Finance Circular Number: 04/2020

2020 BUDGET STRATEGY and OPERATIONAL RULES

To: National Parliament
Ministers

Date: 29th August 2019

Permanent Secretaries and equivalents

CC: All Financial Controllers/Chief Accountants
All Line Ministry Planning/Project Officers
All Human Resource Managers
All Heads of Departments (HOD)

KEY POINTS

1. The theme for the 2020 Budget is: **Together, Towards Growing Our Economy.**

2. Under the PFM Act 2013, section 46 (1) "**Before the start of each financial year, every accountable and accounting officer shall prepare for the secretary budget estimates of the resources required by the Government** (including for any special funds) and estimates of revenue received by the ministry, for (a) the Financial Year and (b) up to the three following financial years and section 46 (2) the accountable officer shall provide the budget estimates according to the prescribed procedures and timeframes, in the prescribed manner and including the prescribed information".

3. The 2020 Budget will provide the platform for the DCGA Government to commence its term with a clear vision and drive to move away from 'business as usual' practices, and concentrate heavily on maintaining macro fiscal stability, improving budget allocations towards growth and service delivery, and improving spending efficiencies across the whole of Government. **All Ministries and Offices are to strictly adhere to and allocate resources towards government's priorities under their functional responsibilities or mandate.** Not all priorities can be implemented in one year, and hence ministries through the Ministry Budget Committees (MBCs) must carefully plan and cost out activities and outputs that can be implemented or progressed in 2020 in their budget submissions.

4. Due to the downward revision of the 2020 revenue estimates from 2019 original revenue estimates, the budget ceilings provided for payroll, other charges and development budgets have also been reduced and **ministries are asked to be strategic and innovative in their planning and to do more with less.**

5. **Note that for 2020, the Payroll and Other Charges Ministry ceilings are CAPPED and that no bids will be accepted for either budget component from any Ministry.** The Budget Coordinating Committee members will work closely with Ministries to assist and support them to prepare their 2020 Submissions within the ceilings provided to ensure that services are not disrupted in 2020.

6. **Ministry Budget Committees are mandatory and instrumental to strategic budget planning and effective internal coordination.** MBCs will ensure all ministries' planned activities are adequately funded within the 2020 baselines. MBCs are required to conduct a full review of their corporate plans, annual work plans and procurement plans and find efficiencies to improve the quality of expenditures by reducing and stoppage of unproductive and wasteful spending, remove leakages and inefficiencies and allocate resources to those key activities that will either stimulate growth, bring additional revenue potential or increase service delivery potential. Each MBC should ensure that they prioritize and secure adequate funding for service delivery grants, drugs and dressings, basic infrastructure, contractual commitments, office and staff rent, utilities, subscriptions and fees and donor partner financing agreements. These ongoing commitments must be prioritised within the Other Charges Budget.

7. Ensure ministry budget allocations reflect government priorities through better alignment of government policy priorities to annual operational or work plans for 2020. The intended outputs or key deliverables of the planned activities must be specified in all 2020 budget submissions, demonstrating the commitment to the Government's policy priorities for 2020. All ministries' corporate plans should also link to and reflect DCGA's policies and priorities to ensure there is progress in implementing the priorities in the next four year term of the government.

8. In the 2020 budget, the Government is committed to refocus resources to productive and resource sectors in order to stimulate growth and create investment opportunities for all Solomon Islanders. Ministries such as Fisheries, Tourism, Agriculture, Forestry and Mines are to properly secure resources towards programs that can spur economic activities for growth.

9. **This Financial Circular, and the directions of the Budget Coordinating Committee, are to be strictly adhered to.** Any deviation will be brought to the attention of the Cabinet and may impact on the recommendations for Ministry budget submissions to Cabinet as well as performance assessments of Permanent Secretaries.

1. MINISTERS FORWARD

I am pleased to present to the National Parliament the 2020 Budget Strategy and Operational Rules, in accordance with section 45 (1) a of the *Public Financial Management Act 2013*.

First and foremost, this document is the Government's Framework for the 2020 Budget. **All Ministries are expected to read and strictly adhere to the framework and guiding rules set forth in this Strategy.** It provides all required information necessary for Ministries and Ministers to submit their 2020 Budgets.

The Budget Strategy forms the basis for the 2020 Budget proper and will be the contents of the Government Budget within the 2020 Financial Policy Objectives and Strategies Statement: Volume 1 as per Section 47 (a) of the PFM Act 2013. It outlines the fiscal and economic context that guides the Government's policy priorities and the preparation of the 2020 National Budget.

The economy is expected to grow at around 4.9 per cent in 2020 (excluding the logging and forestry sectors) and will be supported by growth in industry and services such as communications (laying of the submarine cable), hotels and restaurants and financial intermediation within the economy. Other contributing sectors include fisheries, agriculture, construction, manufacturing and the service sector (mainly the retail and trade sector).

