



**GOVERNMENT OF
SOLOMON ISLANDS**

THE 2013 BUDGET SPEECH

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The 2013 Budget Speech
*(Delivered by Hon Rick Houenipwela,
Minister of Finance and Treasury)*

1. Introduction

Honourable Speaker,

I rise to beg that the 2013 Appropriation Bill 2012 be now put to the second reading.

Mr Speaker, I am honoured and most humbled as Minister for Finance and Treasury to present to this Honourable House the 2013 Budget on behalf of the Government and the nation of Solomon Islands. This is the third Budget of this Government and the second that I have had the privilege of presenting to this Honourable House.

Sir, the Government has articulated an overarching theme for the 2013 Budget. The theme is *“building on the gains for a stable Solomon Islands”*.

Mr Speaker, the Budget that I present today will deliver a record \$3.6 billion in spending to provide services to all Solomon Islanders. It is a responsible Budget in that it provides \$38 million to cover the potential for unforeseen and unexpected needs. It is a responsible, forward looking and sustainable Budget in that it will deliver a small surplus of \$0.7 million. The Budget and forecast forward year expenditure is funded entirely from domestically sourced revenue and donor budget support with some borrowing factored in for the undersea internet cable investment.

This Budget, Sir, is indeed a credible and responsible budget. Around fifty nine per cent, of all new measures are directed towards Rural Development and other Economic Affairs. This commitment is supported by additional funding to education, public order and safety and health. Significant investment in the capacity of the public sector is

also part of this Budget in order to improve the implementation of budget measures.

This Budget, Mr Speaker, also introduces more significant investment and reforms to build on the gains achieved so far and take forward a stable Solomon Islands. These initiatives include the Solomons Oceanic Cable Project, reforms to the determination of alcohol excise and the publication of forward estimates for the Budget Year and the subsequent two years. I will discuss these initiatives in further detail shortly.

In addition, Mr Speaker, this Budget takes forward 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. The overarching reform goals, Sir, are to *achieve quality expenditure, shifting more resources to building the foundations for economic growth and improving services delivery*. I will say more about this very important task a little later.

Sir, before I provide further details on the 2013 Budget, I would like to outline the context in which the Budget was framed.

2. Social and Economic Challenges

Mr. Speaker, Solomon Islands is an independent and sovereign nation. Hence, this Government and future Governments must focus on building the economy, the productive capabilities of its human resources particularly its young people, as well as key social infrastructure that improves the delivery of social services. We have indeed achieved strong levels of growth over the last few years, but our population is also growing. We, therefore, need to do more to achieve real autonomy.

Mr. Speaker, the Solomon Islands economy recovered from the negative growth in 2009, gathered momentum through 2010 before peaking in 2011. In 2012, growth started to slow to more moderate levels. In real terms, the economy is estimated to have grown by around 10½ per cent in 2011 compared to 6¾ per cent in 2010. Higher growth was largely driven by strong logging output, the commencement of gold production

at the Gold Ridge Mine and increased agricultural production due to increased demand and commodity prices. In 2011, log production reached a record high of around 1.9 million cubic metres compared to 1.4 million cubic metres in 2010, which was a 42 per cent increase in volume and 63 per cent increase in export value, as logging companies capitalised on stable prices and strong demand. Improvements in telecommunications, construction, the trade and services sector, aided by increased donor inflows and general improvements in the overall economy, also contributed to higher growth in 2011.

Sir, in 2012, real GDP is forecast to moderate from the 2011 growth rate to around 5¾ per cent despite strong performances in construction, transport, manufacturing and a doubling in production at the Gold Ridge mine to around 80,000 ounces. Logging output is expected to remain flat while agricultural exports, particularly cocoa and copra have been adversely affected by substantially lower international commodity prices.

