



## **GOVERNMENT OF THE SOLOMON ISLANDS**

### **THE 2019 BUDGET SPEECH**

*Resourcing the Basic Fundamentals*



**Delivered by**  
**Honourable Manasseh Sogavare, MP**  
**Deputy Prime Minister and**  
**Minister of Finance & Treasury**

**Honiara**  
**13<sup>th</sup> of November 2018**

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**The 2019 Budget Proper Speech**  
**(Delivered by Hon Manasseh Sogavare,**  
**Deputy Prime Minister and Minister of Finance & Treasury)**

## **Introduction**

Mr Speaker,

1. I rise to beg that the 2019 Appropriation Bill 2018 now be put to the second reading.
2. Mr Speaker, I am most humbled as Minister for Finance and Treasury to rise in this Honourable House today to deliver the Government's fiscal plan for 2019. In the wake of an Election year, the 2019 Budget will focus on all Ministries' core business, ensuring that we continue to adequately '*resource the basic fundamentals*' of Government within the resource envelope that is available to us.
3. Mr Speaker, this is the final Budget that will be presented by this Government and I am honoured to have had the privilege of presenting to this Honourable House under the leadership of the Prime Minister, the member for Small Malaita.
4. Sir, before I go into details of the 2019 budget, I would like to thank the tireless efforts of those Ministries and officials who made this budget a reality. I would like to acknowledge the support of Caucus Members and of Cabinet. I would also like to acknowledge and commend officials of my Ministry, the Ministry of Development Planning and Aid Coordination, the Ministry of Public Service and the Prime Minister's Office for their tremendous efforts of coordinating Budget committees and spearheading budget reforms to continue to improve the budget formulation process. Through their collective efforts, and those of the

technical budget committees, the 2019 Budget process has greatly improved, an assurance of a credible and transparent budget process.

5. Mr Speaker, this Government took decisive and affirmative action to address the fiscal challenges we faced at the end of 2017 and we are now in a much more stable economic situation. We have committed this Government to maintain fiscal discipline and continue to live within our means, investing more in areas of growth and diversifying our economy without increasing our debt burden or fiscal deficits.
6. Sir, this government in this endeavour, has ensured that the fiscal challenges of 2017 are not repeated. The 2019 Budget Theme is **“Resourcing the basic fundamentals”**. The 2019 Budget embeds the corrective measures and fiscal discipline from this year’s budget and builds on the financial management basic tenets of this year’s budget. For next year, the focus is on ensuring that resources are distributed across Government Ministries and their priorities equitably and efficiently. We want to honour Government’s commitments and build back confidence in the private sector and our suppliers and contractors, stakeholders and most importantly, our Citizens.
7. Sir, let me briefly outline some key guiding principles for the 2019 Budget.
  - a. The number one policy priority for the 2019 National Budget is fiscal stability and re-establishing fiscal buffers to ensure that execution of the budget is efficient and effective.
  - b. The second priority for the 2019 Budget is to ensure it is targeted to the priority policy areas of Government within a stable macro-fiscal framework, so that the allocations to Sectors and Ministries is both fair and targeted towards initiatives that will deliver results.

- c. The third priority was to ‘correct’ the budget for 2019. By this, I mean gathering as much information that Ministries were willing or able to provide on all Government commitments that have to be honoured in 2019, including donor partner commitments and direct funding agreements, CTB and MTB contracts, payments towards international and overseas bodies, subscriptions and licences and fully supporting key Government initiatives such as the National Elections, the National Census, the Scholarship Awards, procurement of medical supplies, equipment and drugs and dressing and honouring increases in service delivery grants to keep up with population growth and rising demand in the rural areas.
- d. Given the total resource envelope for 2019, \$19 million has been ring-fenced for unforeseen spending under the Contingency Warrant provision. The \$19 million will also act as a contingency reserve to assist the Government with additional cash buffers against any potential revenue shortfalls.
- e. To ensure 2019 resource envelope is realistic and captures the Cabinet Conclusion C32 (2018) 4 on the reform of this country’s Forestry Sector, the Ministry of Finance and Treasury through the Economic Reform Unit worked on a more realistic and credible macroeconomic forecasts and estimates for 2019, taking into consideration the direct impacts that the logging sustainable committee decisions will have on nominal GDP growth and logging receipts, but also on other tax streams.
- f. To support the smooth and effective execution of the budget for 2019 and better cash management so that Ministries receive the right amount of funding at the right times, the budget has been allocated across and between the Recurrent and Development Budgets based on what each Ministry can realistically deliver for next year.