The Government has recognised the need to address major constraints to growth by taking a strategic shift to improve the quality and efficacy of public spending and enhance the impacts of effective fiscal policy, by streamlining expenditures and reprioritizing budget allocations to Ministries that will lead the diversification of the economy. The Democratic Coalition Government for Advancement (DCGA) is committed to institute structural measures to improve the quality of public investments to support the private sector and diversify the export base and sources of growth. **This calls for collective support and commitment from all ministries.** With the overall fiscal envelope Government can afford to collect for 2020, it is of paramount importance that all ministries should allocate the budget towards the key priorities of the Government that could bring investment opportunities and growth.

The 2020 Budget is expected to focus on the productive and the resource sector to support programs that could encourage economic activities and investment where growth can be realised. Ministries are expected to also ensure that all legitimate contractual obligations that are ongoing including essential services fixed costs are prioritised as well. These commitments must be prioritised and delivered successfully for the benefit of people of Solomon Islands.

This will only be possible if Ministers and Permanent Secretaries work closely together in the formulation of the 2020 Budget to ensure that key priorities are being delivered. **I expect all Permanent Secretaries to organize internal Budget consultations through the establishment of Ministry Budget Committees to ensure their Budget priorities for 2020 are to fully fund key priorities of DCGA and all ongoing contractual commitments and fixed costs.**

The Budget Coordination Committee, joining senior budget and planning officials from Ministry of Finance and Treasury, National Planning and Development Coordination, Public service and the Prime Minister's office, has the mandate from the Government to ensure that the 2020 budget is focused on the guiding principles set forth in this Strategy and the overall fiscal envelope Government set for 2020.

I thank all Ministers and Permanent Secretaries in advance for their commitment to delivering to our people the 2020 Budget. Let us all work responsibly and cohesively together in preparation for 2020, with the overarching theme of "**Together, Towards Growing Our Economy".**

Hon. Harry Kuma, MP
Minister of Finance and Treasury

2. INTRODUCTION

The Budget Strategy Paper (BSP) is an important document that is built on the Government's policies and priorities and provides guidance for implementation of the 2020 National Budget. The Budget is the Government's vehicle to progress and deliver its key Policy initiatives and essential services to the people of Solomon Islands each financial year.

As an integral part of the *Public Financial Management Act (PFMA) 2013*, this document is mandatory under section 45 (1) (a) (b) of the *PFM Act. In summary, this section explained that prior to tabling the National Budget in Parliament, Minister of Finance with the approval of Cabinet shall provide the prescribed information outlining the Government's Budget Strategy at least five months before start of financial year and such information relating to its fiscal and debt management strategies three months before start of financial year*

This Budget Strategy sets forth the overall macroeconomic trends and forecasts which is significant for government policy priorities and decision making. The macroeconomic forecasts frame the 2020 Revenue estimates which then determine the top-down expenditure ceilings for 2020. This Strategy also provides a snapshot of Debt to GDP and the macroeconomic outlook to ensure Government borrowing remains at a sustainable level. Fiscal discipline will continue to be imposed on the Government through the PFM Act 2013, which excludes the use of borrowing to fund planned recurrent budget deficits, pressures or short term borrowing.

The first section of the document will provide the macroeconomic outlook of the economy that framed the 2020 revenue estimates, providing a summary of key economic indicators and assumptions that guide fiscal policy for 2020 and beyond. Nominal GDP is forecast as 3.9 percent from 2020 to 2021. Forecasted nominal GDP percentage changes in 2020 is estimated at 4.9 percent, this excludes logging and forestry and will be driven by growth in industry and services.

The second section will discuss the Operational Rules and guidelines that all government ministries must strictly follow to ensure that their 2020 Budget is prepared and are clearly linked to the Government's Policy priorities and implemented in accordance with the PFMA 2013. Ministries are expected to prioritise contractual commitments, fixed costs and other essential services and ensuring that sufficient information on expected outputs for 2020 should be clearly outlined and aligned to the successful delivery of the Government's priorities.

The Democratic Coalition Government for Advancement (DCGA) has made it clear during the announcement of its Policy Document that there will no longer be a "business as usual" approach taken over the next four years but that the Government is determine and committed to strengthening the following key targeted areas in the next four years.

a) **Fiscal Stability:** To strengthen the Capacity of financial institutions in maintaining overall fiscal balance to ensure government spending is maintained within the affordable level.
b) **Political Stability:** This is paramount to progress and underpins National peace by being united in efforts to represent the greater good and having respect for everyone and the natural environment
c) **Accountability and Transparency** in the conduct of Public and government affairs

d) **Improvement on budget implementation** at ministry level focusing on priority programs that reflect key policy initiatives and have made consistent progress.
e) **Control of public expenditure** through enforcement of strict measures to eradicate corrupt practices and prevent leakages from within the system.
f) **Fundamental Reforms** across key sectors for redirection and consistency and cohesion in the delivery and implementation of government priorities.

These targeted areas are the pillars to help strengthen the Government's financial position and effective delivery of key services to the people of Solomon Islands in 2020 and onwards. This can be achieved through collective effort across whole of Government to ensure that resources are effectively and efficiently allocated to the priority areas and on programmes where growth and development can be realised.