Sir, in 2011, inflation in the Solomon Islands rose to 6.7 per cent. This was largely driven by higher fuel and food prices in global markets, strong domestic demand and domestic supply constraints. Since early 2012, inflation has gradually moderated to 5.3 per cent as international fuel and commodity prices and domestic prices continue to ease. 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 inadequate immediate substitutes will also add inflationary pressures to domestic prices.

Mr Speaker, the current high liquidity in the banking system is also a potential risk for inflationary pressure should lending activities pick up. In 2012, the CBSI took a moderate policy stance to maintain price stability. This has included continued mopping up liquidity through issuing short-term bills, and pegging the Solomon Islands dollar to the United States dollar up to September 2012, to alleviate imported price pressures. By October 2012 and amidst falling international prices, it moved the peg to a basket of currencies to allow for greater flexibility for

the Solomon Islands dollar to fluctuate in line with market forces. To further contain inflation, the CBSI has capped the exchange rate movement to only within a plus or minus one per cent margin around the base rate. In the longer term, improving the supply capacity of the country as well as reducing demand for some imports, such as encouraging alternative energy sources to fuel imports can alleviate pressures on domestic prices.

Sir, as the Medium Term Fiscal Strategy highlights, the medium term risks to economic growth and prosperity in Solomon Islands remain high. The logging sector currently accounts for the largest single part of the formal economy and its contribution is expected to decline from 2013 onwards. With an estimated population growth rate of 2.3 per cent, growth in per capita income is likely to remain very slow, suggesting that living standards are unlikely to improve markedly in the medium term.

Mr Speaker, the resumption of gold production and exports by the Gold Ridge Mine is significant. In 2012, production is expected to expand and contribute around 2¼ percentage points to economic growth. It also comes at an important time as logging production is expected to decline from 2013 onwards. However, from 2013 onwards, it is expected that annual gold production will be stable at around 95,000 ounces. As a result, the mining sector is expected to add very little to growth over the medium term.

Mr Speaker, in 2012, logging output is estimated to remain strong as log exporters capitalize on historically high international prices and strong demand together with reduced costs made possible by re-entry into previously logged areas. Whilst record log exports have contributed substantially to economic growth in recent years, this rate of harvesting with a heavy emphasis on re-entry logging is not sustainable. Log production is expected to decline by around 4 per cent in 2013 and continue to decline at an annual average of around 8 per cent over the next four years due to increasing supply constraints. This is expected to bring down real GDP growth from around 5¾ per cent in 2012 to about

3 to 4 per cent over the medium term. The expected slowing of economic growth as a result of the decline in logging presents real challenges for Government including reduced revenue in the short to medium term to support the current level of service delivery until the Gold Ridge mine commences generating profits.

Sir, this suggests continued need for economic reform to broaden the economic base, reduce reliance on a limited number of economic sectors for growth, and protect the economy from external shocks, particularly the sudden adjustments in commodity prices. Identifying appropriate responses and measures to low economic growth is a central focus of the Government's current economic reform program.

3. Global Economy and Economic Outlook

Mr Speaker, the global economic recovery continues albeit at the snail's pace. After weakening slightly in 2011, it has weakened again in 2012. Government revenue for 2012 will not meet the estimates for the 2012 Budget with total revenue expected to be around \$200 million less than the original 2012 estimate.

Sir, economic activity is expected to remain sluggish in advanced economies but still relatively solid in many developing economies. Advanced economic policies have not rebuilt confidence in medium-term prospects and further recovery has been held back by high debt and unemployment as well as broad fiscal and financial uncertainty. Meanwhile, developing economy growth has also slowed due to policy tightening in response to capacity constraints and weaker demand from advanced economies. The International Monetary Fund estimates that after recovering to 5.1 per cent in 2010, global economic activity slowed to 3.8 per cent in 2011 and estimated to decelerate further to 3.3 per cent in 2012. In 2013, it is expected to recover slightly to 3.6 per cent.

