



**GOVERNMENT OF
SOLOMON ISLANDS**

THE 2015 BUDGET SPEECH

**Hon Snyder Rini, MP
Minister of Finance and Treasury**

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Mr Speaker, I believe it is now time to take a good, hard look at the future of our nation. Too many have too little to hope for and too much complacency and procrastination has taken toil. There is no better time than now to join in a common effort to make a better Solomon Islands.

Sir, I am neither a dreamer nor a philosopher. Like all of you, I too have a family and worry about their future. We have the resources to make a difference. We know how to make a difference. We have the courage to make a difference. We must now act to make a difference. We must not, therefore, let this wonderful opportunity and initiative by the 2015 Budget pass, without taking on the challenge to make the Solomon Islands a better place for our families, our children and the successive generations.

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

economic growth and bring better service delivery and a brighter future to our people of this nation.

Sir, as a Government we have not been afraid to take the hard decisions, particularly on reforms that would provide a difference to the lives of our people and at the same time ensure the financial and economic stability of our economy in 2015 and beyond.

Mr Speaker, I believe we have a greater chance today than perhaps at any other time in the last 37 years. We need to go further. We can do more and we must do better.

Sir, the onus is on us all to take the initiative in the critical task of moving the country forward and improve the quality of the life of our people. All Members of this Honourable House, therefore, must remain dedicated to the great task remaining before us.

The 2015 Budget Speech

*(Delivered by Hon Snyder Rini,
Minister of Finance and Treasury)*

1. Introduction

Honourable Speaker, I rise to beg that the 2015 Appropriation Bill 2015 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 2015 Appropriation Bill on behalf of the Government and the nation of Solomon Islands, in accordance with Section 102 of our Constitution.

Sir, this is the first Budget presented by this Government and is also the first that I have had the privilege of presenting to this Honourable House.

Mr Speaker, this Budget represents our first step towards implementing our policies and mandate set out in the Democratic Coalition for Change (DCC) Government's Policy Statement, Strategy and Translation, that set out the policy direction to progress the destiny of our people and country in the next four years.

Sir, this Government's primary objective is to achieve broad based economic development by empowering our people to be engaged in productive activities and absorbed in gainful employment and thereby enhance improved livelihood for all Solomon Islanders. This Budget, therefore, is a fundamental instrument of Government policy in achieving these objectives. It is an important first step in this direction, both in the way it is presented and in the decisions and priorities it reflects.

Sir, this Government is committed to actions rather than just words. Ministries and agencies now have the necessary policy directions and the strategies to achieve them have been identified. We are now

10. Conclusion

Mr Speaker, I have tabled today a balanced Budget for 2015, which lays a firm foundation and provides an environment that leads to sustained growth and further enhances the development of our nation. With the strong partnership that the Government has forged with our development partners there is greater scope and capacity to 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, our nation has been sorely tested in recent years on our resilience and potentials. This is a reminder that a strong, democratic society needs to be underpinned by good governance.

Mr Speaker, good governance is about more than just politics and economics. It is about the institutions of government and serving the people. The task of nation building and growing of our economy is immense. This Budget will help rebuild our public institutions, ensure

Project Officers will assist ministries and provincial governments to formulate and prepare project profiles and work plans that are necessary to advance and progress the priority programmes and projects.

In addition, Sir, the Government will recruit 6 suitably qualified and experienced engineers in the Ministry of Infrastructure Development to progress and advance priority infrastructure programmes and projects.

Indeed, Mr Speaker, the Government acknowledges that the greatest challenge will be the execution of the Budget. Nonetheless, the Government will do its utmost best. Doing so, will require from the Government a willingness to make difficult choices in an open political context, the restoration of accountability and transparency in Government and a willingness of diverse groups and provinces in the country to accept sacrifice for the common national good.

developing the programs against our framework and monitoring their delivery, with a regular reporting requirement placed on all ministries. This Budget aims to get adequate resources to the ministries and agencies so that they can deliver the goods and services to achieve our policy objectives.

The Budget that I present today, Mr Speaker, is best described as the 'Peoples Budget'. It will deliver a record \$4.18 billion in spending to provide services to all Solomon Islanders. It is focused on the people, and improving their livelihood.