It is important that Government continue to address issues of capacity constraints in the areas of budget and procurement planning and to ensure that inputs into the 2020 formulation process results in a *value for money* budget that delivers and achieves the Government's priorities in a transparent and accountable manner.

The *Public Financial Management Act* (PFMA) *2013* will continue to support improved financial management. The Act includes reforms to improve the credibility and transparency of the budget, whilst increasing accountability for budget outcomes as outlined in the DCGA's targeted areas. These reforms are intended to build the confidence and trust of Solomon Islanders, investors and our stakeholders. The Act will also help Government manage budget execution to maximise the benefits of public expenditure, and ensure it improves the long-run growth potential of the Solomon Islands economy.

This document has been prepared in consultation with the Ministry for Public Service, the Ministry for National Planning and Development Coordination, the Ministry for Finance and Treasury and the Office of the Prime Minister and Cabinet, the 4 key Central Ministries and Office that are members of the Budget Strategic Committee for the Government.

3. GUIDING PRINCIPLES OF THE 2020 BUDGET

1. The 2020 Budget theme is, **"Together, Towards Growing Our Economy".** The theme is built on the lessons learnt from the past and present and to redirect resources to develop Solomon Islands into a nation that is economically strong, fair and sustainable, including;

- Maintaining responsible and prudent macroeconomic and fiscal management. Funding the 2020 budget and future budgets in a responsible and fiscally sustainable way within the fiscal framework. While the government or ministries needs are significant, the government must continue to take a disciplined and prudent approach to the allocation and usage of public resources. The government must build a stable fiscal multi-year framework to ensure our discipline will help address unexpected challenges, such as natural disasters, global financial crises and economic slowdown.

- Improving the quality of expenditure and improve services by reducing and stopping unproductive and wasteful expenditures and refocus resources to targeted investments that will improve the livelihood of all Solomon Islanders. Ministries need to demonstrate that they are accountable for the usage of public funds and that they move away from 'business as usual' approaches to budget planning and budget allocation, ensuring ministries clearly identify achievable outputs and activities, better aligned to ministries mandated functions and government policy priorities.

- Build a strong and sustainable economy, one that will provide economic growth and opportunities for our people to realize their full potential. Better resourcing productive and resources sectors to diversify our economy, stimulate growth, broaden economic development, and increase economic opportunities to all citizens in the medium to long-term. Government resources should be targeted to tangible investments that will generate income, future service potential and wealth for all.

Creating a conducive business environment and building investor confidence. Build a unified and stable society, strengthened governance and accountability and maintain political stability. The private sector is the engine room for economic growth and that the business environment must be conducive for investment, growth of the small to medium enterprise and access to capital.

It is important to note that not all priorities can be funded in 2020 as it will depend very much on how much Government can afford to collect each financial year, in order to maintain fiscal discipline and stability. Therefore, all ministries corporate plans must accommodate Government policy priorities under their respective mandates to ensure annual work plans are prepared to progressing these key priorities over the four year term of the government. These programs will be closely monitored by Policy, Implementation, Monitoring and Evaluation Unit (PIMEU) within the Office of the Prime Minister and Cabinet as well as the Monitoring and Evaluation Unit within the Ministry of National Planning, Development and Coordination (MNPDC) to ensure implementation of government's policy priorities are progressing and that funds are properly allocated to these priorities.