Sir, over the medium term, without the introduction of new sources of foreign exchange earnings, the current account deficit is expected to widen, reflecting Solomon Islands' narrow economic base as export

growth in logs declines and exports of gold stabilise. This will cause reserve levels to fall if measured by its ability to service imports.

Mr Speaker, the demand for Solomon Islands major commodities has been mixed. While fish and gold prices have increased, log and palm oil prices have remained relatively flat and cocoa and copra prices have declined quite significantly. At an overall level, this has led to reasonably strong commodity revenues and foreign exchange earnings. However, smallholder producers of cocoa and copra in rural Solomon Islands have struggled. In 2013, it is expected that international commodity prices will remain around 2012 levels as global economic growth takes its time to regain strength.

Mr Speaker, a moderate trade surplus of around \$70 million (equivalent to around 1 per cent of GDP) is expected by the end of 2012 compared to a \$23 million trade deficit recorded in 2011. Both exports and imports are projected to increase by the end of 2012, with exports expected to increase by around 13 per cent and imports expected to increase by around 10 per cent. By the end of 2012 total exports are expected to increase by about 13 per cent to around \$3.6 billion compared to \$3.2 billion recorded in 2011. This is largely driven by strong logging output and increase in gold exports as the Gold Ridge mine is expecting its first full year of production. Other agricultural commodities are expected to remain flat owing to the decline in key international commodity prices for copra, cocoa and palm oil.

Mr. Speaker, the major export destinations for the Solomon Islands are China (close to 50 per cent) followed by Spain (12 per cent) and Thailand (7 per cent). Exports consisted largely of primary products including logs, gold, fish, palm oil, copra and cocoa. The current high dependency on natural resources, in particular logs is a serious risk to the prosperity of the Solomon Islands. The resumption of gold production and exports by Gold Ridge mine is contributing to the export sector. However, it is expected that gold exports will only partially offset the expected decline in logging. It is therefore important for the Solomon Islands to diversify

its economic base to a more stable, broad-based and sustainable economy.

Sir, by the end of 2012 total imports are expected to increase by around 10 per cent to around \$3.5 billion compared to \$3.2 billion recorded in 2011. The main drivers for the increase in imports are expected to be fuel, food, machinery and equipment. The Solomon Islands is a small economy that is remote and dispersed, making it heavily reliant on imported items mostly fuel, machinery and equipment, manufactured items and other general merchandised goods. Over the medium term, imports are expected to grow at a faster rate than exports.

4. Internal Reserves and Exchange Rate

Mr Speaker, by the end of 2012, foreign reserves are expected to increase by around 25 per cent to around \$3.8 billion reflecting the increase in logging and gold exports, aid inflows and foreign investments. This level of reserves is estimated to be equivalent to around 10 months of import cover. In 2013, the level of foreign reserves is projected to increase slightly as a result of continued donor inflows and foreign investments. The anticipated decline in the logging sector and expected stabilisation in donor inflows is expected to lead to falling reserves over the medium term. However, these levels are still expected to remain sufficient to finance the Solomon Islands' trading needs.

Mr Speaker, the monetary sector continued to expand across the first seven months of 2012. This was heavily influenced by increases in reserve money driven by further build-up of net foreign assets of the Central Bank. Liquidity in the banking system has grown, fuelled by increases in reserves on the back of continued donor funding, foreign direct investment inflows and strong export receipts. The primary driver, Net Credit to Government, fell by 36% over the course of the year to July 2012 to \$1.18 billion, reflecting the large build-up of government deposits within the banking system.

Sir, private sector credit has also remained reasonably flat across 2012, growing by only 3 per cent to \$1.26 billion over seven months despite the high liquidity built-up in the banking system. Lending that has occurred has mainly been in the form of overdrafts, up 10 per cent, and lease financing, up 24 per cent rather than in the provision of new loans. The distribution of private sector credit remains a concern with two of the largest sectors, personal loans and distribution not directly linked to productive capacity, receiving the bulk of the funds. Credit to the construction sector accounted for 15 per cent while agriculture, tourism and fisheries accounted for only 8 per cent of private credit.