Mr Speaker, our people are the bedrock of our society safety net, but they are unfortunately continued to be underprivileged with basic social services. Our people and resources are the pillars that sustained our country in times of crisis and difficult economic downturn. They therefore, need to be provided with better infrastructure network, and opportunities to improve their livelihood and enable them to be a

stronger and key contributor to the national economy. This budget is meant for these purposes.

Mr Speaker, it is also a historic Budget in that it recognizes the value and potentials of the 85 percent majority of the nation's population in the rural areas and their resolve to participate more actively and meaningfully in the development of our nation. To do this we are also focusing on working effectively with development partners, the private sector, the churches the non-government organisations, the non-state actors, the civil society, the local communities and the international community. The Government is also strengthening government institutions and structures as well as its economy more generally.

Sir, this record and historical Budget demonstrates this Government's policy priorities for the people of the Solomon Islands, especially the majority of our populous in the rural areas. It will deliver spending to social services, rural infrastructure, rural development activities and key programmes in the rural areas.

effectively have less than 8 months to implement the Budget. In this respect, and depending on the rate of actual expenditure, the Budget will always remain balance. Moreover, with the forward year estimates approach now adopted, implementation will continue in the succeeding years.

Sir, the Government will be working along with and resourcing ministries and agencies responsible to work together in a coordinated manner to realise the objectives of Government policies and priorities, and to ensure these policies empower the people of this country to involve in productive activities for the benefit of their families and communities.

Mr Speaker, in recognition of the limited capacity in ministries, the Government will strengthen the OPMC Policy Evaluation Unit with the recruitment of 4 Policy Secretaries and 12 Project Officers. The Policy Secretaries will be directly responsible for ensuring that the Government priority policies, programmes and projects are implemented while

- \$22.0 million to rehabilitate, reconstruct educational infrastructures;
- \$21.0 million to improve water and sanitation systems in all 50 constituencies;
- \$3.7 million additional funding for Provincial Township Development Programme - Choiseul, Guadalcanal, Makira;
- \$5.0 million funding for Provincial Institutional Infrastructure Development Programme;
- \$40.0 million Improved services delivery as a result of effective implementation of Provincial Government Strengthening Program in the provinces;
- \$1.5 million additional funding for National Sports Stadium Program;
- \$4.0 million for National Centre for Women and Children.

9. Budget Execution and Financial Management

Mr Speaker, the 2015 Budget may appear very ambitious as Ministries normally have inadequate implementation capacity and that they

Mr Speaker, this Honourable House, will recall that this Government requested additional time in 2014 to develop a budget which provides effective approaches to the nation's challenges. I am pleased to report that the extra breathing space granted has been put to good use, after extensive consultation and deliberation.

Mr Speaker, the Government will embark on two major parallel reforms. These are fundamental reforms and sectoral reforms. I will dwell on these two reforms a little later.

Mr Speaker, before I provide further details on the 2015 Budget, allow me now to outline the 2015 economic outlook of the country.

2. Economic Outlook

Economic Growth & GDP

Mr Speaker, the outlook for the global economy presently remains volatile in financial markets, with weak domestic demand in a number of major economies. Nonetheless, global growth for 2015 is forecast to be

modest 3.5 percent. This is below the average growth rate of the past decade.

Sir, global growth will receive a boost from lower oil prices. This boost, however, is projected to be largely offset by negative factors including soft commodity prices, persistent low interest rates, increasing divergent monetary policies across major economies and weak international trade.

Mr Speaker, since the 2014 Mid-year Budget Update (MYBU), the outlook for the national economy has improved slightly with growth in 2015 now expected to be a little higher than previously forecasted.