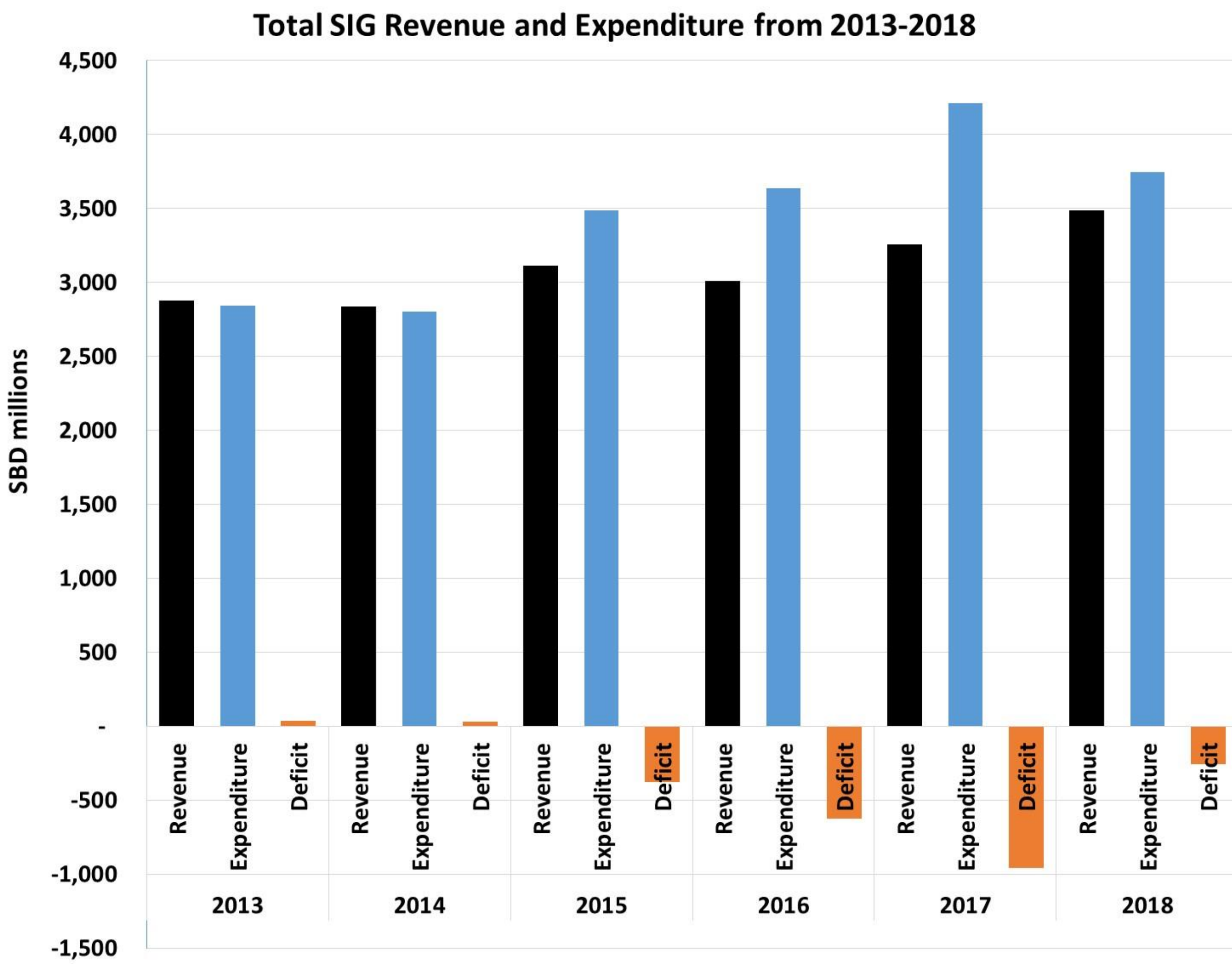
4. POLICY DIRECTION FOR 2020

Reflections, developmental challenges and opportunities for growth

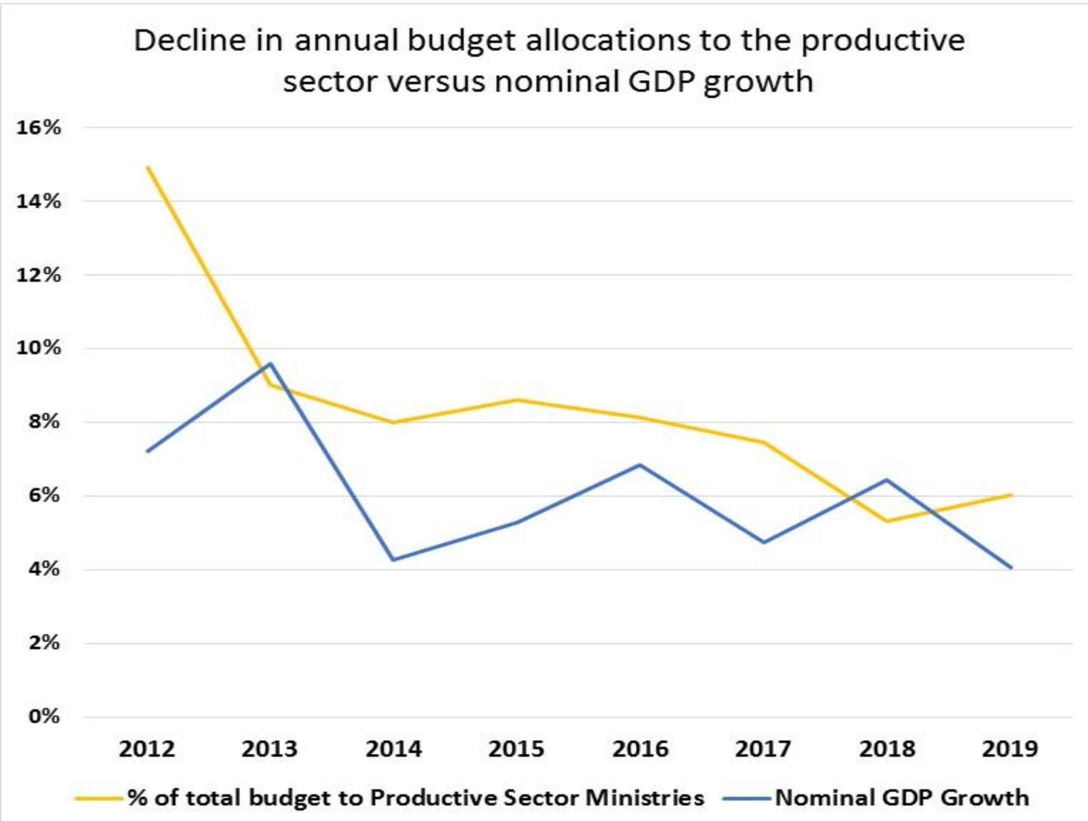
Solomon Islands is facing different development challenges after 41 years of independence since 1978. The DCGA described the progress to-date as, "40 years in the development wilderness" of increasing dependency on government services, subsidies and rural development initiatives. The DCGA recognises the major challenges facing the nation remains eminent despite our progress as an independent sovereign nation, which includes;

- Poor economic growth
- Poor governance at all levels
- Political instability

On the global stage, the trade war between USA and China is causing deepening uncertainty and instability in the global financial market, raising key risks to the outlook of Solomon Islands in the short to medium term since most of our log export receipts comes from China.



