

“JUST GET ON WITH IT AND DO IT: Less talk and more action is needed in order to grow the Solomon Islands Economy”

Statement by CBSI Governor, Denton Rarawa, at the launch of the 2013 CBSI annual report, Kitano Mendana Hotel, 5th June 2014

SALUTATION:

Minister of Finance and Treasury, Hon. Rick Hou; Honourable Ministers of the Crown; Distinguished Members of the Diplomatic Corp; Permanent Secretaries; CBSI Board Directors, Chief Executive Officers of State Owned Enterprises and Private Sector Companies; Commercial Bank Managers, Representatives of the Churches, Media, NGO's, Women Groups and Youth Groups, Ladies and Gentlemen.

INTRODUCTION

Let me welcome you and thank you all for accepting our invitation to the launch of the 2013 CBSI annual report, this morning. This event is one of the important occasions on the CBSI calendar as it provides an opportunity for me to report on how the Solomon Islands economy has performed last year; comment on the prospects for the coming year and account for the Central Bank's operations and financial performance in 2013.

Before I proceed further, just over two months ago on April 3rd, Honiara and parts of Guadalcanal experienced unprecedented flash floods that almost brought the capital to a complete standstill. Let me take this opportunity to express on behalf of the CBSI family our deepest heartfelt condolences to the victims, especially to those who have lost loved ones in the disaster.

Our country has had its fair share of natural disasters in the past, and like in past disasters, I believe our resilience, courage and enduring human spirit will again enable our affected families and communities to emerge from the debris of the April flash floods and rebuild their lives and that of their communities.

About this time, four years ago when launching the 2009 annual report, I used the analogy of a boat to describe Solomon Islands economic journey. At that time, we headed into the 2010 national general election after enduring the global financial crisis. This year we are going into a national general election in the aftermath of the April flash floods. The nature and

magnitude of the disasters maybe different but both instances posed challenges and opportunities for our country.

I propose, after reviewing the performance of the economy in 2013, I would like to spend some time to ponder on the theme “JUST GET ON WITH IT AND DO IT” in the context of the need to GROW THE SOLOMON ISLANDS ECONOMY”. The theme underlines the need for all of us stakeholders to do less talking and simply get on with it and come up with new ideas to grow the economy.

Ladies and gentlemen, our country will mark its 36th year of independence in a few weeks, but I am challenged by the thought that our country appears to be in a dilemma or we seem to have no new ideas on how to expand and grow the economy. We seem to be moving very slowly in getting things done. Our existing big ticket industries were established before or just after independence. Since then, except for the suspended Gold Ridge mine and the Heritage Park hotel there are few new major activities to speak of. And those major projects that we have talked about in this country in the past several years appear to have been stuck and are heading nowhere.

Our current demographic composition and shift across the urban/rural divide poses growing challenges that require the economy to create more jobs and new income opportunities. I think we all know this. I believe we know our issues and challenges and may be the solutions as well. But we are not doing much to address those issues and challenges. How and what we can do as a nation to free up our resources for economic expansion? This should be a concern and critical issue for all stakeholders in our country.

There is an urgent need to question whether the developmental models that we have adopted are appropriate for our country. There is also a need to review the development and promotion of small business in our country. Our experience in the past decade has been one of exclusion of small Solomon Islands businesses.

To set the stage for my observations and comments later, let us briefly recent economic developments and trends in 2013 both at the global level and on the domestic front.

At this juncture, to share the load, I will call on Mr Michael Kikiolo, our Chief Manager, Economics department to present the economic performance and trends in 2013.

ECONOMIC TRENDS IN POWERPOINT SLIDES

- Slide 1: Economic Growth
- Slide 2: Production Index
- Slide 3: Employment
- Slide 4: Private Sector Credit
- Slide 5: Trade Performance
- Slide 6: Fiscal Performance
- Slide 7: Inflation Trends in SI

CBSI OPERATIONS

Let me now turn to the operations of the Central Bank in 2013. The details of the Bank's operations are provided in Chapter 4 of the annual report. I will briefly point out just a few of the main highlights of 2013.

The year began with the new CBSI Act 2012 coming into force on January 1st 2013. The enactment of the legislation has brought the management of the Central Bank in line with international best practices for central banking. Two of the key provisions in the Act are: the autonomy to conduct monetary policy and the second is the narrowing of the objectives of the Bank to two priority areas; that of domestic price stability and financial sector stability. The Bank is still going through internal changes and adjustments to ensure that we achieve the objectives and functions set out in the CBSI Act.