5. Towards New Growth Path

Mr Speaker, the budget forward estimates are published for the first time this year. The publication of these estimates aims to project the scope of the Government to fund its policy priorities in the years following the budget year. This estimation process forms an essential part of the Medium Term Expenditure Framework and allows forward planning and prioritising of expenditure in the knowledge of the level of financial resources that are likely to be available in the medium term. However, funding for spending will continue to be tabled by the Government before the Parliament for appropriation on an annual basis.

Sir, the state of the economy is the key driver of Government revenue and subsequently the overall funding capacity over the medium term. Although other factors such as improved compliance have made a major contribution to revenue collections over the last few years, there is a limit to the extent to which this can continue. In the longer term, it is economic growth that enables revenue collections to increase and the overall funding capacity to improve.

Mr Speaker, in 2012, the Government's cash position remained solid despite significant pressure from lower than forecast revenues, owing to a range of factors including slower than expected economic activity and a higher than expected cost of the Government's 2012 Budget decision to double the personal tax exemption threshold. Under-spending on the

development side of the Budget remains of concern to the Government. However, this underspend also contributes to the cash balance. The ground work for this relatively comfortable cash position was laid through sound cash management decisions and practices introduced in 2010.

Sir, slower growth over the medium term means that broader revenue growth will also slow. A slower revenue growth trajectory makes it even more important that budget allocations are wisely determined to have the greatest social and economic benefits for the Solomon Islands. The need to address the fiscal environment and economic challenges requires a focus on quality spending for service delivery which will in turn build the confidence of investors in the Solomon Islands. To maintain fully funded budgets, nominal expenditure growth will need to slow from 22 per cent per annum for the period 2004 to 2011 to a maximum of 7 per cent per annum from 2013 to 2017.

Sir, despite economic and employment growth in the Solomon Islands, unemployment and social inequalities remain high. Besides, environmental challenges like climate change and rising sea levels pose a threat to the livelihood of people everywhere. We need to address these, as they are key factors that create dissatisfaction and social disharmony in our communities today.

Mr. Speaker, the Government exists to serve the people of Solomon Islands. You will agree with me that resources are limited and we must learn to do more with less. We must invest taxpayers' money wisely, reduce public waste and avoid duplication of service delivery as one. Together, we must commit to fundamental opportunities to shape our country's tomorrow by making wise decisions today.

Sir, this Government will continue to focus on creating a safe and conducive environment for investors and resource owners to be able to maximize benefits to all. The Government recognizes that this will not be an easy task. These are extraordinary challenges and we cannot respond in ordinary ways. We need one thing above all else- solidarity.

Ministries cannot do the job alone. To deliver for those in need, we must broaden our base and extend our reach. We must harness the full power of partnership across the government and internationally.

Mr. Speaker, central to the policy priority of this Budget, is the focus of the Government's current 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. 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.

Sir, let me therefore take this opportunity to announce economic reforms of the Government for state-owned enterprises. The Government has agreed formal Community Service Obligations with state-owned enterprises. In 2013, payments totalling \$24.0 million will be provided to SIEA, SIWA and Solomon Airlines to fund the non-commercial activities that these companies would not normally undertake because they are unprofitable. The Government, in this respect, will assist delivery as community services. The funding will enable basic electricity, water and airline services to be maintained in Provincial towns. In addition, \$15 million has been allocated to provide a further capital contribution to SIWA in 2013. This funds the Government's obligations to SIWA under the debt settlement agreement signed between the Government, SIEA and SIWA in May 2012. It will be paid by SIWA to SIEA in part settlement of the debt owed to them by SIWA. This payment is a key contribution to ensuring that these two important state owned enterprises are commercially sustainable.

