example of delivering higher education to students of the region as many of the small countries on their own will not be able to run a separate institution. In the areas of health, communication, energy, there are several initiatives which could help these countries to deliver services better as well have a more efficient and coordinated approach to international initiatives in these areas.

³ For further and more recent analysis see Rodrik (1997, 1998) and Garret 2000a, 2000b, 2001 and 2004.

There is, however, a threat to regional cooperation from events in each of the countries. The ethnic crisis in the Solomon Islands and the total break down of the governance structure had at one point almost paralyzed the government machinery. It needed the assistance of the two major trading partners and in particular Australia to manage the affairs of the Solomon Islands government. At present, while the Australian presence is still significant, there appears to be a better and more functioning government in place. The 2006 coup in Fiji has put further strain in the process of regional cooperation. Fiji has basically been isolated by Australia and New Zealand and many of the 13 other Island states are supporting Fiji's isolation from the forum activities and that of the commonwealth. Fiji's interim government, however, continues to use its jurisdiction, to move away from Australia and New Zealand and is forging closer ties with China and India which have continued their assistance to Fiji.

Jenson (2008) in her thematic paper address an important issue of social cohesion or social capital and how this could be developed further to advance the welfare of communities. In many of the newly independent countries and particularly those which have diverse ethnic communities, tribal differences and low levels of development, the merging of different interests is vital to developing social cohesion.⁴ However, while there is more emphasis on the lack of social cohesion and how this may have affected the development of social and welfare policies, there is little discussion on the presence of social cohesion amongst communities in a particular country. In the case of Vanuatu and Solomon Islands, communities, tribal groups can be considered to be very cohesive. In fact, the cohesiveness of these different groups and their different interests may be one of the reasons for the poor development of social welfare policies. The theory one could advance as a result of this is in many diverse and ethnically divided countries, social policy development have been hindered by the mere existence of different groups. In many of these countries including those in Vanuatu and Solomon Islands, and others like Fiji, and Papua New Guinea, social cohesion within different groups has hindered national cohesion. Political parties and their policies when in government are driven by these interest groups and budgetary allocation and social spending is based on interest group influences instead of national interests.

Further studies on a regional level could be undertaken to understand the reasons the development or no development of social policies and welfare policies have existed in small states. The problem, however, is the lack of data to seriously evaluate case by case the extent of the development of the social policies in these countries. In this respect the analysis undertaken by Segura-Ubiergo (2007) in the case of Latin American countries could also be undertaken for the Pacific and the Caribbean states. In his analysis Segura-Ubiergo (2007) uses three different methodologies to determine the development of social/welfare policies in Latin America. The three methodologies include the Qualitative Comparative Analysis (QCA), time-series cross section (TSCS) data and in-depth case studies. The QCA has been used by Segura-Ubiergo to analyse the reasons why more extensive systems of social protection were developed in Latin American countries between 1920 and 1973. However, for the Pacific and the Caribbean the more immediate and relevant methodology could be the use of time series cross section data. Segura-Ubiergo uses the data set from 1973 to 2003 to find the relationship between globalization, democracy and the balance of partisan power on social expenditures. The main structural equation is given by the following:

$$\Delta Y_{i,t} = \alpha + \Delta X_{i,t-1} \beta_k + \phi(Y_{i,t-1} - X_{i,t-1} \gamma) + \varepsilon_{i,t}$$

⁴ See Prasad (2006) for a discussion of merging interests in Fiji.

Where $Y_{i,t}$ is social expenditures in country i during year t , Δ is the first differences operator, X is a vector of independent variables and $\varepsilon_{i,t}$ is a white-noise error term. The analysis is based on pooled time series data where the times series from a cross section of countries are stacked on top of one another and analyzed jointly within the same data set.⁵

6. Concluding Comments

In this paper we reviewed the social development policies of Vanuatu and Solomon Islands since independence drawing on various development plans both before and after independence. We conclude that both Vanuatu and Solomon Islands have lagged behind other Pacific Island countries in developing their social policy and achieving progress in developing appropriate welfare programmes for their communities.