Sir, real Gross Domestic Product (GDP) growth was estimated to have been around zero percent in 2014 as a result of sharp fall in output following the April 2014 floods and the suspension of production at Gold Ridge Mine (GRM). The suspension of production at GRM accounted for the majority of the downward revision to growth in 2014

cost of service delivery, planning, governance and social accountability, and communication and IT systems;

- \$3.3 million addition funding to fixed grants to Provincial Governments' to meet their recurrent needs and direct employees to support service delivery;
- \$0.6 million additional funding for lands for acquisition of lands operations to free up land for commercial purposes and thereafter promote economic growth opportunity;
- \$2.5 million additional funding for legislation review of - Citizenship Act, Censorship Act, Gaming & Lotteries Act, Honiara City Council Act;
- \$4.0 million additional funding to cater for bye elections for seats in parliament that left vacant either by petition, death, health reasons or imprisonment;
- \$60.0 million additional funding to Transitioning SICHE into the Solomon Islands National University (SINU), so that more Solomon Islanders have easier access to the university education;

- \$30.6 million 33 percent increase funding to basic education to meet operational expenditures of Early Childhood Education, Primary, Secondary and Rural Training Centres schools throughout Solomon Islands;
- \$5.0 million additional funding for Domestic Tertiary Scholarship Fund;
- \$0.5 million funding of new positions and upgrades for the ministry of education;
- \$1.0 million additional funding for St Vincent Hospital, Australia to improved health treatment options for Solomon Islanders;
- \$14.0 million additional funding to improve health services across Solomon Islands;
- \$0.6 million funding for environmental health regulatory core business;
- \$11.2 million addition funding for 36 returning Cuban doctors and graduating nurses;
- \$15.0 million additional funding to Provincial Governments to improve functional responsibilities of Provincial Governments,

to around 2 ½ percentage points compared with the 2014 Budget forecast.

Mr Speaker, the logging sector output in 2014 of around 2.14 million cubic metres turned out to be stronger than expected. This reflected high rates of re-entry logging and strong international demand. Consequently the sector contributed ¾ percentage point to overall GDP growth. However, this rate of logging is not sustainable and the level of output is projected to stabilise and then decline over the next decade. The sector, therefore, is not expected to contribute to economic growth in 2015 or across the medium term.

Sir, in 2015, real GDP growth is forecast to be around 3 ½ percent, compared with the previous forecast of 2 ¾ percent. This reflects a forecast recovery in informal agricultural and manufacturing production, along with strong growth in the construction sector. Growth in these sectors is expected to more than offset further output and income losses from the suspension of production at GRM.

In addition, Sir, real household income gains associated with the recent sharp fall in oil prices is expected to support household consumption and stronger growth in the retail trade sector. This is the key attribute for the upward revision to the 2015 forecast.

Mr Speaker, the business investment particularly in construction, plant and equipment is also expected to rise in 2015, in line with work commencing on a number of major donor funded projects. However, in net terms, these projects are not forecast to make a significant contribution to growth in 2015 due mainly to high imports. Nonetheless, they will support growth by increasing productivity over the medium term once the projects are implemented and operational.

Inflation

Mr Speaker, with respect to inflation, the Honiara Consumer Price Index increased by 5.3 percent in 2014. This is lower than the 2014 mid- year Budget forecast of 6 percent. This was attributed to lower oil prices and

Social Sector Reforms

Sir, the Social Sector may be described as the largest sector in the Government both in terms of scope as well as funding. In all, there are 9 line ministries altogether in the social sector and these are, Education, Foreign Affairs, Health, Provincial Government, Public Service, Home Affairs, Peace & Reconciliation, Women, Youth & Children Affairs and Environment, Climate Change, Disaster Management and Meteorology.

The additional allocation for key Social Sector Reforms in 2015 include:

- \$1.9 million additional funding for the Jakarta Mission Grant;
- \$2.3 million to re-open and fund of Geneva mission;
- \$5.0 million additional funding to support disaster relief work currently being undertaken including assistance to Vanuatu disaster efforts;
- \$1.5 million for the planning for the new SI High Commission in Suva;

Security sector

Sir, the Security Sector includes the Ministry of Police, National Security and Correctional Services, Justice and Legal Affairs and National Judiciary.

Additional funding allocated for the security sector in 2015 includes;

- \$29.2 million for operational costs for policing and correctional services
- \$17.3 million for Police & Correctional Services Development Program
- \$1.7 million for Justice operational costs
- \$5.1 million for Justice and Legal Affairs Development Program
- \$5.1 million for magistrates and court operation in Honiara and provinces
- \$3.0 million for National Judiciary Institutional Infrastructure Program

declining international food prices more than offsetting higher domestic food prices after the April 2014 floods. Inflation is expected to fall to around 3 ¼ percent in 2015, reflecting the sharp fall in global energy prices and relatively modest growth in domestic demand.