Mr Speaker, 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 in a sustainable way. There are several resources projects including Tina Hydro Project and Nickel Mining that are likely to commence in the Solomon Islands in the future. These projects offer the potential to deliver significant economic growth and government revenue. However, the Government needs to have in place a consistent policy on how it will tax future projects, what concessions will be available and what rates of royalty will be expected.

Mr Speaker, the 2013 Budget provides for the appropriation arrangements for the Government's contribution to the Solomons Oceanic Cable Project in partnership with the Asian Development Bank. This is a significant infrastructure investment for the Solomon Islands with the potential to make a great contribution to economic efficiency and growth. Currently, Solomon Islands' access to internet services is served by linking to the space satellite network. This service, however, is very expensive, unreliable and also has limited capacity and is unable to meet the growing demand of the country's population for internet services.

Sir, the Solomons Oceanic Cable Project is an alternative to the satellite link. The Government, the ADB and the Solomons Oceanic Cable Company (SOCC) are currently finalising plans to link the Solomon Islands to the rest of the world through an undersea cable running between Sydney and Guam. It has been proposed that there will also be two domestic cables linking Auki and Noro to ensure that the benefits of the Project are distributed to a significant number of rural Solomon Islanders.

Sir, on commissioning, the Government will receive a USD 7.5 million grant and USD 10.5 million loan from ADB. The Government will on-lend the total USD 18 million to the Solomons Oceanic Cable Company (SOCC), co-owned by Solomon Islands National Provident Fund and Solomon Telekom to own and operate the cable. The on-lent loan will be repaid in full to the Government with interest. The total cost of the Project is estimated to be around USD 60 million with other contributions from SOCC and commercial finance.

Sir, on completion, the cable will enable greater access, cheaper and faster broadband internet services which will contribute to sustainable as well as improved economic and social outcomes for the country. It is expected that the Project will also reduce the cost of doing business in Solomon Islands, especially in terms of information flows and enabling other services such as internet banking and access to more market information. Other benefits may include e-health and e-education which will allow information to be disseminated more efficiently and boosting social well-being. The Government has also taken necessary actions by committing itself to adopting a national Information Communication Telecommunication (ICT) strategy to ensure there is an enabling environment for secure electronic transactions, online security and protection against cyber-crimes. The Government has also committed to broadening access to broadband internet services.

Mr Speaker, 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 continuing to work closely with donor partners such as the International Monetary Fund to develop and implement a resource tax framework to meet these needs.

6. The 2013 Budget Framework

Mr. Speaker, let me now outline for this Honourable House the fundamentals of the 2013 Budget.

Sir, the 2013 Budget will deliver a \$0.7 million surplus and will require no additional borrowing by the Government for ongoing spending. The 2013 Budget is fully funded through a combination of domestic revenue and external budget support. For the first time in over a decade, the 2013 Budget incorporates new borrowing for the Solomons Oceanic Cable Project as I have already outlined.

Mr Speaker, domestic revenue growth in 2012 was revised to \$2,478 million, 7.5 per cent lower than the original estimates. In 2013

solid revenue growth of 8.2 per cent is expected with total domestic revenue in 2013 estimated at \$2,682 million. The growth in domestically sourced revenue from the 2012 Budget mainly reflects growth in the national economy. Inland Revenue will continue to be the largest source of domestic revenue, representing around 61.3 per cent of collections in 2013. Customs and Excise collections will make up around 30.5 per cent, with the remainder being collected by various other ministries in the form of licences, fees and charges.

Mr Speaker, in support of this revenue growth, the Government has taken action to reform the current flat rate alcohol excise tax regime. This decision moves the Solomon Islands to a stepped schedule, where higher strength alcohol beverages are taxed at higher rates. The excise regime will come into effect on 1st January 2013 and is estimated to raise an additional \$12.5 million of excise revenue for 2013 or \$37.5 million over the forward estimates. The proposed alcohol excise tax regime is aimed at mitigating the social harm that results from alcohol abuse by imposing a higher tax on drinks with higher alcohol content. This excise tax regime will move us closer to the world best practice of taxing alcohol.

