

TUESDAY 29TH MARCH 2011

The Speaker, Sir Allan Kemakeza took the Chair at 9.49 a.m.

Prayers.

ATTENDANCE

At prayers, all were present with the exception of the Minister for Foreign Affairs & International Trade; Public Service; Fisheries & Marine Resources; Commerce, Industries & Employment; Communications & Civil Aviation; Environment, Conservation, Meteorology & Disaster Management; Culture & Tourism; Lands and Housing; Planning & Aid Coordination; Provincial Government & Institutional Strengthening; and the Members for Temotu Pele; West Guadalcanal; South Guadalcanal; Temotu Vattu; East Honiara; Malaita Outer Islands, Shortlands and Mbaegu/Asifola.

SPEAKER'S MESSAGES AND ANNOUNCEMENTS

Mr Speaker: Thank you Honourable Members. Yesterday I announced to the House that the issue of the North Malaita seat is before the courts. The High Court is yet to make its decision on this matter. I also stated yesterday that I reserve my right to make a ruling if circumstances do change.

I will now exercise this right to make a ruling. My position in this matter is no secret to the public. Honourable Lusibaea was duly elected by the people of North Malaita and until the court decides otherwise, my ruling is that the North Malaita seat is not vacant and Honourable Lusibaea may again perform his functions as a Member of Parliament under section 51(2) of the Constitution. This is the status quo. Should any Member have any issue on this matter I advise you to please see the courts.

Let us move on to other business. Thank you.

BILLS

Bills – Second Reading

The 2011 Appropriation Bill 2011

Hon LILO: Mr Speaker, it is an honour and privilege to rise to beg that the 2011 Appropriation Bill 2011 be now put to the Second Reading.

I am privileged and most humbled as Minister for Finance and Treasury to present to this Honourable House the 2011 Budget on behalf of the government and the nation of Solomon Islands. This is the first budget of this Government and is the second that I have had the honour of presenting to this Honourable House.

The government has articulated an overarching theme for the 2011 Budget. The theme is 'Improving the quality of public expenditure to invest in better services for the people of the Solomon Islands and to lay the foundations for sustainable growth'.

The Budget that I am presenting today will deliver a record \$2.2 billion in spending to provide services to all Solomon Islanders. I submit that it is a responsible budget in that it provides \$53m to cover the potential for unforeseen and unexpected needs. I also submit that it is a forward looking budget and a sustainable one in that it will deliver an operating result or surplus of about \$24m to allow the government to further build its cash reserves. In that, this budget will be funded entirely from domestically sourced revenue and also from donor budget support. Let me say that this budget, therefore, is truly a very credible and a responsible budget, and I will argue that.

In addition, this Budget launches a process of implementing the government's public financial management reform agenda, which is designed to increase public and donor confidence in the government's public finance systems and processes and that the overarching reform goals are to reduce public waste and increase efficiencies in public expenditure; ensure ministries are properly and adequately resourced to deliver services; build infrastructure, and lay the foundations for growth. That is what this Budget stands for, and I will say more about this later.

Before I provide further details about the Budget, let me outline the context in which the budget was framed. What is the framework of this budget?

Some 30 years ago we showed the world we could stand on a common goal, which was to stand as a democratic and self-sustaining Solomon Islands. We showed that we could compete politically and strive for matters of concern to all of us, which was to build a better Solomon Islands for our children and grandchildren.

You would agree with me that the experiences we have had over the last three decades showed us that we still have a very long way to go in our journey because of the fundamental issues that successive governments have failed to address. For instance, the national constitution in respect to ownership and rights of resource owners is a case in point. The land tenure system has serious impact on businesses, investment, development and infrastructure.

We need fundamental reforms to land. We need to address the issues of customary and tribal land to clarify land ownership and provide secure, transferable use of land within clearly identified boundaries without rigid codification. We need to place higher value and benefit to resources and provide more enabling environment for the resource owners to determine and develop the resources to achieve maximum benefit and returns. The role of government, on the other hand, ought to be focused more on providing a safe and conducive environment and infrastructure to the investors and resource owners. This government recognizes that this will not be easy, given the depth and intensity of indifference amongst resource owners but the government is committed to addressing these issues.