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- g. The Recurrent budget was determined based on costed activities and deliverables for 2019 and the Development budget was determined by projects that are ready to be delivered successfully.
8. Sir, I would like to remind this Honorable House that we are trying to deliver a budget that produces results for 2019, therefore all budgetary allocations will be monitored next year during a mid-year review, to ensure that in line with Section 48 (2), of the Public Financial Management Act 2013, the classes of outputs expected to be provided by each Ministry as outlined in the Financial Policy Objectives and Strategies Statement for 2019 will be used as a benchmark to assess the performance of Ministries in delivering on their budget allocations.
9. Mr. Speaker, even though 2019 is an Election year, this Government is determined to see better results from its budgets. Sir, it is important that ministries demonstrate and justify that they have the technical capacity, man power and time to complete their programmes, projects and activities. Even if ministries use up funds before the end of the year, proper implementation reports must be provided before further consideration can be sought from the government for additional funding through Supplementary Budget requests or Contingency Warrant applications.
10. Sir, the Budget that I present today will deliver \$3.93 billion in spending to provide the services to the people of Solomon Islands. A total of \$3.643 will be directly SIG funded expenditure. For the first time in Solomon Islands history, the payroll budget will account for 34% of total SIG expenditure, or \$1.24 billion. The Other Charges budget will account for 52% of total SIG expenditure, or \$1.91 billion. The Development Budget has been reduced further to 13% of SIG expenditure or \$475 million, in an effort to clean out all SIG investments that have faced years of delays, impediments to implementation or limited funding. As a result, these projects have not been delivered or completed, even

with ongoing funding. Instead, this Government has committed to investments in 2019 that are ready to be mobilized and implemented.

11. Mr Speaker, let me remind this Honourable House that our budget estimates are only as good as the ability to deliver on them. 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 scoped, designed and costed so that they are completed successfully, on time and within Budget. These investments will be sustained through future recurrent budget allocations for maintenance, service delivery and to add value to these Government investments.
12. The progress of key government priorities will be monitored and continually reported to government through the Central Ministries Coordinating Committee and the Policy Implementation, Monitoring and Evaluation Unit under the office of the Prime Minister and Cabinet.
13. Mr Speaker, the Government has committed itself to right sizing the public service with this 2019 Budget that I present to you. We are committed to continue improving performance across Government by ensuring that our institutions are structured in the right way to deliver their mandates. The current functional reviews being led by the Ministry of Public Service have facilitated the streamlining and improving the delivery of services across the Ministries who have successfully completed them, whilst keeping them cost neutral to Government.
14. Mr. Speaker, this Government is committed to excellence and to the continued refinement of service delivery mechanisms. In that sense, we will use the 2019 Budget as a benchmark for improving efficiencies across all of our public service machinery in order to restore sustainability and fiscal stability in the economy and advance our priorities, we encourage better resource

management, quality spending and ensuring a prudent and stable budget for this year.

15. Mr Speaker, before I provide further details on the 2019 National Budget, allow me now to outline the 2019 economic outlook and continued progress of our country.

## **The Economic Outlook**

### **Macroeconomic outlook**

16. Mr. Speaker, the Solomon Islands economy in 2018 continues to perform well, with strong growth from key sectors including Agriculture, Forestry, Manufacturing and Services sector. Real Domestic growth in 2018 is projected to be around 3.5%, a slight increase from the 2017 real GDP growth. The growth however, remains unsustainable.
17. Mr. Speaker, real Gross Domestic Product (GDP) growth for 2019 is projected to be around 2 to 3 %. This slight reduction in real GDP growth for 2019 reflects the reduced contribution of the primary sector to overall growth under a more sustainable approach to logging. Logging is not expected to contribute to overall growth of the economy in 2019.
18. Sir, the manufacturing, construction and utilities sector is forecast to contribute 0.31 percentage points to real GDP in 2019, in line with strong credit growth in these sectors and feedback from various industries. Over the medium term, the services sector is expected to be the main key contributor to overall Real GDP Growth.
19. Mr. Speaker, inflation is forecast to be around 2% in 2019 and grow at a historical average of around 5- 6 % over the medium term taking into account the continued increase in fuel prices if OPEC continue to control market supply.