Nominal GDP

Sir, the nominal GDP is also forecast to grow at a slow rate in 2015 and over the medium term. This reflects modest real economic growth and subdued domestic price growth.

3. Debt Outlook

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

Sir, Solomon Islands debt to GDP is currently around 11 percent but is expected to be 13 percent by 31 December 2015. The Government is

committed to keeping the level of debt in the Solomon Islands at a sustainable and affordable level. This level assumes that the 2015 Annual Borrowing Limit is fully utilized and all debt servicing obligations for 2015 will be met.

Mr Speaker, a debt sustainability analysis is undertaken annually, as part of the budget process, to determine an appropriate Annual Borrowing Limit. The Annual Borrowing Limit for 2015 is \$300 million.

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

Sir, given the volatility in the global economy and lower prices for Solomon Islands' key exports, this Budget intends to support the domestic economy and provide an important stimulus to investment and growth.

Resource Sector Reform

Sir, on the Resource Sector Reforms, Ministries will be supported on developing strategic plans that will streamline priorities, institutional mechanisms and arrangements, financing of the identified priorities and the monitoring and evaluation framework. These will guide the implementation of the Government Policies in order to contribute to the realization of the Government's primary goals and objectives.

The additional budget allocation for the resources sector reforms for 2015, therefore, includes:

- \$10.4 million funding to support Downstream Processing Programme;
- \$3.5 million to support agro-forestry
- \$5.1 million on electrification of rural communities and households;
- \$10.0 million on Renewable Energy Development Programme;
- \$4.0 million to manage and monitor Tailings Dam at Gold Ridge.

agencies. Thus, the additional budget allocation for the development sector reforms include:

- \$10.0 million to Ministry of Infrastructure Development for construction and planned maintenance to government owned buildings;
- \$60.0 million to construction and maintenance of roads for social and economic benefits to the people of Solomon Islands;
- \$30.0 million to assist shipping initiatives across Solomon Islands;
- \$38.1 million for maintenance of roads, buildings and airports;
- \$1.2 million to fund the creation of new Constituency Development Division;
- \$260.0 million for Constituency Development Program (SIG);
- \$70.0 million for ROC Support to Constituency Development (RSCD).
- \$4.0 million towards scoping and initial assessments of Rural Development Centres;

4 Government Reform Agenda

Mr Speaker, allow me to briefly outline the DCC Government Reform Agenda and its relations to the 2015 Budget.

Sir, the 2015 Budget is closely aligned to the DCC Government policies and mandate set out in its Policy Statement, Strategy and Translation. This is to ensure that its priority reforms are implemented with immediate effect, commencing in 2015. The Budget allocations, therefore, are made to reflect the parallel reforms of the Government, namely:

- Fundamental Reforms; and
- Sectoral Reforms

Mr Speaker, with respect to the Fundamental Reform Agenda, the Government will focus on Constitution Reform, Political Reform and Land Reform.

Sir, on the Constitution Reform, successive Governments have expended huge amounts of resources and funds on this, with a subsequent formulation of the Federal Constitution. Hence, the Government will be committed towards the completion of this particular reform during its tenure.

Mr Speaker, in regards to the Political Reform, the Government is committed to review the Political Party Integrity Act and finalise the associated regulations to administer the Act to be able to improve the conduct of our national general election and the formation of the Executive Government.

Sir, the Government is also committed to Land Reform and will focus on reviewing the Land and Titles Act and the Customary Land Records Act. This is to secure and open up locked lands for national projects and enable mutual benefits for both resources owners and investors alike.

- \$42.8 million for land purchase, Land Development, Preparation and Construction Programme (LDPCP);
- \$19.5 million on Tourism Development and Institutional Strengthening Program;
- \$4.5 million on Industrial and Commercial Estate Development;
- \$3.6 million on Private Sector and MSME Development Program;
- \$4.0 million on Development and Economic Growth Centres;
- \$6.1 million on improving fisheries infrastructures to support livelihood programs.

