

MONDAY 5TH DECEMBER 2016

The Speaker, Mr Ajilon Nasiu took the Chair at 9.44am.

Prayers.

ATTENDANCE

All were present with the exception of the Ministers for Commerce, Labour & Immigration; Women, Youth, Children and Family Affairs; Provincial Government & Institutional Strengthening; Environment, Conservation, Disaster Management & Climate Change; Peace & Reconciliation and the Members for Fataleka; North West Guadalcanal; Central Makira; Malaita Outer Islands; West Makira; Ranongga/Simbo and West New Georgia/Vonavona

SPEAKER'S ANNOUNCEMENT

Mr SPEAKER: Honourable Members, according to the Business Paper, there are a lot of business currently before the House. There is a total of 72 questions on notice, 11 Bills tabled, including the 2017 Appropriation Bill 2016 and two motions. It is always in the best interest of this House that businesses before it are dispatched as soon as practicably possible. However, as set down by today's Order Paper, the Second Reading of the 2017 Appropriation Bill 2016 will be moved by the responsible minister later in today's sitting. As such, in accordance with the practices of this House, when a motion for the second reading of an Appropriation Bill is moved, proceedings on the Appropriation Bill take precedence over any other motion or bill. Such is the importance of appropriating funds to supply proposed budget heads that it warrants this House to expediently dispose of relevant matters according to prescribed rules. Therefore, let this House be reminded that sittings must be seen to start at 9.30am each sitting day requiring punctuality on our part. Furthermore, the issue of quorum or non-attendance by Members has the effect of dragging businesses, thus unnecessarily prolonging meetings.

Having said that, I will ensure that available procedural tools are not used to unnecessarily curtail the proceeding of this House and I am prepared to make necessary rulings to that effect. Let us now move on to the business of today.

STATEMENT OF GOVERNMENT BUSINESS

BILLS

Bills – Second Reading

The 2017 Appropriation Bill 2016

Hon SNYDER RINI (*Minister for Finance & Treasury*): Mr Speaker, I rise to beg that the 2017 Appropriation Bill 2016 be now put to the second reading.

I am very privileged and most humbled as Minister for Finance and Treasury to present to this Honourable House the 2017 Budget on behalf of the Government and the nation of Solomon Islands. This is a requirement under section 102 of our National Constitution.

I would like to acknowledge and commend the support of Caucus Members, of Cabinet, of my Ministry and the Ministries of Development Planning and Aid Coordination and the Ministry of Public Service for working together to making the 2017 Budget a reality. Through their collective efforts and ministerial coordination, we were able to bring forth the 2017 Budget today.

The Budget that I present today will deliver a record \$4.1 billion in spending to social services, rural infrastructure, rural development activities and key programs to provide both quality and coverage of public investments to our people. The Government of Solomon Islands continues to put to use available resources in order to achieve our development ambitions. It is a balanced budget, fiscally responsible and visionary in its scope and framework.

This Budget continues to demonstrate this Government's commitment to implementing our policies and mandate set out in the Democratic Coalition for Change (DCC) Government's Policy Strategy and Translation, and Action Plan which articulate key policy directives 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.

The Budget, is our Government's key vehicle for implementing policies, in line with our medium term objectives. The Government, in this endeavour, has articulated an overarching theme for the 2017 Budget. The theme is '**Building the nation's resilience to enhance economic growth and service delivery**'.

The Government in this respect, will focus more intently on investing in infrastructure in the rural areas, particularly roads, energy and transport sectors and shipping to enable access and linkage to markets. The Government is also determined to ensure businesses and individuals

both in rural areas and in urban areas have access to reliable and cheaper sources of electricity. The Government will invest in the Tina Hydro Project, and will ensure more households have access to electricity services. The Government commits itself to right sizing the public service with this 2017 Budget that I present to you. We are committed to continue improving performance across Government by finding new and innovative ways to use public resources in such a way that we reign in Recurrent spending and demonstrate that we can do more with less. In that sense, we are striving to improve how we deliver ongoing and new initiatives within an affordable resource envelope.

This Government is committed to excellence and to the continued refinement of service delivery mechanisms. In that sense, we will use the 2017 Budget as a benchmark for improving efficiencies across all of our public service machinery in order to advance our priorities with greater success than in previous budgets, as we encourage better resource management, quality spending and refocus our investments to deliver results.