The dimension of our transforming challenges is clear and well-known, and that is that our economy is small and vulnerable to international developments. Almost half of our young people are not employed. There are emerging environmental challenges now posing serious threats to the livelihoods of our people. Bearing these challenges in mind, we have to start doing things differently. We cannot do the same old things and expect different results. The first message is that this Budget is for all of us, whether you are on that side of the House or on this side of the House, we must all be prepared to change our culture of doing things differently.

Let me lay here the global economy in the context of the Solomon Islands economic situation. We operate in a global village where our fortunes are partly dependent on how well we are able to leverage off the global economy. In the past two years the global economy has gone through its deepest recession in over 70 years, brought about by a crisis in the financial sector in particular in the developed countries, and that we have seen an estimated 34 million people lost their jobs. By good fortune and through a coordinated effort by the G-20 countries involving some extraordinary fiscal and monetary policy interventions, a depression has been averted. But for us particularly in Solomon Islands, we should not be relaxing and we must expect further challenges ahead.

Further, the past week's aftermath of the earthquake disaster in Japan and also New Zealand should also remind us of the impact of the unexpected results. Japan, for instance, is one of our major trading partners and in this vein my officials are working very closely with the Central Bank of Solomon Islands to monitor the impacts of this development.

Let me now briefly run through our local economy. In 2010 our economy recovered from the negative roads recorded in 2009. In real terms, the economy is estimated to have grown by around 6.7 percent in 2010. This was largely attributed to the expansion in log exports and an improvement in commodity demand and prices, aided by a recovery in the global economy. Logging production was higher than expected as logging companies capitalized on strong prices and demand. Improvements in telecommunication, construction, trade and the increase in aid inflows also supported the higher growth.

The growth outlook for 2011 is expected to remain buoyant, with real growth rate expected to be around 5.5 percent, driven mainly by the mining sector as Gold Ridge Mine recommences production. The production of other major export commodities is expected to expand as the global economic recovery leads to increased prices and demand. Fish production is anticipated to pick up following the reopening of the Soltai tuna cannery and the expansion of production lines. Logging volume, however, is expected to decline in 2011 due to reduced supply. Nevertheless, lost revenues will be partly offset in the short term by higher duty rates payable as determined values move to around 100 per cent of the international market prices, which currently we are on 95 percent of the formula based valuation.

Throughout 2010, inflation slowed and has remained low. Despite increases in global prices in late 2010, consumer prices have remained stable.

Despite the recovery of the Solomon Islands economy in 2010 and the buoyant outlook for 2011, medium term risks to longer term economic growth and prosperity in Solomon Islands remain, should higher global prices eventually flow on to higher local prices. The logging sector currently accounts for the largest single part of the formal economy. Without significant growth in non-logging sectors, the projected decline in logging will impact on government revenue and Solomon Islands more broadly.

Let me turn to say something about the monetary and the exchange rate. Monetary and exchange rate considerations are also made and that there are important elements both in adapting to global developments and in creating an environment that is supportive of growth and employment creation.

The global economic crisis has demonstrated the need for Central Banks to take a broader view of the economy in managing inflation. Managing growth, employment trends, asset prices, financial sector stability and most importantly the competitiveness of the 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, however, 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 the changing economic circumstances.

It is now time that we put aside our differences and recognize that we have a shared vision of a new united and a vibrant Solomon Islands and a new economy. We have a shared intent to expand income and employment for our people over the period ahead. We have a shared appreciation for the role of investment and enterprise in underpinning growth and we share a common commitment to lay the foundations for growth into the future.

To this end, the government is developing a national development strategy for the period 2011 to 2015. The main two central focus areas of the national development strategy will include taking better care of the people of Solomon Islands and improving the livelihoods of all people of Solomon Islands. These two focus areas involve fulfilling the social needs of people such as better access to education and health care as well as improving the economic benefits to the people through higher growth, a diversified economy and the distribution of the benefits of development.