Development Sector Reforms

Mr Speaker, in regards to the Development Sector Reforms, the Government is committed to maintaining the confidence and trust of our development partners, private sector, non-government organisations and non-state actors to assist in the execution of its policy priorities. Many of the development partners have shared the Government's objectives of enhancing economic growth and achieving sustainable development. Hence, the need to advance and progress the functions of the responsible

Productive Sector Reforms

Mr Speaker, on the Productive Sector Reform, the Government is determined to develop the sector as a conduit to balanced economic development to attain improved wellbeing of our peoples. In this vein, the Government will beef up additional resources to enable the responsible entities to efficiently and effectively deliver the goods and services needed to achieve the objective as follows:

- \$5.0 million to Tourism developments;
- \$5.0 million to the rehabilitation and development of rural coconut plantations ;
- \$3.8 million to cocoa production, employment and income benefits for the rural population;
- \$4.0 million to the National Oil Palm Programme;
- \$65.0 million for new rural road infrastructure to improved access to social facilities (health care centre and schools), markets, rural economic centres and other transport infrastructure such as wharves and airfields;

Mr Speaker, in regards to the Sectoral Reform Programmes, the Government is pursuing the reforms as a means to enhance broad based economic development in the country. The Sectoral Reform Programmes come in the form of (1) Economic and Finance Sector Reforms, (2) Productive Sector Reforms, (3) Development Sector Reforms, (4) Resource Sector Reforms, (5) Security Sector Reforms and (6) Social Sector Reforms.

Central to the sectoral reforms is the need to invest more to improve the conditions and expand infrastructures such as road, bridges, airfields, wharves, communication to economic potential and strategic locations throughout the country.

Mr Speaker, this Government continues to support ongoing services as well as placing more resources on key areas that form the DCC Government policy priorities.

Sir, I will again highlight these reform areas and the resources made available to support these reform efforts later when I outline the allocations to these key reform areas of this Government.

5. 2015 Budget Framework

Mr Speaker, let me now outline for this Honourable House the fundamentals of the 2015 Budget.

Sir, as I have mentioned, the 2015 Budget will deliver a record \$4.18 billion in spending. It will require no additional borrowing by the Government. The Budget is balanced, credible and responsible. The 2015 Budget is forward looking and sustainable and is fully funded through a combination of domestic revenue, external budget support and cash reserves that successive Governments have built up over recent years.

Economic and Financial Reforms

Sir, on the Economic and Finance Sector Reforms, the Government will adopt a holistic approach and review the structure and composition of our national economy. This will entail facilitation of access and expansion of business opportunities and employment creation schemes.

In this connection, the Government will rehabilitate the Development Bank of Solomon Islands, redirect the Commodities Export Marketing Authority and reinvigorate the Investment Corporation of Solomon Islands.

Sir, the Government, therefore, provides for the following under the economic and finance reforms in 2015:

- \$70.9 million to improve economic reforms and quality of Public Finance Management (PFM) and budget execution, service delivery and revenue to Solomon Islands Government and citizens and also includes allocation for initial work on reforms to State Owned Enterprises (SOEs).

- \$5.3 million to meet additional operational cost for implementing and monitoring DCC Government Policies;
- \$1.7 million to meet operational cost of carrying out the Political Parties Integrity Act review;
- \$13.2 million additional funding to cater for new manpower and other charges costs for OPMC to support reforms in 2015;

Sectoral Reforms

Mr Speaker, with regards to the Sectoral Reform Programmes, the Government is pursuing the reforms as a means to enhance broad based economic development in the country in (1) Economic and Finance Sector Reforms, (2) Productive Sector Reforms, (3) Development Sector Reforms, (4) Resource Sector Reforms, (5) Security Sector Reform and (6) Social Sector Reforms.

Revenue

Sir, in 2015 total revenue is expected to be \$3,721.4 million. Total domestically sourced revenue is expected to be \$2,850.1 million, an increase of \$139.2 million (or 5.1 percent) over the 2014 Budget revised estimate. This revenue increase reflects a lower base in 2014, but continued strong expected increase in revenue from fisheries licencing.