20. Sir, volatility in international commodity markets remains the primary external risk to domestic inflation. Solomon Islands high dependency on fuel and imported items for production and the lack of immediate substitutes will also add inflationary pressures to domestic prices. The high levels of liquidity currently in the banking system are also a potential risk for inflationary pressure, should lending activities pick up significantly.

### **Outlook for the logging sector**

21. Mr. Speaker, the new Forestry Sustainability Policy, which decreases the volume of round logs exported to more sustainable levels over the medium term, will need to be monitored carefully as it will present challenges for Solomon Islands Economy as the reliance on unsustainable logging practices is reduced.

22. Sir, Currently the logging sector accounts for:

- 20% of Government domestic sourced revenue. Logging export duties are a key source of revenue to Government. The reduction in logging activity will therefore place some pressure on Government finances.
- 60% of exports and 32% of total foreign exchange receipts. Reduced logging activity will place pressure on Solomon Islands' ability to earn sufficient foreign exchange to pay for the current levels of imports and will require increased attention to develop alternative export sectors.

### **Debt Outlook**

23. Mr Speaker, 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.

24. Sir, Solomon Islands debt to GDP ratio is currently around 11 to 13 per cent. 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.
25. 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 for future generations. The Debt Management Strategy determines what level of debt is considered to be sustainable and affordable.
26. Mr Speaker, a debt sustainability analysis is undertaken annually, as part of the budget process, to determine an appropriate Annual Borrowing Limit.
27. To this end, the Annual Borrowing Limit for 2019 is \$300 million, and will include all forms of public debt obligations such as direct borrowing by the Government, direct borrowing by SOEs, on lending arrangements and guarantees provided by the Government. This includes Government borrowing for the Tina River Hydro Power project and for other pipeline infrastructure investments such as the 2023 SP Games. Full utilisation of the 2019 Annual Borrowing Limit would increase our debt to GDP by around 17 per cent.
28. Sir, the Government is also committed to sustaining the Treasury bill market by maintaining around \$100 million of these instruments on issue throughout the year.

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

29. Mr. Speaker, 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. Inflationary pressures have been successfully contained in 2018 within an acceptable band of 2 to 4 %, with a projection of 3 to 5 % in the medium term. Given this rate of inflation, there will still be capacity to accommodate for any upward inflationary pressures, as a result of volatilities in international fuel prices, food prices and changing weather patterns.

30. Sir, 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.
31. Mr. Speaker, the CBSI and MoFT are conducting nationwide consultations on the Credit Union Bill in relation to proposed changes in the Credit Union Act. A well-functioning credit union industry will provide the Solomon Islands with enhanced access to financial services and create opportunities for its members. The New Bill will be set for consideration in Parliament next year.
32. Mr. Speaker, 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 rate movements, and in providing certainty to businesses.
33. Sir, 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. Currently, given the spare capacity in inflation developments, along with moderate growth and stable macroeconomic conditions, the CBSI will continue to maintain an accommodative monetary stance.

## **Regaining and Reinvigorating Economic Growth**

34. Mr Speaker, in light of the Sustainable logging policy recommendations approved by Cabinet, the Government is committed to moving away from its dependency on a sector that has had detrimental environmental and social impacts on our people. The need to curb logging exports has been long overdue, and I am proud, that as a Sovereign Nation, we have made the decision to take back control of our own resources, as custodians of this land and everything that it bestows to us.
35. Sir, the Solomon Islands Government is committed to implementing policies that will support sustained economic growth and improve living standards for all of its citizens. The first objective is to continue with structural and sectoral reforms (in particular governance, tourism, fisheries, agriculture, infrastructure, mining, health and medical services) to make Solomon Islands an easy and reliable place to do business and to invest.
36. Sir, structural reforms not only create opportunities for the economy to grow, it also supports new jobs, increased investment, low inflation, a sound balance of payments level and an overall healthy economy. The Government is also seeking to facilitate a number of private and public-private investments projects that, if implemented, would expand the productive potential of the Solomon Islands economy.
37. Sir, a significant amount of development expenditures in the recent past has been allocated to non-capital expenditure, with limited impact on economic growth. On that note, the development projects that are included in the 2019 National Budget have required detailed scrutiny and has been framed realistically against contractual obligations and the capacity of Ministries to complete these investments.