In terms of currency developments, CBSI issued a new \$50 banknote with the latest security features in September. This is the first of a family of new notes that will be rolled out over the coming years. Printing money is quite an expensive exercise for the country and it is in this spirit that I am urging the public to handle banknotes with care in support of the Central Bank's Clean Note Policy. The Board also decided to use the provision in the CBSI Act to amortize the cost of printing notes and minting coins, beginning this year. This ends the practice where the Bank was required to write off millions of dollars, for the cost for new currency notes and coins that are yet to be issued into circulation.

In terms of the structure of the banking sector, the Central Bank issued an “interim banking” license to Pan Oceanic Bank (POB) in 2013. This new bank was granted a “full banking” license at the start of 2014 and is expected to commence business in July this year.

The objective to ensure that more Solomon Islanders have access to financial services has progressed well. All our commercial banks have successfully launched new products and services, through branchless banking channels, using the mobile phone and bank agents. As matter of fact, where there are mobile phone towers in the community, one can access financial services.

Of our goal to enlist 70,000 new Solomon Islanders to have a bank account with a commercial bank by 2015, I am pleased to report that the National Financial Inclusion Taskforce (NFIT) has made substantial progress in 2013. By December 2013, a total of 62,046 new accounts were opened since 2011. Today, I can announce that NFIT has successfully achieved the target of 70,000 new bank accounts well ahead of our target date. By the end of this month, we would have opened more than 100,000 new bank accounts.

But while achieving the target ahead of schedule is one thing, what is critical and the challenge for us is how to enable our people, especially those in the rural areas to generate income to save in their new bank accounts, and accessing and using banking services to improve their livelihoods.

Turing to governance issues in the Bank, two of our non-executive directors Mr Leslie Teama and Dr. Steve Aumanu retired in March and December respectively. The Bank sincerely thank these two former board members for their professional and constructive advice and guidance rendered to the CBSI Board. Also in 2013, three new directors were appointed to the CBSI Board - Mrs. Margaret Bartlett, Mr. Primo Afeau and Mr. John Usuramo. I’m proud to say that with the appointment of Mrs. Bartlett, the CBSI Board now has two female directors.

The Bank’s workforce in 2013 rose to 114 staff of which 60% are males and 40% are females.

On the Bank's financial performance in 2013, I can report that the year has been a difficult one for the Bank. While we had comfortable level of foreign reserves to invest, interest rates on the global financial markets were low. The return on our external investments was just under 1 percent. While the Bank was able to achieve a break-even position from the income it generated from these investments, it was not sufficient to cover the losses incurred due to foreign currency movements against the Solomon Islands dollar. As a result the Bank recorded a net operating loss of \$165 million, due in large part to unrealised foreign exchange revaluation losses of \$150 million. So while the economy may have benefitted from an appreciating and stable Solomon Islands dollar, the Bank bore the brunt of the cost of that policy.

In terms of its Statement of financial position, total assets of the Bank rose to \$4,296 million. At the same time our liabilities to outside parties (mainly the Solomon Islands Government) increased to \$4,286 million resulting in our net assets falling to just under \$10 million by the end of December 2013. This is well below the legal minimum of \$50 million required to be maintained at all time. To correct his shortfall the Bank has initiated the process to use the provisions in the CBSI Act to address such a shortfall.

In terms of compliance with the CBSI Act, our financial accounts were not delivered on time by the end of April. This was due to the delay in finalising changes in the treatment of the cost of currency in line with the provisions of the CBSI Act, and changes to the treatment of some accounts in the financial statement to fully comply with the International Financial Reporting Standards. The Bank has advised the Minister of this delay, and as I explained earlier, this is due to the time taken to ensure that the accounts fully comply with the IFRS as required by the CBSI Act.

You will note that our Auditor has included a "qualified statement" related to our currency in circulation because of difficulties in verifying variations in the currency in circulation numbers in past years due to the changes in our accounting policy.

“JUST GET ON WITH AND DO IT” – URGENT NEED TO GROW THE ECONOMY

Let me now return to the main message I want to leave with us this morning. After 36 years of independence what can we show for in terms of recent achievements? After receiving so much donor assistance in past years and from past and present governments injecting large

amounts of public resources into our constituencies, are there tangible improvements we can point to?

There is an apparent inability to do things, to create more jobs for our growing population. The country appears to have lost its focus. At 36, I think we are still young to be experiencing a “midlife” crisis. We need to create opportunities to grow the economy like our pre-independence administrations and governments immediately after independence. For example, NFD, Soltuna, SIPL/GPOL, KFPL, and Eagon all evolved from the strategies and actions taken before and immediately after independence. The planting of coconut and cocoa came from agriculture development strategies dating back to pre-independence times.