Sir, the domestic revenue is expected to be sourced from the following:

- Inland Revenue - \$1,706.6 million
- Customs - \$872.9 million
- Other Ministries - \$270.6

In addition, Sir, the Government also expects an estimate of \$871.3 million from donors as budget support.

Expenditure

Mr Speaker, on the expenditure side, the Government is budgeting to spend \$4,183.1 million in 2015. This is made up of \$3,041.8 million for recurrent and \$1,141.3 million for development.

Sir, of the recurrent expenditure of \$3,041.8 million, \$2,375 million will be on recurrent operations of which Payroll will be \$902.5 million, Other Charges \$1,472.5 million and donor budget support for recurrent operations \$666.8 million.

Mr Speaker, the Government also plans to spend \$1,141.3 million in development project expenditure which comprises of \$1,036 million from domestic sources and \$104.9 million from donor development assistance.

Sir, 82 percent of these recurrent and developments expenditure are funded by domestic sources while 18 percent is from the donor community.

Fundamental Reforms

Sir, with respect to the fundamental reform agenda, the Government will initially focus on constitution reform, political reform and land reform.

Mr Speaker, the Government, therefore, provides for the following activities under the fundamental reform programs in 2015:

- \$2.0 million to support manpower to progress the program and activities of the traditional leaders and other stakeholders towards peacebuilding;
- \$7.7 million to support work on dealing with existing and emerging threats to peace in the country;
- \$3.0 million on post conflict rehabilitation program;
- \$3.3 million for the establishment and operation of the OPMC Policy Evaluation Unit;
- \$0.5 million to carry out consultation in the provinces;

- Mini Cannery – Tataba, Tenaru, Tulagi
- Suava Bay & Bina Harbour International Port/Onshore Fish Processing
- Reacquisition of Russell Islands Plantations Project to develop a major Tourism Destination
- 4th USP Campus Project
- Disabilities, youth and women
- Agro-forestry (New Georgia)
- Fiu Hydro Project

8. 2015 Budget Key Features

Mr Speaker, in particular respect to the two reform priorities of the Government, let me outline the key funding allocations as follows:

6. Other Provisions in the 2015 Appropriation Bill

Mr Speaker, to enable the Government to continue service provision and undertake productive infrastructure projects where usual allocations may not allow, there are provisions in the Appropriation Bill that the Government may adopt. This include the following:

To borrow \$100 million by way of short-term discount securities from the Central Bank of Solomon Islands,

To enter into a longer term borrowing up to a limit of \$300 million

Issue an Advance Warrants of up to \$150 million dollars, and

Issue Contingency Warrants of up to \$75 million; \$40 in respect of recurrent budget and \$35 million in respect of development budget.

7. The 2015 Budget

Mr Speaker, the 2015 Budget clearly demonstrates how the Government will deliver on the major aspects of its policy platform. In addition, there are additional funding for the Recurrent Estimates to enable ministries to maintain services for the people of the Solomon Islands and lay the foundations for further growth.

Sir, allow me now to outline the major initiatives in the priority reform areas and targeted sectors of the Government policy as follows:

- Constitutional Reform
- Political Reform
- Land reform
- Establishment of the Independent Commission against Corruptions;
- Customary Land reforms
- Waisisi, Aluta and Baunani Oil Palm Projects, and Malaita and Guadalcanal Out Growers Oil Palm Projects
- Tourism development
- National Peace and State Building
- Relocation of National Referral Hospital
- Rebuilding of Provincial Hospital
- Rural Transport Infrastructures
- Shipping Initiatives

- Support to Provincial Infrastructures
- Rural Development Projects
- Land development
- Establishing the Capacity to Plan and Monitor DCCG Policies through OPMC
- Community fisheries livelihood
- Tina Hydro Project
- Undersea Broadband Development Project
- Revitalisation of DBSI
- Redirect CEMA
- Reinvigoration of ICSI
- Review of a number of legislations
- Provincial Township Projects
- Health and Education Infrastructure and ongoing Services
- Support to SINU Transition to University
- Support to Provincial Government Support Programs
- Support and strengthening of Police and Correctional Institution
- Support and strengthening of Law and Justice