The Economic Outlook

Before I provide further details on the 2017 Budget allow me now to outline the 2017 economic outlook of our country. 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 2017 is forecasted to be modest at 3.4 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. 2016 growth, however, has been revised down slightly to three percent from three and a half percent. This reflects weaker output in the formal fishing and agriculture sectors and slightly weaker outputs in the retail/wholesale trade sector.

Real Gross Domestic Product (GDP) growth is estimated to be around 3.5 percent in 2017 as a result of strong growth in the services, construction and manufacturing sectors.

The logging sector output appears to have stabilised and the sector is forecast to subtract slightly from real GDP growth in 2017. Consequently, the primary sector is forecasted to contribute only 0.6 percentage point to real GDP growth in 2017. This rate is however, not sustainable. The reason is that logging as the major contributor to this sector 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 2017 or across the medium term.

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 2017, in line with the ongoing work commencing on a number of major donor funded projects. These investments will support growth by increasing productivity over the medium term once the projects are implemented and operational. In 2017, however, the investments are not forecasted to make a significant contribution to net growth due mainly to high imports.

Inflation

With respect to inflation for 2017, it will broadly remain unchanged from the level reported in the 2016 mid-year budget update. The Honiara Consumer Price Index is forecasted to grow by only 2.75 percent in 2016. This reflects the impact of sharp decline in global fuel and energy price and decline in domestic food prices by 11.1 percent. Going forward, the recent depreciation of the SBD and a modest recovery in imported food and fuel prices is expected to drive the forecasted rise in import prices.

Nominal GDP

The nominal GDP is also forecasted to grow at a slower rate as a result of large falls in prices over the first half of 2016 and over the medium term. This reflects modest real economic growth and subdued domestic price growth. In 2016, nominal GDP (the current dollar value of goods and services produced in the economy) is forecasted to grow at around 5.6 percent, well below the average annual growth rate of around 8 percent for the period 2009-2014. Nominal GDP growth is forecasted to rebound to around 6 percent in 2017, 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, which has been amended and improved in 2016. This Framework includes, as cornerstone components, the Public Financial Management Act (PFMA) and the principles established under the Debt Management Strategy.

Solomon Islands debt to GDP ratio is currently around 8 percent. This level is higher than what was expected at the end of last year due to the slower nominal GDP growth I referred to earlier.

The Government is committed to keeping the level of debt in the Solomon Islands at a sustainable and affordable level. We are committed to this task because the cost of supporting

unsustainable levels of debt diverts resources away from the provision of much needed essential services. The Debt Management Strategy determines what level of debt is considered to be sustainable and affordable. A debt sustainability analysis is undertaken annually, as part of the budget process, to determine an appropriate Annual Borrowing Limit.

To this end, the Annual Borrowing Limit for 2017 is \$900 million, which provides space for \$600 million in Government borrowing for the proposed Tina River Hydro Power project and \$300 million for other priority infrastructure investments. Full utilisation of the 2017 Annual Borrowing Limit would increase our debt to GDP by around 10%.

The Government is also committed to sustaining the Treasury bill market by maintaining around \$40 million of these instruments on issue throughout the year.

Monetary and the Exchange Rate Regime

To further support growth, the central bank will ensure that monetary and exchange rate policies are well aligned to accommodate the government's fiscal policy stance.

Despite heightened risks in the global and domestic economic environment, monetary conditions have remained vibrant, inflation has eased and is expected to fall within a modest target range. The central bank will continue to address excess liquidity in the financial system but also ensure there are adequate levels of liquidity for lending. Moreover, to support private sector credit growth, it will particularly focus on micro and small to medium enterprises.

To sustain the external sector, there are no anticipated changes in the exchange rate regime that pegs the Solomon dollar to a currency basket. This regime has been quite effective in providing stability, reducing volatility in exchange rates movements, and in providing certainty to businesses.

I endeavor to work closely with the Governor of the Central Bank on these matters to ensure congruence in our policy direction and improve our ability to respond to and minimize negative shocks that may affect our economy.

Regaining and Reinvigorating Economic Growth

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

At the launch of the Government's Policy Strategy and Translation in 2015, 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 inclusive growth are shared by all, and especially those in the Provinces.

