

**THURSDAY 3<sup>rd</sup> DECEMBER 2015**

The Deputy Speaker, Mr Andrew Manepora'a took the Chair at 10.19am.

Prayers.

**ATTENDANCE**

All were present with the exception of the Deputy Prime Minister & Minister for Home Affairs and the Ministers for Environment, Conservation, Disaster Management, Climate Change & Meteorology; Police, National Security & Correctional Services; Foreign Affairs & External Trade; Culture & Tourism and the Members for Fataleka; East Central Guadalcanal; North West Guadalcanal; East Honiara; East Makira; Central Makira; Small Malaita; Lau/Mbaelelea; West Makira; Temotu Nende; North West Choiseul; Ranogga/Simbo; East Guadalcanal and Aoke/Langalanga

**Hon Jeremiah Manele:** Mr Speaker, *point of order!* We have important matters before us so it is important that we check the required quorum for the proceedings.

**Hon Manasseh Sogavare:** I think we now have the quorum. I do not want those people to come inside the House. They are just sitting down outside. Those doors must be locked now. Those people who do not want to come inside when Parliament starts should not come inside at all.

**Mr Speaker:** Honourable Members, the question on quorum has been raised so according to Standing Order 12, pursuant to Section 67 of the Constitution, we will wait for 15 minutes interval for quorum to be made.

**Hon Jimmy Lusibaea:** *Point of Order!* We now have 25members in the Chamber including you Mr Speaker so we are now 26.

*The House waited 15 minutes for quorum to be gained*

**Mr Speaker:** Honourable Members, we now have the required quorum so let us now proceed with the business of today.

**STATEMENT OF GOVERNMENT BUSINESS**

**BILLS**

## Bills - First Reading

The 2016 Appropriation Bill, 2015

## Bills - Second Reading

The 2016 Appropriation Bill 2015

**Hon SNYDER RINI** (*Minister for Finance & Treasury*): I rise to beg that the 2016 Appropriation Bill 2016 be now read the second time.

I am very privileged but most humble as the Minister for Finance and Treasury to present to this Honourable House the 2016 Budget on behalf of the Government and the people of Solomon Islands. This is the second budget of this Government and the second that I have had the honour of presenting to this Honourable House. This Budget very much represents the Government's persistent effort towards implementing our policies and mandates set out in the Democratic Coalition for Change Government policy statement, strategy and translations that set out the policy directions that will improve the welfare and livelihood of all Solomon Islanders.

This Government's primary objective continues to remain focused on achieving broad based economic development. It recognizes the value and potentials of the nation's population and their resolve to determine the course and outcomes of their own destiny and participate more actively and meaningfully in the development of our nation.

It is no coincidence that the findings of the Household Income and Expenditure Survey reaffirm the need for the Government to focus more on addressing this significant disparity between the incomes and standards of living of those living in the rural areas where 81 percent live and those living in Honiara.

The Budget is a fundamental instrument of Government policy in achieving these objectives. The Government, in this endeavor, has articulated an overarching theme for the 2016 Budget. The theme is 'Enhancing economic growth and service delivery for sustainable economic development'.

The Government, in this respect, will focus more intently on investing on infrastructures in the rural areas, particularly roads and bridges and shipping, to enable access and linkages to markets. In so doing, we can increase, not only the living standards of those in the rural areas but also reinvigorate prospects for economic growth within our country and thereby create employment opportunities and income for all our people. In so doing, our people will progress and advance our country to achieve sustainable economic development. The Government, in this vein, is resolute to empower our people to be engaged in productive activities and absorbed in gainful employment that would enhance and improve their livelihood.

Before I provide further details on the 2016 Budget, allow me to now outline the 2016 economic outlook of our country.

## **2. The Economic Outlook**

## Economic Growth and GDP

We operate in a global village where our fortunes are partly dependent on how well we are able to leverage off the global economy. The outlook for the global economy presently remains volatile in financial markets, with weak domestic demand in a number of major economies. Nonetheless, global growth for 2016 is forecast to be a modest 3.6 percent. This is below the average growth rate of the past decade.

The outlook for real GDP growth is broadly in line with the forecasts. The 2015 growth, however, has been revised down slightly to three and a quarter percent from three and a half percent. This reflects weaker output in the formal fishing and agriculture sector and slightly weaker outputs in the retail/wholesale trade sector.