Mr Speaker, partnerships with donors form a critical part of the economy. Donor contributions to the 2013 Budget are estimated to total \$780.6 million. This figure includes unspent funds from 2012 but does not include the funding arrangements for the Solomons Oceanic Cable Project which is separately financed. Of this total donor funding, Australia is expected to contribute \$506.4 million, the Republic of China \$80.0 million, Papua New Guinea \$75.0 million, New Zealand \$55.0 million, the Asian Development Bank \$35.7 million, the World Bank \$14.7 million and the European Union \$13.6 million. Other donors are likely to partner with various ministries in 2013 and I urge all donors and ministries to inform the Ministry of Finance and Treasury of likely funding arrangements in a timely fashion.

Sir, this growth in revenue will allow the Government to spend a total of \$3,423.9 million to provide services in 2013, with an additional

contingency provision of \$38 million. This Budget will deliver spending of \$2,522.8 million through recurrent expenditure and \$901.1 million in development expenditure not including the funding for the Solomons Oceanic Cable Project. When this Project's funding arrangement is added, the total spending in 2013 is more than \$3.6 billion.

7. Main Priorities for the 2013 Budget

Sir, this Budget will continue to deliver on the Government's policy priorities of providing services to the people of Solomon Island with a focus on rural economic development, strengthening the capacity to provide infrastructure and helping to building better lives for all Solomon Islanders. More than half of all planned additional funding is allocated to rural and general economic development. This Government is committed to funding the following areas in order to meet its key policy priority, these include:

- Rural Development and Other Economic Affairs
- General Public Services
- Education
- Public Order and Safety
- Health
- Environment Protection
- Housing , Community Amenities and
- Social Protection

Mr. Speaker, allow me to outline the major initiatives in these critical areas of Government Policy.

Rural and General Economic Development

Mr. Speaker, the Government is committed to the course of broadening the economic base by providing the necessary infrastructure to sustain its priority work areas. Rural and general economic development involves investment in the productive sectors of the Solomon Islands, including agriculture, forestry, tourism, commerce and industries, fisheries, lands, mines and energy, and finance and banking. One of the

major projects in relation to rural and economic development is decentralization of growth centers to the rural areas. The major areas of investment include:

- \$58.1 million for agricultural development
- \$48.0 million for projects funded through rural transport infrastructure
- \$29.0 million for reforestation and downstream timber processing
- \$22.5 million for the Provincial Capacity Development Fund
- \$28.0 million for improvements to Provincial Airfields
- \$20.0 million for Constituency Rural Health Centre
- \$20.0 million for rural transport infrastructure, and
- \$10.0 million for Constituency Renewable Rural Electrification.

Public Order and Safety

Mr. Speaker, the Government recognises that public order and safety is needed to support a stable economy. On behalf of the people of Solomon Islands, Sir, the Government acknowledges the critical roles that the Royal Solomon Islands Police force (RSIP), RAMSI personnel and other security firms, for their continuous maintenance of Law and Order, Good Governance and support Human Rights in our nation.

Sir, the Government recognises that public order and safety is needed to support a stable economy. Four per cent of new spending in the 2013 Budget is devoted to improving public order and safety to accept additional responsibilities as RAMSI is in transition. The following ministries: Justice and Legal Affairs; Police and National Security and National Judiciary have been appropriated additional funding of \$35.8 million for projects designed to enhance public order and safety:

Sir, the key projects in terms of Public Order and Safety include;

- \$10.0 million for Police housing
- \$4.7 million provision in the payroll for 117 new Police recruits.
- \$2.0 million for Judiciary Institutional housing
- \$1.0 million for the Justice and Legal Affairs new office building.