Domestically, the expansionary fiscal policy the previous governments have undertaken over the past 8 years increased in total spending from 2014 to 2015 by 21 percent or 669 million, this is a significant investment targeted to rural areas towards constituencies where 80 percent of the people live in Solomon Islands. Though, the government support is appreciated by most people, taxpayers money has not provided the economic return the country initially expected, and further contributed to increased dependency by the people on the government without tangible diversification and expansion of the economy.



The budget allocation in comparison to economic and productive sectors over the recent years have dropped from 15 percent in 2012 to 6 per cent in 2019. This decline is consistent with the fall of nominal GDP growth by 5 percent from 2013 to 2019 despite increased government spending over the same period.

The government is committed to unlock development challenges facing the nation which are complex-economic issues which the government is determined to address;

- access to working capital for small business
- accessing customary land for major development
- strengthening of cultural, traditional and religious values
- reduce unsustainable harvesting of the natural resources
- build resilience and adaptation from the impacts of climate change and natural disasters

Despite the global and domestic challenges, the government is committed to build on its strengths and address its long term challenges with grit and determination. 2020 Budget is a critical budget, the nation is at the crossroads of its development challenges and opportunities, and now committed to change the status quo and bring positive changes to its people for the next four years.

The DCGA endeavours to bring development, services and investment to the majority of Solomon Islanders living in rural areas. The nation needs 4 major transformation paradigm shifts to unlock and economically empower people to participate successfully in nation building;

- To move away from business as usual approach and actually getting things done
- To move away from dependency syndrome or poverty mentality and be proactive and productive
- To move away from wanting more resources and doing more with less
- To move away from dependency on logging and broaden investment in productive and resources sectors.

Solomon Islands has abundant talent, blessed with rich and immerse natural resources and diversity that can be better utilized to transform our economy. The government foresee the importance of innovation, creativity and new way of thinking for the country to harness its natural resources and develop them into tangible and high valued products that will generate income and wealth for all.

- The focus of DCGA policy for 2019 and beyond is on addressing the major binding constraints to growth by removing the major impediments. A robust and strategic shift in policy response is needed at the back of a fast depleting forest resources and an expected fall in log exports. We must respond quickly and strongly to prevent a disorderly adjustment and lay a groundwork for a quicker, durable and sustainable growth.

- DCGA have recognised the need to establish a more favourable and conducive environments by cutting red tapes, eliminate unnecessary regulations and reduce business costs for private investments such us downstream processing, manufacturing and services to help expand job creation, accelerate long-term economic growth, reduce poverty and minimise vulnerability to dependency on limited growth drivers.

- DCGA have also acknowledged that the lack of access to finance is one the binding constraints to growth. The revitalisation of DBSI is a strong manifestation that DCGA is serious in addressing the issue of lack of capital finance to small and medium businesses in Solomon Islands.

- Growth and progress cannot persist without investment in people. Strong education and better health system is a necessary prerequisite for growth and DCGA will seriously pursue for a dramatic improvement in quality of education and health system in the country.

- DCGA have recognised the need to support instituting structural measures to improve the quality of public investments to nurture private sector and diversify the export base and sources of growth. Inadequate and poor state of infrastructure is one of the largest impediments that limits the country's economic progress. The DCGA will therefore be focusing substantial resources and effort to boost infrastructures such improved road networks, efficient ports, reliable and affordable electricity (Tina Hydro), improved communication (Undersea Cable Project) and others.

- Improving governance is critical and equally as important as any sources of growth. DCGA recognises that with good governance comes political freedoms, less violence, better business environment, and greater adherence to the rule of law. These are all perquisites for growth and economic development.
- Sound macroeconomic management is a key fundamental driver for growth and DCGA is focusing resources and supporting appropriate fiscal reforms by MoFT to ensure effective macroeconomic management, lower inflation, lower budget deficits, and higher levels of foreign exchange reserves and instituting appropriate exchange rate regime.

5. OVERALL 2020 BUDGET STRATEGY

I. Macroeconomic outlook for 2020-2021

The economy of Solomon Islands continues to perform moderately at around 3.5 per cent over the recent years, but there are signs of slowdown in the first 6 months of 2019, given the sluggish conditions for growth characterising the global economy. In 2019, growth is expected to be moderated at around 2.8 per cent as logging activity declines, and intensified US-China trade and technology tensions as well as prolonged uncertainty on Brexit, momentum in global activity remained soft in the first half of 2019.This has translated to weaken commodity price.