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## The 2019 Budget Overview and Framework

38. Mr. Speaker, let me now outline to this Honourable House the fundamentals of the 2019 Budget.

39. Sir, the budget that I am presenting to this Honourable House will deliver \$3.926 billion in spending to provide efficient and effective services to the people of Solomon Islands. It is fully funded through a combination of domestic and external budget support revenues that the SIG will realistically secure in 2019.

### Revenue

40. Mr Speaker, the total revenue expected in 2019 is \$3.926 billion. Total domestically sourced revenue is expected to be \$3.643 billion, a slight decrease of \$65.4 million or 2 per cent over the 2018 forecasted revised collections of \$3.708 billion. This reduction signifies the Government's commitment to moving away from harmful and unsustainable logging practices and instead, turning to alternative sources of revenue and growth, through improvements in compliance and the tax system as a whole.

41. Sir, domestic revenue in 2019 is expected to be sourced from the following:

- Inland Revenue - \$2.044 billion
- Customs - \$1.097 billion
- Other Ministries - \$502 million

### Inland Revenue Division

42. Mr Speaker, you will note that:

- Most tax collections by IRD are expected to increase in 2019 by around 4 % from the 2018 revenue base (aligned with nominal GDP growth). Additional compliance activity and impacts from policy changes are also factored into the projections.
- Business profitability has continued to improve despite looming challenges, with corporate income tax receipts (company tax and dividend withholding tax) for the first 8 months of the 2018 higher than the same period 2017. Company tax receipts are forecast to grow by 5.3 % in 2019.
- Goods tax receipts increased by 9.0 % over the first 8 months of 2018, compared with the same period in 2017. Goods tax in 2019 is projected to increase by 4.8 % in 2019, which incorporates the implementation of recent legislative amendments to improve goods tax compliance which came into effect as of the 1st October 2018.
- Withholding Tax is expected to be around \$296.0 million in 2018; this is 7.8 % higher than 2017 actuals. This increase in withholding tax reflects continuous effort by the IRD team in collecting outstanding amounts from tax audits from previous years and the implementation of new withholding tax requirements to improve compliance across high-risk activity. Withholding tax is expected to grow by 6.3 % in 2019.

### **Customs and Excise Duty**

43. Mr. Speaker, in terms of Customs and Excise (CED) collections.

44. Most of the strong performance in CED revenue collections this year has been driven by a surge in exports of logs throughout 2018, with export duty collected on logs expected to generate \$665 million in Excise receipts for 2018, which will account for more than half of CED total revenue collections.

- Import duties are 27% higher in the first 8 months of 2018 compared to the same period in 2017, mainly driven by the increased import duty levied on fuel which was implemented in the beginning of 2018. Import duties are forecast to strengthen slightly over the remainder of 2018 because of an expected increase in public expenditure and slightly higher import prices. In 2019, import duty is projected to increase by 6.1 %.
- Export duties in 2018 are now forecast to be around \$669 million, or \$85 million above the original 2018 Budget in line with stronger than expected logging activity. Export duty receipts are forecast to decline by around 16% in 2019, this is consistent with the implementation of the logging sustainable policy measures in 2019.
- The estimate for Excise duties in 2018 has been revised upwards by around \$14 million from the Mid-year Budget, to around \$210 million. Excise duty revisions are consistent with strong excise collections throughout 2018 and excise duty rate increases were effective as of the 1st of October 2018. Excise receipts are forecast to rise by 9% in 2019, reflecting the solid growth in household consumption and overall growth in the nominal economy and excise increases implemented in October 2018.

## Revenue Raising Measures

45. Mr. Speaker, in preparation for the reduction in receipts from logging, the following revenue raising measures have been factored into the 2019 Budget estimates:

- **Goods Tax amendments:** Amendments to the Goods Tax Act were passed by Parliament and became effective from the 1st of October 2018. The amendments are aimed at improving compliance by removing the

ability to undervalue goods for goods tax purposes. This is expected to add \$20m to the 2019 revenue estimate.

- **Compliance dividend:** Given the compliance work undertaken in 2018 and the areas of work in the pipeline for 2019, there is a compliance dividend of \$20m included in the revenue estimate for 2019.
- **Excise Duty:** Excise duty on alcohol and tobacco products increased from the 1st of October 2018. This increase is expected to have a one-off increase in the excise collections of \$10 million in 2019.
- **SOE Dividends:** Based on SOE half-yearly reports, there is a \$15 million dividend expected to be paid to Government in 2019 for 2018 SOE financial performance.
- **Forestry License fees:** An increase of \$3 million has been factored into the non-tax revenue collections by the Ministry of Forestry to reflect the increase in the forest harvest license fees under the logging sustainability policy.