The government is committed and has continued to build on the strong partnership that the government has forged with development partners. This has been demonstrated by the development partners' continuous willingness to provide budget support towards our annual budgets and our wider economic reform programs. There is a greater scope and capacity to work more closely with our development partners to progress and succeed in our endeavors.

This Budget outlines key aspects of a new path for our nation. Central to the policy priority of this government is the focus of the current government's economic reform program in identifying appropriate responses to encourage sustainable economic growth into the future. The government has set out the parameters it will operate under in its Medium Term Fiscal Strategy. This offers a framework outlining the government's commitment to sound financial management and measures to create a sustainable base for economic development.

The government also recognizes that the challenges caused by rapid population growth are wide ranging including the distribution of income, urban drift, high unemployment rate and access to basic services like education and health. In this vein, this government is seriously committed to establishing economic growth centres in the provinces to attract multi-sector investments in social sectors like education and health as well as to enable the rural population participate in economic and rural development. Given the limited time remaining to the end of the year, the government believes that it would be able to establish a concept plan for at least five growth centres on Malaita, Guadalcanal, Isabel, Makira and Makira this fiscal year.

Also, central to the government's policies are its commitment to promote private sector led growth, improve rural infrastructure development, establish and connect growth centres and provide development opportunities and benefits for all Solomon Islanders. The Government is also committed to work closely with donors to ensure that their programs focus on employment and key economic infrastructures over the medium term. The 2011 Budget provides the base for the commencement of this activity.

While the Government is committed to promote private sector development and growth, many of our state owned enterprises are not in a position to perform the services expected of them, including community services obligations. This has adversely impacted on Solomon Islands. People are not able to access these essential services or the services are

unaffordable which contributes to limited social development. Often the Government has to inject into the SOEs or bail them out of crisis.

We do recognize there are no quick fix solutions to the situation we continue to face. But the immediate challenge for the Government is to work more closely with the SOEs to improve performance of delivery services on the community service obligations. This would require SOEs to provide realistic costs of delivering these services in each of the respective parts of the country. But in the meantime, the Government is also continuing to working closely with our development partners, the likes of the World Bank and the Asian Development Bank to finding practical, affordable and widely accepted medium to long term solutions to this problem.

In addition, the Government understands that it is critical that Solomon Islanders receive a fair and full return when the resources of this country are exploited and developed. There are several resource projects likely to commence in Solomon Islands in the near future. These projects offer the potential to deliver significant economic growth and government revenue. However the government needs to have a place, a consistent policy on how it will tax future projects or what concessions will be available and what rates of royalty will be accepted. By taxing these projects and funding development and services in the country, the Government can ensure that all Solomon Islanders benefit from these projects no matter where they are. The Government is working closely with donor partners such as the International Monetary Fund to develop and implement a resource tax framework to meet these needs.

Let me speak about the 2011 Budget framework. Let me now outline the fundamentals of the 2011 Budget. As I have mentioned, the 2011 Budget will deliver an operating result of a surplus and will require no additional borrowing by this government. There will be no borrowing. Furthermore, the government has, for the first time, provided a total of \$53million to fund contingency warrants to meet unforeseen and unexpected needs. The 2011 Budget is fully funded through a combination of domestic revenue and external budget supports.

As is now widely acknowledged, domestic revenue growth in 2010 was strong, particularly as a result of the good work done by our good men and women in the Internal Revenue Division. In 2011 the total revenue has been expected to grow by a farther 12.9 per cent to about \$2.25 billion, consisting of \$1.97billion in domestically sourced funding and \$287million in donor budget support. The growth in domestically sourced revenue from the 2010 Budget reflects growth in the national economy, and also the on-going improvement in revenue administration and compliance efforts, and specific policy changes including an increase in the range of fees and charges.