Recreation, Culture and Religion

Mr. Speaker, the Government aims to continue to develop the Solomon Islands as an independent and democratic nation. Support for cultural development is important in achieving this aim. New spending measures for this category have been reduced significantly following the hosting of the 11th Festival of Pacific Arts, on which the Government spent \$148.6 million dollars in 2012. In 2013, \$1.3 million is committed in this category towards an overseas art exhibition and preliminary work on a National Sports Stadium.

Education

Mr. Speaker, Education for Solomon Islanders is vital for continuing development. The National Coalition for Reform and Advancement (NCRA) Government, within its framework will promote, develop and facilitate Education and Human Resources needs of the country to improve on, the current status of education in our nation. Therefore, twelve per cent of new spending in 2013 is devoted to improving education services. The Ministry of Education and Human Resources Development have been appropriated substantial additional funding of \$98.9 million for projects designed to develop Education initiatives:

Mr. Speaker, in the 2013 Budget, the Government is committed to allocate funding for the following projects:

- \$75.0 million for transition of SICHE to a University
- \$6.0 million for publishing and supplying of curriculum materials, and
- \$5.0 million in additional support for Overseas Tertiary Scholarships

General Public Services and Reform

Mr. Speaker, 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 to continue to provide services to the people of the Solomon Islands and lay the foundations for continuing growth.

Over recent years, the pay of public servants has not kept up with the cost of living. In recognition of this issue, public servants will receive a pay increase of two per cent from the first pay in January 2013 and an additional four per cent from the first pay in July 2013.

In order to improve service delivery to Solomon Islanders, the Government has agreed to fund an additional 330 new staff positions across the public sector.

Sir, other major projects for General Public Services and Reform include

- \$30 million in additional funding for updating the registration of voters for the 2014 National General Election
- \$24.0 million for meeting Community Service Obligations provided by state-owned enterprises
- \$23.0 million for new Government Office buildings, and
- \$3.0 million for SIG IT Metropolitan Area Network.

Health

Mr Speaker, it is the right of every citizen to have access to health care. In the 2013 Budget, the Government will continue to invest in improving health services, with an additional \$43.4 million being allocated.

Sir, the key initiatives towards health services in the 2013 budget include:

- \$6.0 million for a range of works at the National Referral Hospital
- \$5.0 million for the construction and rehabilitation of rural health centres
- \$3.0 million for improvement to Rural Water Supplies and Sanitation
- \$2.0 million for provincial housing for health workers, and
- a provision for a significant increase in the number of nurses and doctors.

Environment Protection

Mr. Speaker, Solomon Islands is vulnerable to natural disaster shocks. The last Tsunami that hit Gizo in the Western Province and Choiseul

Province washed away hundreds of homes and took away numerous lives. This is a great concern for the current Government and therefore an additional \$10.9 million is being invested in protecting the environment of the Solomon Islands in the 2013 Budget.

Sir, in relation to Environment Protection, key projects include:

- \$2.5 million for Ministry of Environment Office Building
- \$2.0 million for National Disaster Management Provincial Office
- \$1.0 million for renovation of Henderson Meteorology Office, and
- \$1.0 million for Malaita Emergency Operations Centre.

Housing and Community Amenities

Mr. Speaker, an efficient land management system that will contribute to social stability, economic growth and sustainable environment is needed. The Government is also providing new funding in the areas of Housing and Community Amenities.

Sir, through the Ministry of Lands, Housing and Survey, the Government is investing an additional \$12.4 million in a range of initiatives planned to improve services provided by the Ministry on community amenities. \$2.5 million of this is for the University of the South Pacific 4th Campus, and \$2.5 million for Honiara and Urban Provincial Centres Profiling.

Social Protection

Mr Speaker, the future of this nation lies in the hands of the youth and children of today. They are our future leaders. It is our collective responsibility to mould and shape the behaviour and attitude of the people of this nation. Likewise, Solomon Islanders have had different cultures, norms and values and the need to pull together these differences is a deep concern of the Government.