The Government has prioritised the preparation of National Development Strategy (NDS) 2016-2035 which has been approved and launched in April 2016. The NDS 2016-2035 presents the overall vision and long term development objective that aims to improve social and economic livelihoods of all Solomon Islanders, through a return to economic growth, by delivering on the following objectives:

- Sustained and inclusive economic growth.
- Poverty alleviated across the whole of the Solomon Islands, basic needs addressed and food security improved; benefits of development more equitably distributed.
- All Solomon Islanders have access to quality health and education.
- Resilient and environmentally sustainable development with effective disaster risk management, response and recovery.
- Unified nation with stable and effective governance and public order.

The structure of the National Development Strategy is one that is focused on long term planning with a foundation of multi-year budget development, program and activity planning at the Ministry level. The 2017 Budget is the first step in delivering the NDS, which will be finalised before the end of this year. 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.

Central to the Government's policies is its commitment to promote private sector-led growth, improve infrastructure, create economic growth centres in Provinces, and generate livelihood opportunities for all Solomon Islanders.

The 2017 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 sustained economic growth.

The 2017 Budget Overview and Framework

Let me now outline to this Honourable House the fundamentals of the 2017 Budget. The 2017 Budget will be a record budget and will continue to deliver on the major aspects of the DCC

Government's policy platform. This fiscally responsible budget will enable ministries to maintain essential services for our people and lay the foundations for future growth for the nation.

The 2017 Budget will deliver \$4.1 billion in spending to provide services to all Solomon Islanders. The Budget is balanced, credible and responsible. It is fully funded through a combination of domestic revenue, external budget support and cash reserves that successive Governments have built up over recent years. This will place the 2017 Budget in a fiscally sound position.

Revenue

In 2017 total revenue is expected to be \$3,909.2 million. Total domestically sourced revenue is expected to be \$3,555.3 million, an increase of \$577.3 million (or 19.6 per cent) over the 2016 Revised Budget Estimate.

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

- Inland Revenue - \$1,990 million
- Customs - \$997.5 million
- Other Ministries - \$567.8 million

In addition, the Government also expects an estimated donor support of \$283 million, including \$80 million in general support from the Asian Development Bank and the World Bank.

Expenditure

On the expenditure side, the Government is budgeting to spend \$4,087.6 million. This is made up of \$2,906.8 million for recurrent expenditure and \$1,180.8 million for development expenditure. Of the recurrent expenditure of 2,906.8 million, \$2,622.9 million will be on recurrent operations of which Payroll will be \$1,028.5 million, Other Charges \$1,594.3 million and donor budget support for recurrent operations \$283.9 million.

The Government also plans to spend \$1,180.8 million in major strategic investments, which comprises of \$1,110.8 million from domestic sources and \$70.0 million from donor development assistance, principally the Republic of China. About 91% of these recurrent and development budget expenditures are funded by domestic sources, while 9% from the donor community.

Other Provisions in the 2016 Appropriation Bill

To enable the Government continue provide services and undertake productive infrastructure projects that are not provided for in the primary allocations, there are provisions in the Appropriation Bill that the Government may utilise.

The 2017 Appropriation Bill 2016 has been finalised based on estimates in the budget papers. In addition, it provides for \$85 million for recurrent and for development contingency warrants for expenditures which are at this time unforeseen, and are not factored in the budget. It also set a borrowing limit of \$900 million and an advance warrant limit of \$200 million.

On the use of Contingency Warrants, let me again remind the Honourable House that these are for unbudgeted or unforeseen expenditures. Such expenditures are for national emergencies and disasters, but also for ensuring we have fiscal buffers. Such funds, maintain the continued and unhindered implementation of services, whilst accommodating for sudden 'one off' or 'off budget' requirements. This is consistent with the purpose set out in the Constitution.

Budget Execution and Financial Management

It is my belief that for the 2017 Budget, given its ambitious targets, we will endeavour to ensure that we deliver a Budget that is flexible but also credible and prudent. There are several measures that the Government will be implementing in 2017 to strengthen the alignment of the government's priorities to the allocation of our scarce resources through the budget to maintain its credibility.

Unlike 2015 and 2016 Budgets, the level of Government cash reserves required to balance the 2017 Budget will be reduced significantly to \$178.4 million. Whilst this demonstrates the Government's commitment to refocus expenditure to key infrastructure and priority spending, it also shows Government's intention to maintain and rebuild its cash reserves at a sustainable level.

Firstly, the Ministry of Finance is in the process of formulating a whole set of regulations under the Public Finance Management Act for the purpose of clarifying sections of the Act to make it easier for Ministries to formulate and execute their budgets in line with the Act. The first Regulation, the Public Finance Management (Internal Audit) Regulation has been completed and enforced since 5 August 2016.