Inland Revenue will continue to be the largest source of domestic revenue, representing around 65 per cent of collections in 2011. Customs and Excise collections will make up around 25.5 per cent with the remainder of around 9.5 per cent being collected by various other ministries in the forms of licenses, fees and charges.

This strong growth in revenue will allow the government to spend a record \$2.8billion in 2011, with an additional contingency provision of \$53million, \$26.5million for both the Recurrent and Development estimates. This Budget will deliver spending of about \$1.68billion through the Recurrent Estimates and \$497.7million through the Development Estimates. This will result in end of year operating results surplus of \$24million.

I wish to again highlight that this is a responsible Budget in that it is fully funded. Moreover, it will provide for a further reduction in national debt. As a responsible government, we will continue to repay both our foreign and domestic debts. At the end of 2010, total government debt levels were around \$1.4billion comprising \$1.38billion in official public sector debt and \$66million in other debts including informal debt obligations, contingent liabilities and loan guarantees. Further reductions are expected in 2011 and beyond with the government intending to continue its practice of responsible debt management.

What are the main priorities for the 2011 Budget? The 2011 Budget clearly demonstrates how the Government will deliver on the major aspects of its policy platform. The Government has provided funding for \$417.7million in new development projects. This is an increase of \$122.7million on the 2010 Budget. In addition, there is an extra \$120.8million in new funding for the Recurrent Estimates to enable ministries maintain services for the people of Solomon Islands and lay the foundations for future growth. The Government's key priorities are:-

- Reconciliation and Social Reform
- National Security and Foreign Relations
- Restoring and Developing infrastructure
- Development of our Economy Base, and
- Public Sector Reform

Allow me to outline the major initiative in these critical areas of Government policy. On reconciliation and social reform, the government is providing additional funding to achieve broad and sustainable reconciliation across the community and support the rehabilitation of social dislocations. This is also an investment to ensure the participation and engagement of all Solomon Islanders including women and youth in decision making and to ensure the rights of children are protected. It also involves an investment in increasing and enhancing the capacity of Solomon Islanders to participate in the growth of the nation through improved education services, human resource development, and health and medical services.

The Government has provided \$126.7million in additional funding to achieve these goals. The majority of this additional funding are for the following programs and projects:

- 3.5million for electoral reform
- \$5.8million for the Provincial Capacity Development Fund
- \$2.0million for national reconciliation program
- \$1.0million for the Commission of Inquiry in Land Dealings on Guadalcanal
- \$44.5million for tertiary scholarships
- \$7million for publishing teaching materials
- \$4.0million for running costs of the new Gizo Hospital
- \$3.0million for the refurbishment of the Solomon Islands Medical Training and Research Institute (SIMTRI)
- \$3.0million to upgrade the Solomon Islands College of Higher Education to university status, and
- \$5.25million for New Medical Equipment

On nation Security and foreign relations, the Government's primary aims in relation to national security and foreign relations are to strengthen law and order in the country, ensure border security, and build and maintain beneficial relationships with foreign countries. To this end, the Government has committed \$37.6million to activities in these areas. The majority of the additional expenditure in these areas are:-

- \$11.8million for Canberra Chancery to enhance our diplomatic relations with Australia.
- \$13.3million for new Police housing and upgrades to police stations throughout Solomon Islands.
- \$1.5million for the reinvigoration of the Parole Board.

On restoring and developing infrastructure, substantial investment is required to restore, rehabilitate and develop infrastructures which are essential to stimulate economic growth, enhance rural advancement and foster national unity. In this respect, the Government has provided \$92.5million in additional expenditure for the restoration and development of infrastructure. It should be noted that \$51million of this additional expenditure that relates to transport projects will be channeled through the National Transport Fund. The following investments in projects and programs are worthy to be noted in these areas: This Government will invest \$14.5million for the Rural Transport Infrastructure. It will also provide \$6.0million, a record \$6million for Malaita Infrastructure Contract Support Unit. The Government will also provide \$3.5million for SIG Obligation in its continued work to improve domestic maritime infrastructure. It will also provide \$3.0million for the construction of the Ministry of Infrastructure Development Engineering Complex, to build up the capacity in the Ministry of

Infrastructure and Development. It will also provide \$17.6million for the construction and rehabilitation of provincial airports throughout the country. It will invest \$11.0million for the replacement of the Henderson Airport Navigation Equipment and fire trucks. The Government will also spend \$3.0million for the Auki Jetty and Market project.