Real Gross Domestic Product (GDP) growth is estimated to have been around 3.5 percent in 2016 as a result of economic recovery from the April 2014 floods and the suspension of production at the God Ridge Mine. The logging sector output appears to have stabilised and the sector is forecast to subtract slightly from real GDP growth in 2016.

Consequently, the primary sector is forecast to contribute only 0.6 percentage point to real GDP growth in 2016. However, this rate of logging is not sustainable and the level of output is projected to stabilise and then decline over the next decade. The sector, therefore, is not expected to contribute to economic growth in 2016 or across the medium term.

In 2016, real GDP growth is forecast to be around three and a half percent. This reflects a forecast recovery in informal agricultural and manufacturing production, along with strong growth in the construction sector. Growth in these sectors is expected to more than offset further output and income losses from the suspension of production at the GRM. In addition, real household income gains associated with the recent sharp fall in oil prices is expected to support household consumption and stronger growth in the retail trade sector.

The business investment particularly in construction, plant and equipment is also expected to rise in 2106, in line with the ongoing work commencing on a number of major donor funded projects. However, in net terms, these projects are not forecast to make a significant contribution to growth in 2016 due mainly to high imports. Nonetheless, they will support growth by increasing productivity over the medium term once the projects are implemented and operational.

## Inflation

With respect to inflation forecast for 2016 this is forecast to remain unchanged since the 2015 mid-year budget update. The Honiara Consumer Price Index is forecast to grow by only one percent in 2015. This reflects the impact of sharp decline in global fuel and energy price and decline in domestic food prices by 11.1 percent. Inflation is forecast to rebound to around 3.9 percent in 2016, with domestic price forecast to rise by 4.3 percent and imported prices by 3.2 percent.

## Nominal GDP

The nominal GDP is also forecast to grow at a slower rate as a result of large falls in prices over the first half of 2015 and over the medium term. This reflects modest real economic growth and subdued domestic price growth. Nominal GDP growth is forecast to rebound to around 8 percent in 2016, consistent with stronger growth in prices and an increase in overall economic growth activity.

### Debt Outlook

The Government continues to be guided and committed to the Debt Management Framework. This also entails, as cornerstone components, the Public Financial Management Act (PFMA) and the principles established under the Debt Management Strategy (DMS).

Solomon Islands debt to GDP ratio is currently around 11 percent but is expected to be 9 percent by 31 December 2016. The Government is committed to keeping the level of debt in Solomon Island at a sustainable and affordable level. This level of debt assumes that there will be no new borrowing in 2016 financial year, other than for those projects already planned and progressed.

A debt sustainability analysis is undertaken annually, as part of the budget process, to determine and appropriate Annual Borrowing Limit. To this end, the Annual Borrowing limit for 2016 is \$300million. The Government is also committed to sustaining the Treasury Bill market by maintaining around \$40million of these instruments on issue throughout the year.

### **3. Monetary and the Exchange Rate Regime**

Monetary and exchange rate considerations are also important elements both in adapting to global developments and in creating an environment supportive of growth and employment creation.

Volatility in the global economy with weak domestic demand in a number of major economies, calls for the need for the Central Bank to take a broader view of the economy in managing inflation, growth, employment trends, asset prices, financial sector stability and the competitiveness of exchange rate. In this connection, improved communication with the local community about the role of monetary policy in supporting growth will increase the effectiveness of the Bank in achieving its mandate. The Government is concerned that at certain times, rapid capital and donor support inflows may be required to sustain investment spending.

I can assure you that the Governor of the Central Bank and I will consult regularly to ensure that our economy is prepared to respond with agility and flexibility to changing economic circumstances.

### **4. Regaining and Reinvigorating Economic Growth**

The Government recognizes that the lack of growth in the economy is hindering creation of job opportunities, efficient and effective delivery of social services and improvement in the well-being and livelihoods of all Solomon Islanders.

At the launch of the Government's Policy Statement, Strategy and Translation early this year, the Government made it clear that it is determined to bring about necessary changes through effective reform programs to ensure that all Solomon Islanders are empowered and have improved food security and improved social services and livelihood. Moreover, the Government recognises the importance of ensuring benefits of growth and shared by all, and especially those in the provinces and rural areas. Although a National Development Strategy was prepared in 2011 for the period 2011 to 2020, progress in achieving its objective has been slow and there has been no real improvement in our social and economic wellbeing. We need to reinvigorate the economy and regain the growth momentum. It is only through sustaining growth that we can generate the resources to ensure reasonable standard of living for our people.