Let me touch on a three issues to reinforce my theme.

1. THE HONIARA AND PROVINCIAL DIVIDE

Ladies and Gentlemen, there is a growing divide between Honiara and our provinces. We need to address this growing divide because it could become a source of instability in the future.

Let’s talk about soccer. The Soccer World Cup kicks-off in Brazil in a few days’ time; sadly Solomon Islands is not represented at the world cup but let us keep on hoping that we will do so one day. Nevertheless, I would like to reflect and draw some obvious lessons from soccer developments in the country, in scoring goals, in scoring growth in the economy!

We use to have a Solomon Cup tournament, a competition organised for provincial soccer teams. Usually the Honiara based teams would always thrash the provincial teams by huge score lines. The disparity between Honiara based teams and provincial teams is expected because Honiara has better football infrastructures, organised soccer leagues, and the best players.

Economic development in this country is facing the same dilemma. The Honiara economy is growing while provincial economies are lagging behind. Productive resources in the private sector are highly skewed towards Honiara at the cost of provincial economies. Private sector credit favours Honiara based sectors such as personal, distribution, construction, communication, and transportation. Lesser resources are allocated to the development of

productive sectors such as tourism, agribusiness, reforestation, fisheries, etc that are based in the provinces. This is one of the reasons for the imbalance in development in the country. And if not addressed, this could be a potential source of instability in the future.

We have talked about big ticket developments in the provinces for many years. Projects like Bina harbour, Aluta oil palm, Vangunu, Anuha Island, have been discussed in the last twenty years. More recently we have talked about growth centres in the provinces and the undersea cable. Our neighbours have already commissioned their fibre optic cables and are now enjoying fast and cheaper internet services. We are still talking about 2016.

I think we have done enough talking. It is time for action and we should just get on with it and “Do It”.

2. POOL RESOURCES FOR VALUE FOR MONEY INVESTMENT

Another related issue is the need to pool resources to fund “value for money” investments. Over the past eight years, the Government has injected about \$1.3 billion across our fifty constituencies. Despite this significant investment, there are no signs of new tangible projects that significantly generate employment, raise government revenues, discourage urban migration, and help reduce socioeconomic problems.

Most probably the channels of disbursing these funds are not effective enough to stimulate growth in the provincial areas or we have overstretched ourselves by spreading the little resources we have too thinly across all the constituencies. Imagine if a pool of \$1.3 billion is available to kick start strategic projects in the country, we would have probably seen more development in the country.

If this is the way forward, let’s not just talk about but get on with and just do it.

3. PROCRASTINATION

Associated with this “all talk” and less action behaviour in our country is what I observe as a serious procrastination attitude. We hear expressions like “bae me duim behind” (I’ll do it later). We discuss at different levels of the society and during various meetings and forums about the issues and challenges facing our country and how to overcome these challenges. But things never happen or if they did very slowly. We are very good at postponing or

deferring decisions or actions such that things never get done. Most often, people procrastinate actions to another time only to find out that “another time” never comes. Procrastination is a cost to society.

Earlier this year we had a growth forum that was represented by a good cross section of the Honiara based institutions. I observed that the same discussions that were echoed in other meetings on the growth topic were also repeated again at this forum. Maybe we should talk less and act more. Instead of talking over and over again about the ways of growing the economy, we should focus our time, energy and resources on how we can “Just get on with it and do It” and I am sure we will see growth in the economy.

VOTE OF THANKS

Ladies and Gentlemen, I have said a lot, but before I sit down, let me say that the successful launch of this annual report would not be possible without the tireless efforts of some people and institutions. First, I would like to thank the Office of the Auditor General and our new external auditors KPMG (Fiji) for the thorough examinations of the Bank’s 2013 financial accounts. May I also thank the staff and management of this hotel for the use of your facilities. Pacific Printers for printing this report. My sincere thanks to the private sector, government departments, donors, financial institutions, non-governmental organisations and others I may not mention here, for providing invaluable data that allowed us to make our economic and financial analysis. A special thanks to the CBSI Board of Directors who constantly provided advice and direction to the Bank management throughout the year. Finally let me thank Deputy Governor, Mr. Gane Simbe for ensuring the report is professionally done and staff of all departments along with their chief managers and managers.

With these remarks, I commit the 2013 CBSI annual report for your reading.

Thank you for listening. God Bless you and may God Bless Solomon Islands