Weak final demand and a continued decline in growth throughout late 2018 and early 2019, as reported by the latest International Monetary Fund (IMF) World Economic Outlook update (July, 2019) characterise slow growth abroad. According to IMF figures, major emerging market trading partners of the Solomon Islands that would usually record higher levels of growth such as China would be revised further downward for 2020 (China's GDP is forecast to be 6.0 for 2020 which will likely be the lowest since the early 1990s).

IMF's latest projections (IMF World Economic Outlook, July, 2019) for the prices of oil record a negative revision for the 4th quarter of 2019, revising further the forward estimates down to USD 68 per barrel for early 2020. Falling world fuel prices in mid-2019 are accompanied by tumbling commodity prices at home here in the Solomon Islands.

It is expected that growth will primarily stem beyond the logging sector and within industry and services. Cumulative spending effects on public investments and utilities such as electricity and water are expected to contribute to growth in the short to medium term.

Non-log commodity prices such as coconut oil (priced at USD 661 per metric tonne as of May, 2019) and palm oil (priced at USD 563 per metric tonne as of May, 2019) have continued to decline in the first five months of 2019 here in the Solomon Islands. Price recoveries for palm oil are expected by early 2020 which is a positive indicator for price-taker economies such as ours.

The price for fish declined by USD 186 per metric tonne to USD 1180 between January and May of 2019 but is expected to pick up due to forecast increased demand in global growth in the short-run once global supply and demand have rebalanced. Contributions from fishing to percentage changes in real GDP in the Solomon Islands is forecast at 7.9 per cent in 2020 and will be subject to revenue-maximising opportunities such as selling all available fishing days at the most competitive prices.

An early estimate for 2019 indicated that the **Honiara Consumer Price Index** which records the weighted average of prices of a basket of goods and services would increase as a percentage change from an estimated 1.1 per cent in 2019 to 2.3 per cent in 2020-2021. These estimates for 2020 will be subject to revision later this year and should accompany a moderately looser monetary environment for the private sector for the rest of 2019 through to March 2020.

Nominal GDP is forecast as 3.9 per cent for 2020-2021. This estimate includes logging and forestry. Forecast nominal GDP percentage changes for 2020 which exclude logging and forestry are now estimated at 4.9 per cent and should be strongly supported by growth in industry and services including communications including the laying of the submarine cable (7 per cent), hotels and restaurants (5 per cent) and financial intermediation (6.5 per cent) within the Solomon Islands.

Domestic **business investment** has slowed as indicated by lending to the private sector which decreased in the latter half of 2018 and is poised to slow down further in 2020 (Central Bank, 1st quarter review, 2019). This is in part, due to continuously falling logging investment and spending within the logging sector which will continue to weigh down growth and consequently, adversely impact government tax revenues in the medium term.

Household consumption growth (at constant 2012 prices) was initially forecast to grow 8 per cent in 2019-2020 but consultations with respective government agencies suggest that household consumption growth has slowed considerably in the first six months of 2019 (Central Bank, 1st quarter review, 2019).

Despite indications that the labour force grew steadily between 2018 and 2019 with a marginal increase of 4 percent of payees paying into the National Provident Fund, wage rigidities continue to constrain the labour force and adversely impact growth in household consumption for 2020-21.

A slowdown of this nature can detract the economy's ability to face shocks such as **price shocks** on goods imported from abroad. A decline in the terms of trade ratio is forecast in 2020-2021 at -0.8 per cent indicating that the country's outflow in capital outweighs its inflow which means that the price of Solomon Island exports will decrease relative to the price of its imports. Further, movements in the real effective exchange rate as of the end of 2018 further characterise trends of a drop in competitiveness of Solomon Island exports in the short term (CBSI Monetary Policy Stance, March 2019).

As such, adhering to **fiscal consolidation** measures and continuing to reverse expansionary fiscal policy will, in time, provide the adequate buffers for a small economy like the Solomon Islands to tide over the recent decay in growth among emerging market economies, particularly affecting major trading partners such as the People's Republic China.

In the Solomon Islands, it is fundamental that **public investment** and expenditure are used as part of a balanced growth strategy in the medium-term.

Containing spending on **public expenditure** (both, recurrent and development), tightening further upon inefficient subsidisation and continuing to ensure that prioritisation occurs for public investment where maximum gains can be shared both, by the country and its growing private-sector, will continue to be the way forward for the Solomon Islands. In the short to medium-term, adopting macro-prudential policies ensuring adequate capital and liquidity buffers will also afford options to remain in a position of resilience through periods of heightened global macro-economic instability.

Growth diversification strategies

The logging sustainability policy which decreases the volume of round logs exported to more sustainable levels will need to be monitored carefully as it presents economic challenges to the Solomon Islands.

Currently the logging sector accounts for:

- Twenty per cent 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.

- Sixty per cent 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.

- Around 5000 jobs. Logging is the largest formal-sector source of employment in the Solomon Islands after Government. Loss of these jobs will have flow-on impacts throughout the economy.

The government of Solomon Islands is mindful of the continued challenges and threats the country is currently facing. The DCGA led government is also aware of the opportunities the country has to gain from its resources and therefore are committed to implementing policies that will support economic growth and improving domestic standard of living in the medium term.