Accordingly the Government has reviewed the National Development Strategy (NDS) 2011 – 2020 and is preparing a revised and extended the NDS to cover a 20 year period. This will provide a longer term framework for planning that lays the foundation for recovery and long-term sustainable development. The process for developing a new NDS involved widespread consultations inside and outside of Government, seeking views on this priority given to regaining growth and how it can best be achieved.

The Ministry of Development, Planning and Aid Coordination staffs have only just returned from consultations in all nine provinces, involving officials, leaders, church groups and communities. The message from the provinces is clear that more must be done at the provincial level. Infrastructure must be improved, particularly roads to allow access to markets and productive resources and help create employment and improve livelihoods. Services need to be improved but infrastructure and job creation is the priority.

Central to the Government's policies is its commitment to promote private sector growth, improve infrastructure, create economic growth centres in provinces and generate livelihood opportunities for all Solomon Islanders. The 2016 Budget focuses on these areas but new projects take time to design and effectively implement. Over the next 2-3 years, greater focus will be given to developing and implementing projects that provide infrastructure in rural areas and which help create the environment for economic growth.

## **5. Government Reform Agenda**

Allow me to briefly outline the Government Reform Agenda and its relations with the 2016 Budget. The Government is committed to pursuing its reform policies as announced early this year, namely fundamental reforms and sectoral reforms. To this end, similar level of funding will be made available to ministries as in the 2015 Budget to ensure various activities that have started or those that are yet to start will continue to implement these priorities.

The core business of Government has to be catered for in the baseline budgets to ensure the same level of service delivery is achieved. Additional funding will be provided for improvement of core functions and increase funding will be provided for programs and project for rural infrastructures and rural development. This is necessary to achieve growth and further improve services to our people.

In order to effectively implement these reforms the Government has gradually shifted the approach to aligning the budgetary allocation to its priorities. This entails shifting baseline

funding to properly reflect the core functions of government ministries and agencies to better implement government priorities. More specifically, this includes:

- Shifting of major building and infrastructure program that have previously been funded under various ministries through the Ministry of Infrastructure Development
- Transferring land reform, development and acquisition through the Ministry of Lands and Survey, which have been funded under various ministries
  - Encourage development partners to assist implement Government priorities and;
  - Solicit ministries to invest in better planning and implementation and oversight. This aims to improve quality of public expenditures in order to improve growth, governance and service delivery.

These approaches are part of ensuring that the Fundamental and Sectoral reforms achieve their outcomes during the term of this government. The Government had a late start in executing the 2015 Budget and for the most part had been preparing for better and effective execution for the 2016 fiscal year.

Allow me to outline the major initiative programs and projects in these critical areas of government policy that will be pursued in 2016. These are as follows:

- Progressing of the Constitutional and Political Reforms
- Progressing of the Customary and General Land Reforms
- Establishment of the Independent Commission against Corruption
- Progressing Public Service Reforms;
- Guadalcanal Plain road infrastructures and bridges to help growth in the palm oil sector;
  - Reviewing approach and progress investments in Suava Bay and Bina Harbour
  - Climate proofing the north and south Malaita roads, sealing of Auki roads to build the credibility of Auki as an economic hub;
  - Sealing of Gizo roads to encourage business investment in industry and tourism and to enhance economic prospects in the Western Province
  - Sealing airport runways in Taro, Choiseul, Seghe in the Western and Lata in the Temotu province to promote tourism opportunities.
  - Progressing the Tina River Hydro Project.
  - Scoping and construction of rural wharves in all provinces
  - Scoping for rural roads and bridges in all provinces
  - Progressing Oil Palm Plantations and Out Grower Oil Palm Projects in Malaita, Guadalcanal and Choiseul
  - Scoping of Aola – Marau Road

The list is not exhaustive and there is always room for well-conceived programs and projects. As earlier indicated, new projects take time to design and effectively implement. We therefore need to ensure these major initiatives are completed and implemented before committing to further new initiatives.