46. Mr. Speaker, the Government is also considering additional revenue measures in the following areas:

- Improving debt management and compliance arrangements in IRD.
- Dividend payments by state-owned enterprises.
- Rates of export duty for logs and improvements to compliance arrangements

47. The Government is also seriously working on taxing goods that are consumed in large quantities, cost hundreds of millions of dollars per year, and are leading



cause of NCD, death, and misery to the lives of our people. These goods are but not limited to rice, sugary food, noodles and oil.

48. Sir, rice for instance is a popular staple to all Solomon Islanders. To make it affordable to the ordinary population, it has not been taxed since the global financial crisis of 2008. The importation of rice has not been growing over the last three years, but per capita consumption of rice has doubled since 1990. Tones of these are shipped and consumed by our rural people.

49. Mr. Speaker, Currently we are experiencing around 50 million kilograms of rice imported into the country each year, and the lack of goods tax and import duties on rice means we are eating more than what we otherwise would be if rice was treated like other foods imports.

50. Sir, The large consumption of rice and other low quality food in diets, combined with low levels of exercise, increases the risk of obesity and type 2 diabetes in our population. Surprisingly, most of the diabetic patients in the National Referral Hospital are from the rural area who do not often take fizzy drinks but eat rice regularly. Rice is certainly a cost to health care system in the country and ought to be taxed.

## **The Tax Review**

51. Mr. Speaker, I will now run through the progress that is currently underway to address the weaknesses in the current tax system and improve revenue collections over the medium term:

52. The dramatic decline in logging exports (currently account for around 22 percent of the total tax revenue), the implementation of free trade agreements and possible increase in exemptions, will further erode the tax base in the coming years and will be a challenge to the current tax system as well.

53. The review of the tax system aims to establish tax policies that will encourage economic growth, as this is an avenue for providing a sustainable basis for the long term increases in tax revenues that will be needed to support population growth.
54. In February 2018, the Cabinet endorsed the preliminary consultation report (TRCC) and Tax Reform Work Plan and agreed to commence drafting of a new Tax Administration Act, and to undertake further work to design a Value-Added Tax (VAT) for Solomon Islands.

### **Tax Administration**

55. Mr. Speaker, starting with a review of tax administration arrangements will ensure a strong foundation on which to build other tax reforms and will also ensure effective compliance once other reforms are implemented.
56. The new Tax Administration Act aims to merge the administrative provisions of all primary tax legislations (Goods Tax, Sales Tax, Stump Duty) into one Act for consistency and compliance. It will also modernize tax administration through supporting the use of electronic systems and self-assessment.
57. The Tax Administration Bill (TAB) is expected to be finalized in the fourth quarter of 2018 and table in parliament early next year. Subsequently, there is also a need to do other consequential amendment to the Goods Tax Act, Sales Tax Act and Stump Duty.

### **Consumption taxes (Value Add Tax)**

58. Mr. Speaker, the review of consumption tax (VAT) aims to provide a fairer system through implementation of a broad-based consumption tax without complexities and anti-competitive nature of the existing exemption arrangements. It promotes exports by ensuring our exports products can be

more competitive in the external market. Currently, the Solomon Islands tax system does not integrate with those of our trading partners and is a barrier to the development of exports, e.g. all countries in the Pacific have a single tax for goods and services.

59. The review of consumption taxes would examine a range of existing taxes and it is intended that it would replace existing taxes like Goods Tax, Sales Tax and most Import Duty. It may also replace the Accommodation Levy and Stamp Duty.

### **Customs and Excise Bill 2018**

60. Mr. Speaker, progressing the Customs and Excise Bill is one of the key priorities for budget support under the Core Economic Working Group (CEWG) process. The original aim was for the Bill to be tabled in Parliament by end July 2018. However, there has been a delay as the bill was redrafted but there are still some policy issues that need to be resolved with CED. It is also necessary to review the draft bill against the Pacer Plus agreement.

### **Overall strategy for Tax Administration Reform**

61. Mr. Speaker, it is envisaged that more work needs to be done (public consultation, drafting and preparation for implementation) to finalize the TAB, VAT Bill and Customs & Excise Bill in quarter 1 of 2019 – to be ready for Parliament to consider in the second half of 2019.
62. If the bills are passed in 2019, that would allow the new TAB and CEB to commence from 2020. The VAT would have to wait until 2021 to allow enough time for preparation of IRD and business.
63. It will also be useful to commence preparatory work on the next stage 2 of the tax reform process which will focus on income tax.