Furthermore Mr. Speaker, we need to contribute to post-conflict nation building through the process of peace building, by promoting national unity and the process of reconciliation, forgiveness and healing that ensures security and peace in Solomon Islands. The success of this

mission relies on our government undertaking to identify and ensure that the historical, structural, root and symptomatic causes of the past tensions and violent conflict are addressed.

Therefore, Mr. Speaker, in the 2013 Budget, an additional \$12.8 million is being provided for Social Protection initiatives to be delivered by the Ministry of Women, Youth and Children's Affairs. \$10.0 million of this spending is for Constituency Centres for Women, Youth and Children and \$1.0 million is for additional policy advice to Government on this matter.

8. The Reform Agenda

Mr Speaker, the state, in the Solomon Islands is the largest employer and uses significant level of resources, having a large impact on the local economy. The Government's public financial management reform priority is to increase public and donor confidence in the government's public finance systems and processes. The Government has a clear plan and strategy to implement the reforms and consults development partners regularly through the Core Economic Working Group on progress and direction.

Sir, the Solomon Islands Government can now resume borrowing. Nonetheless, it has ensured that necessary controls, guidelines and processes are in place. In May this year, the Government endorsed a Debt Management Strategy that will allow for limited, responsible new borrowing for high quality infrastructure projects. At a review of the Honiara Club Agreement in July 2012, the Honiara Club agreed to amend the Agreement to incorporate the Debt Management Strategy. The framework that this Government has established will guide future debt decisions. The new Strategy provides a robust and pragmatic approach to ensure the volume of new borrowing is limited to sustainable and affordable levels, fiscal responsibility is improved and combines review processes with centralized decision-making. A conservative approach is applied in setting the annual borrowing limit which is \$160 million for 2013. This borrowing limit will cover all forms

of new public sector borrowing including borrowing by state-owned enterprises, the issuing of all guarantees and all on-lending.

Sir, as I have stated previously, a significant reform from the 2013 Budget is the publication of forward estimates, a critical element in the ongoing improvement of the Medium Term Expenditure Framework for the Solomon Islands. Another related reform is the review and refreshing of the Chart of Accounts from 2013. For the first time, the recurrent and development budgets for 2013 have been produced using the same chart of accounts. This reform is planned to simplify the accounts and better align them with the International Public Sector Accounting Standards. This reform will also improve understanding of the basic elements of expenditure across all of government at the item level including travel, fuel, maintenance and capital expenditure.

Mr Speaker, the preparation of the 2013 Budget has seen further improvements in budget consultations. There have been greater consultations with the provinces and social groups. The three central ministries responsible for the budgets have also worked more closely with all line ministries. The consultation with line ministries in the 2013 Budget includes three formal stages covering the budget launch, consultations with each ministry individually after the budget launch and again after the initial bid assessments. These consultations are complemented by regular one-on-one discussions with public financial management counterparts in Ministries and meeting with the Solomon Islands Government Accounting Service.

Mr Speaker, we have seen good improvements in the 2012 and 2013 budget process and the reform program that will help strengthen and sustain these improvements.

9. Conclusion

Mr Speaker, let me stress to this Honourable House that while our economic outlook is promising there are still many challenges that lie ahead for the 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 2012 and beyond.

Sir, to continue to build on this promising outlook, we must continue our efforts to improve the budget process through our ongoing program of reforms.

Mr Speaker, I have tabled today a balanced Budget for 2013, which lays a firm foundation and environment that leads to sustained growth and development of our nation. With the stronger partnership that 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.

Sir, I believe we have a greater chance today than over the last 34 years as an independent nation. We need to go further. We can do more and we must do better, especially as RAMSI moves to transition.

As the Government of our nation, Sir, we are humbled 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 all our children in the years ahead and beyond.

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