## **6. The 2016 Budget Overview and Framework**

Let me now outline the fundamentals of the 2016 Budget. The 2016 Budget is clear about how the Government will deliver on the major aspects of its policy platform. In addition, there are additional fundings for the Recurrent Estimates to enable ministries maintain services for our people and lay the foundations for the future growth of the nation.

The 2016 Budget will deliver a record \$4.3 billion in spending to provide services to all Solomon Islanders. It will require no additional borrowings by the Government. The Budget is balanced, credible and responsible. The 2016 Budget is sustainable and is fully funded through a combination of domestic revenue, external budget support and cash reserves that successive governments have built-up over recent years.

Due to the late implementation of the 2015 Budget, the level of reserves that was planned to be used for funding the 2015 Budget have not been drawn down. This will place the 2016 Budget in a fiscally sound position.

### **Revenue**

The 2016 total revenue is expected to be \$3,732.6million. Total domestically sourced revenue is expected to be \$3,023.5million (or 6.1 percent) over the 2015 Budget revised estimate.

The domestic revenue is expected to be sourced from the following:

- Inland Revenue - \$1,830.0million
- Customs - \$917.8million
- Other ministries - \$275.7million

In addition, the Government also expects an estimate of \$709.1million from donors as budget support, including \$40 million in general support from the Asian Development Bank.

On the expenditure side, the Government is budgeting to spend \$4,301.1million in 2016. This is made up of \$3,123.2million for recurrent and \$1,177.9 million for development. Of the recurrent expenditure of \$3,123.2million, \$2,524.1million will be on recurrent operations of which payroll will be \$1,001.2million, other charges \$1,522.9million and donor budget support for recurrent operations \$599.1million.

The Government also plans to spend \$1,177.9million in development project expenditure which comprises of \$1,107.9million from domestic sources and \$70.0million from donor development assistance, principally the Republic of China.

About 84% of these recurrent and developments expenditures are funded by domestic sources while 16% is from the donor community.

## **7. Other Provisions in the 2016 Appropriation Bill**

In order to enable the Government to continue service provision and undertake productive infrastructure projects where usual allocations may not allow, there are provisions in the

Appropriation Bill that the Government may adopt. These include \$75million in contingency warrants for the purpose of unforeseen and unbudgeted expenditures.

On the use of contingency warrants, let me again remind this Honourable House that these are for unbudgeted or unforeseen expenditures. These can extend, in some instances to expenditures for which we are aware of, but the budget allocations are simply insufficient. This is entirely reasonable. Whilst the setting of a national budget well ahead of implementation is done with great care, from time to time, the operations of government require review and it is entirely appropriate to use these mechanisms for that purpose. This is consistent for that purpose set out in the Constitution. In addition, the Bill also includes provisions for a borrowing limit of up to \$300million.

## **8. Budget Execution and Financial Management**

It is my conviction that unlike the 2015 Budget, the implementation of the 2016 Budget will hit the ground running, come the commencement of the 2016 fiscal year. Nevertheless, there are several measures that the Government will be implementing to strengthen the alignment of the Government's priorities to the allocation of our scarce resources through the budget.

First, we will establish a new Budget Expenditure Committee to be headed by the Permanent Secretary of the Ministry of Finance and Treasury and comprises permanent secretaries of all central agencies, including the Secretary to Cabinet. The main role of the Committee is to ensure that Government strategies and our collective priorities of improving delivery of services and serving our communities are adequately reflected in the national budget.

Secondly, we will clarify the roles of existing committees such as the Budget Coordinating Committee and the Budget Implementation Committee to improve budget coordination, the screening of submissions and improving the implementation of the budget. Here, let me stress that our budget is only as good if they are implemented. To this end, my ministry and the Ministry of Development Planning & Aid Coordination will require that the programs and projects that are included in the budget, going forward, must be ready for implementation and properly costed, including the impacts on recurrent expenditure.

Thirdly, the Ministry of Development Planning & Aid Coordination and my ministry are working with all ministries to improve compliance to budget instructions, especially the requirement that ministries submit their budget bids on time. This is extremely important to allow us to properly screen their alignment to our priorities.

I have outlined many challenges we face and some measures to effectively execute the 2016 Budget. We need to retain focus on priority activities and ensure we implement these effectively. The budget contains many important projects that have not yet come to fruition. We need to ensure these are completed and implemented as well as embarking on new projects.