The first objective is to continue with structural and sectoral reforms (in particular agriculture, tourism, fisheries, infrastructure, mining, health and medical services) to make Solomon Islands an easy and reliable place to do business and to invest.

Structural reform not only creates opportunities for the economy to grow, it also supports new jobs, increased investment, low inflation and a sound balance of payments level. 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.

Infrastructure

The Solomon Islands Government aims to improve and extend the infrastructure services to various provinces and build expertise and capacity to ensure the ongoing sustainability of the infrastructure services in the next 10 years.

Key initiatives include the National Infrastructure Investment Plan and the establishment of the National Transport Fund. The new Debt Management Framework (DMF) is also supporting increased investment through the provision of guarantees and loans for infrastructure projects, including by mobilizing private finance through public-private partnership arrangements. Increased private financing (supported by the DMF) is particularly important given constraints on funding from SIG and development.

Priority projects of the government that will be progressed in 2020 that will help to stimulate economic activities include:

- Tina River Hydro Development Project (TRHDP),
- Submarine Cable Project,
- Bina Harbour Port and Fisheries Projects
- Munda International Airport Project
- Tar seal of Seghe, Taro and other key domestic airport
- Henderson International Airport Upgrade Project

Business Regulation and Financial System Reforms

As part of the broad legislative reform package, the Government is supporting the review of financial system legislation, much of which is outdated and inadequate to support the robust regulation and supervision required by Central Bank Solomon Islands. The Government is committed to progressing key financial sector reforms to establishing a strong, well-functioning financial system through the development of a new Credit Union Act, new Insurance Act, new Financial Institutions Act, National Payment System legislation, new SINPF Act and new Trustee Act.

State-Owned Enterprises (SOEs)

SOE sector performance has been improved since the implementation of the SOE Act and other relevant SOE policies. The current focus is on supporting SOEs to deliver on the accountability and reporting obligations of the SOE Act and regulations and to continue to improve SOE financial and service delivery performance. The development of SOE Ownership Policy with the assistance from ADB is a significant milestone of the SOE reform program undertaken by the Solomon Islands Government. This policy has been table in the parliament and will enhance SOEs and the government to effectively provide better service to the people of Solomon Islands through better investment priorities over the medium term.

Fiscal

The Government is in the process of implementing a tax review framework. This will be done over the medium term and will provide a more attractive business environment for the investors by turning the current tax system into a more fair, simple and broad-based tax system.

New Customs and Excise Act

The Government is progressing with the development of the new Customs and Excise Act to support improved processes and enforcement. A review of the current Act found that it is archaic, complex and often unclear. To improve the administration of tariff, excise and export regimes, the new Act will modernise the legislation and will clearly identify requirements for compliance, provide greater protection to revenue and powers to protect our borders.

For each sector, action by the Government that could facilitated these growth are summarised below.

Targeting sectors for further reform and consideration for investments in 2020 and onwards.

Sectors	Potential	Government Actions
Agriculture	- Key targeted investments on agriculture should be prioritized: ○ Noni ○ Cocoa ○ Coconut ○ Kava ○ Cassava	- Facilitate and support the development of commercial agriculture and support targeted investments
	- Large scale commercial agriculture: ○ Work with GPPOL for Guadalcanal Palm Oil expansion project ○ RIPEL ○ CEMA role in the industry	- Facilitate and support the development of commercial agriculture and support targeted investments
Tourism sector	- Development of domestic airport	- Secure financing for domestic airport upgrade project.

	- Support expansion of hotel, resort or eco-lodge undertaking beds or rooms	- Collaborate financing and other mode of support to enhance tourism growth.
Fisheries sector	- Increase production and Fish processing cannery to other province – Bina Harbour	- Progress is underway to support efforts to secure development partner financing for the Bina harbour project
Mineral prospecting and extraction	- Revival of Gold Ridge	- Secure investors on prospective minerals.
Transport & Telecommunication & Energy	- Undersea Cable - Prioritize Honiara Road Improvement Project and other key provincial infrastructure network; include wharf, bridges, and road. - Ensure commencement of Honiara International Airport upgrade and Munda International Airport Project	- Secure the License for the Solomon Islands Cable Company. - Secure financing for Honiara main road upgrading project - Ensure financings are secured and key government obligations are met.
Forestry Sector	- Timber processing & Manufacturing	- Review the Forestry and Timber Act. - Brought forward regulation to implement requirement of forestry sustainability committee recommendations.

1. Domestic Revenues Outlook

Total tax revenue from Inland Revenue Division (IRD) and Customs and Excise Division (CED) are projected at approximately SBD 2965.2 million in 2020 which is a slight decline from the 2019 revised estimates of approximately SBD 2966.6 million while total non-tax revenue is estimated at SBD 518.8 million dollars. This figure is 10.3 per cent lower than the 2018 actual figure of SBD 3306.2 million dollars. This is primarily due to the slowdown in final global and domestic demand which will be accompanied by further declines expected from within the logging industry for 2020-2021.