We identify several factors which have caused poor social policy development in the two countries. First, the relative states of economic development at independence of the two countries were very poor. Much of the effort in the first decade of independence of both the countries was geared towards building basic social infrastructure such as schools, health facilities, roads, water supply, electricity and communication. Despite this effort the level of economic development remained poor in both the countries. Economic growth rates remained low and were not in commensurate with the rapidly increasing population. One of the ways in which developing countries could develop better social policies is if they have better economic development generally. This means that they would have resources such as healthy government revenues to undertake welfare programmes.

The constraint to increase level of productivity in the traditional agricultural sector which could have contributed to better economic growth overall is the uncertainty about land tenure in both Solomon Islands and Vanuatu. While customary land tenure may have served well for subsistence farming, it has not contributed to fostering commercial farming. The establishment of long-term leasing arrangement could provide more certainty and hence lead to increased productivity in agriculture. One of the issues relating to social policies in these two countries is providing food security. Rice for example, has become a major staple food but hardly any rice is grown in these countries. This is a very precarious position for both the countries considering the rising global food prices. As a policy measure to facilitate the growth of the agricultural sector in both countries appropriate investment in the rural agriculture infrastructure will have to undertaken. These should include appropriate marketing infrastructure as well.

Second, much of the development efforts were squandered by mismanagement and lack of development of appropriate institutions to deliver the basic social services. In the Solomon Islands, for example, lack of appropriate and balance distribution of resources led to large scale ethnic conflicts, which have in recent time's affected economic growth and development in a significant manner. Merging of various interests in the Solomon Islands has been a difficult process and distribution has always a difficult issue for subsequent governments. Social cohesion is vital for better and coordinated delivery of social services and in the case of the Solomon Islands it has been problem. In the case of Vanuatu, the Vanuatu National Provident Fund was badly managed and it almost collapsed. This was one of the key institutions for pension funds for the formal sector employees in Vanuatu. In addition to this, both countries have had a history of poor management of their natural resources, particularly in the management of forestry resources.

⁵ For further discussion on this methodology see Segura-Ubiergo (2007, Chapter, 4, pp.127-172).

The third reason, why social policy development has been weak is the lack of demand from various interest groups. While both Vanuatu and Solomon Islands today have various NGOs which are active in calling for government actions to improve social services in the country and to a large extent they are successful. However, at the time of independence in both the countries, trade unions were only developing and were more concerned about public sector employees. The majority of the populations in these two countries were rural communities and about 70 percent still remain rural communities today, and therefore did not have much room to influence public policies.

The fourth reason is continued political instability in both countries and this is directly linked with economic development success of the two countries. Vanuatu has had changes in government almost annually in the last 15 years and this has affected good and consistent policy making. Solomon Islands too had its share of unstable governments and this has affected investment and growth.

However, despite some of the problems identified above, progress is being made in the area of education and health where some indicators such as life expectancy at birth and infant mortality have improved.

The policy implication emanating from this study is that both Vanuatu and Solomon Islands have to move away from the belief that traditional social systems and kinship ties can look after all those in need of social service help. They both need to invest more in education at all levels to ensure that all primary aged children are in school and that adequate levels of human resources are provided through the provision of higher education. For example, between 2009 and 2015 primary school age children will increase by 13 and 15 percent in Vanuatu and Solomon Islands respectively and both will need an increase in the number of teachers and classrooms. Social infrastructure, although it has been the focus in the post independence period, still needs a significant boost.

Both countries would also need to ensure that they reduce political instability which has caused poor economic performance in the past. Appropriate economic policies which are centered upon key industries such as tourism, agriculture and efficient exploitation and development of natural resources must receive emphasis in their policy priorities. Both Solomon Islands and Vanuatu have not reached any threshold level of social development and so there is much more room for developing it further. In addition, these two countries have not lost any significant amount of human resources through migration, which is a positive thing. We portend that emigration from these two countries are likely to very small at least in the foreseeable future and that there is a lot capacity to use these resources for not social development but for overall development tools as well.

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