## **Investing in Priority Areas**

64. Mr Speaker, with regards to the government financing, the Government expects implementation of the following government borrowing supported projects to begin in 2019.

### **Tina River Hydro Power Project**

65. Mr. Speaker, the Tina River Hydro Project aims to reduce the dependence on expensive imported fuel and generate more cost-effective and reliable electricity to Honiara.

66. Sir, it is expected that the Project will be developed under a Public-Private Partnership (PPP) model. Under this model, an investor, with expertise in the energy sector, is expected to finance, build and operate the Project. The investor will sell electricity to SIEA over the proposed 30-year term of the PPP.

67. Financing details for the Project are yet to be finalised, but it is expected that the Government will incur around USD\$179 million in government borrowing, comprising of around USD\$159 million in direct debt and USD\$20 million as a government guarantee. This level of government borrowing would equate to around 16 per cent of GDP (based on end of 2018 estimate at the prevailing exchange rate USD/SBD of 8). It is important to note that the guarantee would only obligate SIG to make debt repayments in the event that SIEA fails to meet the required payments under the PPP to the investor.

### **Solomon Islands Submarine Cable Company (SISCC)**

68. Mr. Speaker, the Solomon Islands Submarine Project is now effective and civil work constructions and the preparation for cable landing station has started after key contracts and agreements on the project have been reached and

executed. Other Project milestones have also been expedited, such as the commencement of the Marine Survey, completion of all domestic land based routes, the approval and receipt of the Development Consent from the Director of Environment, and commencement of site clearance in the Honiara Data Centre.

69. Actual construction work in Honiara is expected to commence this month, and civil work at all provincial landing centers should commence from December, 2018 onwards. Domestic civil work is scheduled to be completed in February, 2019.

70. Mr. Speaker, without any major risks and uncertainties ahead, both the Government and the cable company are optimistic to achieve critical milestones which include:

- Commencement of the submarine cable laying from February, 2019;
- Installation of cable landing stations from April, 2019;
- Terminal equipment installation commencing from June 2019;
- Land cable installation commencing from July, 2019;
- Systems launch for the service by December, 2019.

## **The 2023 South Pacific Games**

71. Mr Speaker, preparatory works on the PG2023 by the cabinet set up bodies had been concluded and the PG2023 Act 2018 had been brought into operation effective 26th October 2018. National Hosting Authority members will be appointed by the end of this month and preparations are already underway for it to host its inaugural meeting on the 6th and 7th December 2018.

72. This is a major undertaking that the SIG has committed to. It is a multi-billion dollar undertaking. In addition to the setting up of the NHA and its constituent

bodies, the major priority between now and 2023 is the securing of funds to finance the games facilities and the games operational costs. The Pacific Games Council had advised government that it needs to reflect in its budget on an annual basis between now and 2023 adequate allocations that will demonstrate government's ability to deliver on its commitment to host the Pacific Games.

73. Sir, this is the first time the Government will host the Pacific Games. The requirement for facilities for the games such as stadiums, tracks, fields, swing pools, venues for water sports, etc. are a lot more than those required for mini games. The number of sports is a lot more than for mini-games. We are also trying to negotiate the inclusion of Futsol and Beach Soccer as these are now Pacific-wide sports that Solomon Islands have good opportunities to perform well on. This means government needs to reflect its commitment and ability to finance the games.

74. Sir, it is crucial that SIG demonstrates its commitment and capability through a substantive budget allocation in the 2019 budget for the PG 2023.

75. Mr. Speaker, to accommodate the requirement for SIG to reflect a minimum allocation for the PG 2023 commitment, SIG had to put on hold 4 capital infrastructure projects including the Official residence of the Prime Minister, the Justice Precinct, the IPAM building and the Ministry of Environment building. It is the intent to consider these infrastructure priorities during the 2020 Appropriation Bill.

### **Other Provisions in the 2019 Appropriation Bill 2018**

76. Sir, the 2019 Appropriation Bill 2018 has been finalised based on the estimates in the budget papers. In addition, it includes a provision of \$19 million for recurrent and for development contingency warrants for

expenditures which are at this time unforeseen and as a contingency reserve to assist Government with additional cash buffers against any potential in-year revenue shortfalls. It also set a borrowing limit of \$300 million and an advance warrant limit of \$150 million.