The Public Finance Management (Procurement) Regulation is currently being drafted, and other regulations such as the Debt Management Regulations, Cash Management Regulation, Budget and Fiscal Responsibility Regulations will follow thereafter. These regulations, when implemented effectively, will help improve the management of public resources and the efficiency of execution of budgets so that we continue to improve the performance of our budgets and service delivery to our people.

To support the implementation of these regulations, committees of senior officials must be established and be institutionalised within the regulations. An Audit Committee has been set up under the auspices of the Public Finance Management (Internal Audit) Regulation.

We will also formalize the Budget Strategic Committee (BSC) and Budget Coordination Committees (BCC) that were established last year. The BSC committee has worked on Government strategies and will continue to review key economic policies of Government and review the implementation of the Budget to ensure that we are meeting our targets for service delivery within a fiscally responsible envelope. These Committees too, should be institutionalised as part of the Public Finance Management Act regulations to bolster their roles.

Second, we will clarify the roles of current 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 commend that our budget is only as good if they are implemented. To this end, my Ministry and the Ministry of Development Planning and Aid Coordination, will ensure that all programmes and projects that are included in the Budget, going forward, must be ready for implementation and properly costed so that they are completed successfully, on time and within Budget. These investments will be sustained through future recurrent budget allocations for maintenance and service delivery.

Third, MDPAC and my ministry are working with all ministries to improve proper budget planning and prioritization and compliance with budget instructions for both formulation and execution. This is enormously important to allow us to ensure that all scarce public resources are allocated towards our priorities and in the best interests of the public.

We continue to strive to improve the presentation of the budget and have introduced multiyear estimates. This is important and we will make efforts to introduce a set of reforms from next year to improve budget planning, such as establishing more robust multiyear revenue and expenditure estimates that are in line with agreed priorities of the Government.

Refocusing spending to key priority projects requires that they are properly designed, scoped and costed. We will need to streamline the number of priorities being implemented so that we do not end up spreading our scarce resources too thinly and fragmenting policy priorities. We might consider pipelining certain projects so that those projects that are performing well can be given full funding to completion. We will also require a shift from 'input' based budgeting and advance towards a more 'outputs' and 'outcomes' focused approach. This will enable us target resources more effectively so that we know what our budgets deliver.

Going forward, as part of the mid-year review of the budget, Ministries should also conduct a rigorous review of their whole portfolio, covering both the development budget and the recurrent budget. The intent will be to identify projects and program that are at risk of non-performance and remove them from Ministry's annual and multiyear work plans. It is important

that we conduct this review by mid-year so that we can create fiscal space to ensure we deliver on our highest priority programmes and projects.

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

Most importantly, we are also focusing on operating 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 provide alternative and more effective modalities for service delivery and together progress and build our country.

Conclusion

The Budget for 2017 is focused on building the nation's resilience to enhance growth and service delivery. Notwithstanding this focus, every new financial year presents new challenges and 2017 will be no exception. My conviction, however, is that the 2017 Budget will be resolute. It is a responsible, credible and sustainable budget that will help build the resilience we need to enhance growth and to deliver services more efficiently in our country.

The 2017 Budget also presents Members of this Honourable House with an important opportunity to make more constructive debate and valuable contributions towards improving and enriching the lives of the people of the Solomon Islands.

My point is this: We have been elected to this Honourable House for a common purpose to lead and to serve our people. We have now served almost half the life of this Parliament since we were elected. For this reason, this Honourable House should not procrastinate but to work together. We should be courageous to live in the spirit of cooperation and determination needed to catalyse this budget into transforming economic growth in our country and in creating a lasting difference to the lives of our rural people.

The momentous work ahead to take this country to a new height is enormous and is not unknown to all Members of this Honourable House. Let us therefore, continue to work together and to target our resources more strategically to where there is greatest need and greatest value. I commend this Bill to the House and I beg to move.

Mr Speaker: Honourable Members, the Minister has moved that the '2017 Appropriation Bill 2016' be read a second time. According to Standing Order 61(2), debate on the '2017 Appropriation Bill 2016 is adjourned to the next sitting day."

Hon Manasseh Sogavare (Prime Minister): I beg to move that the House do now adjourn.

The House Adjourned at 10.33 am