On the development of the economic base of this country, it involves investment in key productive sectors of Solomon Islands including agriculture, forestry, tourism, commerce and industries, fisheries, lands, mines and energy, finance and banking. Recognizing that investment in our economic base is critical to the long term sustainability and the growth of Solomon Islands, the government has provided a total of \$210.2m in additional funding for projects and activities in this area. The key projects and activities that we are targeting are \$6m for the development of growth centers in the five provinces that I have mentioned earlier; Malaita, Guadalcanal, Isabel and Makira. We also provided \$5m for the rehabilitation of the Russell Islands Plantation Estates Limited, which is of interest to you. We will provide \$2.5m for the Choiseul Township Development which is of interest to the Member for North East Choiseul. We will provide \$6m for the development of the Suava Bay economic growth centre, which is a growth centre that has been developed over the last two years. We will also provide \$6m for the development of the Noro Industrial Estate, which will be of interest to the MP for West New Georgia. We will provide \$8m for the improvement of the water supply system for Auki and Honiara, which will be of great interest to the Member for East Honiara, West Honiara and Central Honiara and the Member for Aoke/Langa Langa. We will invest \$8m to develop downstream processing of timber in all of your constituencies, the 50 constituencies of this country, including constituencies that do not have trees will be given as well. For the first time we will give the hard working Minister for Agriculture \$9.5m for the development and continuing implementation of the National Rice Development Project. We will provide \$7m for the development of the Cattle Development Rehabilitation Project. Nobody is interested in cattle development. I have not heard any voices raised. But there is \$7m for the cattle development rehabilitation project which is important for our country. There will be \$4m for the cocoa support scheme. So many Members in here who are heavily interested in the export and development of the production of cocoa, this side, both sides, many on that side of the House, and very few on this side of this House.

I am sure that all Members of Parliament will not be interested in this but we will give \$53m for the Rural Constituency Livelihood Program. As you can see, they are all not all interested in the livelihood. We will invest \$5m, we will be hosting the 2012 Pacific Arts Festival. We are investing \$5m to help support the Ministry of Culture and Tourism host the 2012 Pacific Arts Festival to showcase our culture. There is \$5m for the completion of the school of Tourism and Hospitality building, which I am sure the Member for Renbel is so keenly interested in. Thank you for championing the commencement of the construction of this school.

As part of the development of our economic base, the Government is aware of the potential impacts of climate change on Solomon Islands and its growth prospects. In conjunction with the European Union, we have committed additional funding for Climate Change Adaptation and Disaster Risk Reduction Program. The EU has provided \$28 million in budget support to assist with this program. In this vein, new programs and measures are designed to assist reduce the amount of carbon entering the atmosphere, monitor the impacts of climate change and provide for disaster risk reduction and recovery capacity. The majority of the expenditure in these areas are that \$8.5 million for reforestation activities across Solomon Islands. There is \$5.2 million to support the development of the Tina River Hydro Project; \$6.0 million for the installation of renewable energy systems throughout Solomon Islands, in all of your constituencies; \$2.0 million for the establishment of the early warning alert system for natural disasters and \$1.5 million for the construction of provincial emergency centres, as well as \$3.8 million to enhance meteorological and climate measurement capacity and enhanced warning capacity.