## **Financial and Economic Reform**

77. Mr. Speaker, I have already provided a summary of the progress this Government has made in terms of a comprehensive tax review. Let me now discuss the other initiatives of reform that are being implemented by the Government.

78. Mr. Speaker, re-establishing the Core Economic Working Group (CEWG) to serve as the main coordination mechanism for general and sector budget support is another reform this Government has re-established.

79. This is an important platform for high-level policy dialogue between the Solomon Islands Government and its major development partners who provide additional financing to the SIG budget and to recognize that budget support is not solely about providing funds to help meet the government's financing needs, it is also about deepening and broadening knowledge and understanding of the binding constraints to sound fiscal management, promoting context-specific policy and institutional reforms, and ensuring that policy advice and technical assistance is available to support reform implementation.

80. Mr. Speaker, since last year, this Government has introduced activity and output based budgeting. It will improve the annual planning process of implementing ministries and budgeting by costing out their annual plans in line with available budget and encouraging an "output" based approach to

planned expenditure and operations rather than “input” or line item based budgeting.

81. Importantly, output focused budgeting will reduce the excessive use of virement applications, Supplementary Budget applications and Contingency Warrant submissions if Ministries put more effort and careful planning into their annual budget submissions each year.

### **Budget Execution and Financial Management**

82. Mr Speaker, given the robust targets we have for the 2019 budget, I am confident that we will deliver a budget that is affordable and sustainable.

83. It is on that note, sir, that by being more stringent at the planning stage of budget decision making, the actual execution of Ministry budgets will be more successful.

84. Mr Speaker, in order to facilitate the smooth operations of all Ministries to implement the 2019 Budget, my ministry will be providing additional support by requesting that ALL ministries provide a revised costed work plan against the Recurrent Budget estimates when they are finalized, and to include by month, when they anticipate to bring forward payments to implement specific activities, how much this will cost and what will be their monthly cash flow requirements. Such measures will be necessary in order for all Ministries to collectively support my Ministry in improving the execution of the budget proper this year.

85. Sir, we will also require that ALL Ministries put together comprehensive procurement plans as well, so that we can ensure that the right amount of money is available at the right time to each Ministry to implement their budgets.



## **The Public Financial Management Act (2013) Regulations**

86. Mr. Speaker, the work on developing the PFMA 2013 regulations is progressing well. These regulations are sub-ordinate legislation that make the implementation of the principal PFM Act clearer and easier to follow. These regulations will provide clearer guidance when administering and managing SIG public finances and will lead to improved compliance with the Act as well.

87. Sir, there are 13 parts of Regulation that are required; Part 4 on Internal Audit and Part 8 on Government Borrowing has already been completed. On the 12th of October 2018, the Ministry of Finance and Treasury hosted a Government wide consultation on the draft Regulations for Section 6 of the Public Financial Management Act, 2013 concerning the preparation of the annual budget and oversight during the implementation process and on the 16th of October, hosted additional consultations for Section 9 of the PFM Act on Procurement Regulations and Rules.

88. Sir, the approach taken to drafting the Regulations is that they support existing business processes with some enhancements to improve and strengthen processes.

89. Regulations to support the PFM Act will be done progressively. We hope to have all Regulations done or substantially progressed by the end of June 2019 next year.

## **Conclusion**

90. Mr Speaker, the Budget for 2019 has been formulated to ensure that Ministry priorities and basic requirements are fully funded. All outstanding arrears

from previous years as well as contractual commitments have been honoured based on the information provided by Ministries.

91. Sir, as Ministries continue to improve their internal budget formulation coordination and establish successful budget formulation and implementation committees, we will continue to see gains in terms of resource management and the tangible delivery of policies and services.

92. Sir, the 2019 budget provides an important opportunity to engage in more constructive dialogue and debate towards improving and enriching the lives of the people of the Solomon Islands. This country and the resources it endows with is not for this generation and this Government alone. It belongs to the generations that had passed on, and will be inherited by the generations to come.

93. For this reason, I encourage this Honourable House to continue to work together to support Government's machinery and ensure that we collectively continue to improve on the usage of our scarce resources and target them effectively to diversify our sources of growth.

94. Mr Speaker, I commend this Bill to the House. And I beg to move.