Going forward, we will conduct a judicious review of the whole portfolio, covering both the development budget and the recurrent. The intent will be to reduce and remove non-performing or non-priority activities, a form of "spring cleaning", to borrow the phrase of one of our development partners. This should create some fiscal space which we will use to accommodate new ideas and projects.



While these new projects are an important part of the Government's policy agenda, they need to be designed properly. We need to ensure their implementability and their readiness. We should not be distracted with rushing to implement a myriad of new ideas and end up achieving nothing.

Let us all pull together in delivering the priority projects and programs already in our pipeline, while at the same time paying proper attention in designing new projects to ensure they can be effectively implemented. In this way, the Government can fulfil its promises to the electorate.

Most importantly, we are also focusing on working effectively with development partners, the private sector, the Churches, the non-government organisations, the non-state actors, the civil society, the local communities and the international community to realise our development aspirations and together progress and build our country.

I have tabled today the Budget for 2016 which is focused on rebuilding economic growth by delivering on our agenda which focuses on investments in rural infrastructure and rural development. The 2016 Budget presents the Members of this honourable House with an important opportunity to make progress towards improving and enriching the lives of the people of Solomon Islands.

The momentous work ahead will require the tireless efforts of all Members of this honourable House in the spirit of cooperation, to remain steadfastly dedicated to the mission before us and to the purpose for which we are elected.

We are a long way from gaining self-sufficiency and domestically funding the full range of existing level of government services to all our people, especially those in our constituencies and rural areas. It is important that we work together in the coming years towards self-funding the existing level of services and embarking on programs and projects that would make a lasting difference to our people.

Now is the time to continue to work together. Now is the time to show courage and determination in making a lasting difference in the rural areas by reinvigorating prospects for economic growth within our country and create employment opportunities for our people to improve their livelihood and achieve sustainable economic development. We owe it to our people to build a vibrant, inclusive, peaceful and prosperous Solomon Islands for our children and generations to come.

I commend this Bill to the House and I beg to move.

**Mr Speaker:** Honourable Members, the Minister has moved that the 2016 Appropriation Bill 2015 be read the second time. According to Standing Order 61 (2), debates on the 2016 Appropriation Bill 2015 is adjourned to the next sitting day.

*Debate on the 2016 Appropriation Bill 2015 adjourned to the next sitting day*

## **MOTIONS**

### Motion of Special Adjournment

**Hon MANASSEH SOGAVARE** (*Prime Minister*): I beg to move that at the adjournment on the Thursday 3<sup>rd</sup> December 2015, Parliament shall then stand adjourned to Tuesday 8<sup>th</sup> December 2015.

The Public Accounts Committee is yet to complete its work. According to the schedule that ministries have received, the Committee should complete its consultations with the various ministries on Friday and if they need more days they will do it throughout the weekend as well.

As well as that, a number of ministers and myself have been invited to attend the 2<sup>nd</sup> Appointed Day Celebrations of the Western Province on Monday 7<sup>th</sup> December and so a number of ministers are going to go down on that day.

I have also written to the Chairman of the Public Accounts Committee, the Government would like to commence the debate on the Second Reading of the 2016 Appropriation Bill 2015 on Tuesday 8<sup>th</sup> December 2015. That is the intention of this motion and I commend it to the House.

**Mr Speaker:** I will allow a few comments on the motion before I put the question.

**Hon JEREMIAH MANELE** (*Leader of the Opposition*): First of all, let me thank the Honourable Prime Minister for moving the Motion of Special Adjournment that at the adjournment of Parliament today Parliament shall then stand adjourned to Tuesday 8 December 2015. I think the intentions and the reasons outlined by the Prime Minister are quite straightforward. The Public Accounts Committee is still undertaking hearings into the Budget and ministers have commitments in attending the Second Appointed celebrations in the Western Province. This side of the House does not have any difficulty with the motion. We concur with the motion that has been moved by the Honourable Prime Minister. Thank you.

**Hon Manasseh Sogavare:** I would like to thank the Leader of the Opposition for supporting this motion, and I do not have anything to say but at the adjournment of Parliament on Thursday 3 December 2015, Parliament shall then stand adjourned to Tuesday 8 December 2015. I beg to move.

*Question agreed to.*

### Adjournment

**Hon Manasseh Sogavare:** I move that this House do now adjourn.

*Question agreed to*

*The House adjourned at 11.19 am.*