On public sector reform, in order for the Government to deliver its policy priorities and provide services to the people of Solomon Islands, it is necessary for the public sector to be as efficient and effective as possible. The Public Service must also ensure that sufficient revenue is collected to allow the Government continue to provide services to the people of Solomon Islands and lay the foundation for sustainable growth. As such, the Government has committed \$71.5 million in additional funding for activity and projects in this area. Key programs and projects that we have identified include \$7.5 million for the running cost of the Bureau of Economic and Social Reform; \$10.0 million for assistance to State Owned Enterprises including the establishment of Community Service Obligations so that we can continue to fly Solomon Airlines to Renbell and other airstrips throughout the country. There is \$2.3 million for strengthening the revenue collection capacity of Inland Revenue and Customs within the Ministry of Finance & Treasury; \$16.5 million for the construction of new Government office buildings. It is too expensive for us to rent office complexes around, and so we have to construct new office buildings. There is \$1.2 million for relocation of the Office of Auditor General to a more appropriate office building. There is \$15.0 million for a contingency to meet additional payroll expenses that we may face in the cost of this fiscal year.

The Government's public financial management reform priority is to increase public and donor confidence in the government's public finance systems and processes.

Sir, one of the key roles of Government is to allocate funding to ministries to deliver services to the people. To this end, the Government is embarking on a comprehensive budget reform starting with the 2011 Budget. The overarching reform goals we say are to reduce public wastages and increase efficiencies in public expenditure; ensure ministries are properly and adequately resourced to deliver services; build infrastructure; and lay the foundations for sustainable growth.

To drive these improvements, the Government, in conjunction with the World Bank, will commence a public expenditure review in 2011. The outcomes of this process will greatly enhance decision making in respect to the allocation of funds and to establish stronger accountability for the use of public funds. These reforms will ensure public money is spent on policy priorities and that funded activities achieve desired results and outcomes.

The 2011 Budget introduced a series of changes that gave ministries greater input into the development of the Budget. There has been more transparency around the budget process than ever before and greater level of accountability for key stakeholders in the process.

As Minister for Finance I held meetings with senior officials from each and every ministry to discuss the 2011 Budget. I was supported in these discussions by officials from my Ministry as well as the Prime Minister's Office, the Ministry of Public Service and the Ministry of Development Planning and Aid Coordination. Discussions covered budget baselines, payroll issues and Ministries' bids for additional funding.

In 2011, the Government will for the first time issue accounting warrants to each ministry for their payroll. This reform will make line ministries explicitly accountable for the management of their payroll budgets. The Government will monitor both the payroll and the other charges expenditure of each ministry to ensure they are spending money in an appropriate fashion. We will continue to hold ministries to account for their financial performance to ensure the 2011 Budget, as it is agreed by the honourable House, is adhered to by ministries.

In conclusion, let me stress to this honourable House that while our economic outlook is promising, there are still many challenges that lie ahead for Solomon Islands. As a government, we have not been afraid to take the hard decisions and it is because of this that we have been able to ensure financial stability in 2011 and beyond. To continue to build on this promising outlook, we must continue our efforts to improve the budget process through our ongoing programs of reform. Should it rest now, the gains made so far will come to nothing, it will come to nothing.

I have tabled today a budget for 2011, which lays a firm foundation and environment that leads to sustained growth and development of our nation. With the stronger partnership the government has forged with development partners, there is greater scope and capacity to progress and succeed in our endeavours. It is our goal that our people will benefit and move forward together in the pursuit of success and prosperity.

I believe we have a greater chance today than perhaps at any more time in the past 33 years. We need to go further and change our culture to make changes to happen and that we can do more and we must do better.

As the government of our nation we are humble by the trust bestowed upon us by our people and by this honourable House to lead and to serve. Such trust could only be repaid by continuing to work tirelessly to make our nation vibrant and to bring joy, peace and prosperity for all our fellow citizens and for our children in the months and years ahead.

With these remarks I commend this Bill to this House and I beg to move.

(applause)

Mr Speaker: According to Standing Order 61(2), and I quote, "After second reading of the Appropriation Bill has been proposed and debate here on, shall be adjourned and shall resume not earlier than a day following." The debate on the second reading of the 2011 Appropriation Bill 2011 is therefore adjourned.

ADJOURNMENT

Hon Philip: I beg to move that the House do now adjourn.

The House adjourned at 10.39 am