I. Estimates for the Inland Revenue Division for 2020-2021

Total IRD revenue estimate for 2020 is projected at SBD 2003.6 million, up 1.3 per cent from the revised estimates in 2019 of SBD 1969 million and 1 per cent higher than the 2018 actual figure of SBD 1983 million. Given slower than expected growth in the economy, most tax collections from IRD are expected to only moderately grow at 2.4 per cent from the 2019 revised estimates.

These headline figures do not include **personal taxes** which are anticipated to decline by 12.4 per cent due to changes in income tax reforms where up to SBD 30,080 will be exempt from government taxation beginning in 2020. This is a revision from previous legislature implemented in 2012 where individuals earning up to SBD15, 080 per annum qualified for tax exemptions. Personal taxes are projected to decline to SBD 446.4 million beginning in 2020, a downward revision of 12.9 per cent from mid-year budget estimates of SBD 509.2 million for 2019.

Company tax receipts are projected to grow by 4 per cent (SBD 317 million) in 2020 from SBD 301.6 million in 2019. These estimates are based on historical growth in tax revenues which takes into consideration various growth factors expanding the economy.

Goods tax in 2020 is expected to grow by 9.1 percent (SBD 824.9 million) from current estimates of SBD 755.7 million for 2019. Additional taxations recommended by the World Health Organisation to counter non-communicable diseases will be imposed in early 2020. These upcoming measures will include a goods tax on rice, Sweet and Sugar Beverages (SSB). Additionally, major manufacturer companies like Sol brew, Solomon Tobacco and other sectors are expected to pick up pace on production in 2020.

Withholding tax receipts are projected at SBD 306 million in 2020, a slight increase of 4 per cent from existing estimates of SBD 294 million for 2019. Marginal increases in revenues as a result of additional compliance activity undertaken by the Division in 2019 are expected to contribute to the withholding tax estimate of SBD 306 million.

Sales Tax estimates are anticipated at approximately SBD 80.9 million in 2020 which is 4.2 per cent higher than the current estimate of SBD 77.7 million for this year. Stimulus with loosening monetary policy conditions impacting access to credit should contribute to increased public final demand.

Contributions to tax revenue from **licences and fees** are anticipated to reach SBD 18.1 million. 2020 estimates for licenses and fees are only a slight increase from the current estimate of SBD 17.4 million for

2019. This additional SBD 700,000 is due to assumed increases in the number of vehicle registrations for 2020-2021.

II. Estimates for the Customs and Excise Division for 2020-2021

Total Customs and Excise Division revenue estimates for 2020 have been revised downwards to SBD 961.6 million compared with the current estimate for 2019 of around SBD 997.5 million dollars. This downward revision is indicative of a decrease in global demand for Solomon Island logs among trading partners including the People's Republic of China. Unfavourable market conditions for consumption and growth will further dampen the outlook for export duty since logging related activity is expected to contribute half of (SBD 475.2 million dollars) all revenues earned by CED for 2020 (SBD 961.6 million dollars).

Year-to-date (YTD) collections for CED until June, 2019 is approximately SBD 577.7 million dollars. This is 12 per cent lower than what was recorded at the end of the same period in 2018 and 26 per cent higher than 2019 YTD revenue estimates of SBD 576 million dollars. Most of the CED components are expected to increase by a small margin but this effect will be dampened by any further decreases in the production of Solomon Island logs.

Import duties are expected to increase approximately 8 per cent (SBD 267.3 million dollars) in the 2020 budget compared with the 2019 estimate of SBD 246.2 million dollars. Import duties comprise of 28 per cent of all estimated CED tax revenues for 2020. These duties were 7.7 percent lower in the first 6 months of 2019 compared with the same period in 2018.

The declines recorded in 2019 are attributed to a drop in global prices for fuels which is recorded at USD 65.00 per barrel (a drop of approximately 6 dollars from 2018). Establishing an import tax of SBD 0.20 per kilogram of rice in 2020 should contribute approximately SBD 11 million dollars in 2020 to total import duties collected for next year. A forward estimate in fuel price to 68 USD per barrel should also contribute to a pickup in revenues once market clearing prices have rebalanced supply and demand in the Solomon Islands. Anecdotal evidence indicates large revenue leakages in import duties due to under-reporting of items at ports of entry. SIG will be introducing technology such as CT scans to address this issue in the near future. With the new expatriate Controller now taking the position, Customs operation at the Borders with compliances are expected to enhance.

Export duties for 2020 budget are estimated to decline by approximately 11.5 per cent (from SBD 497.4 million) compared with the existing estimate of SBD 562.2 million dollars for 2019. This downward revision can be attributed to a decrease in demand for logs in the international market, affecting current production levels and slowing down the frequency of shipments abroad. The production of round logs in 2020 is estimated to decline by 15 per cent from 2323 cubic meters in 2019 to 1975 cubic meters in 2020. Year-to-date, this amounts to approximately a 15 per cent reduction (1.264 million cubic metres) in the volume of round log exports compared to output volumes recorded in 2018 (1.471 million cubic metres).

The 2020 budget estimate for **excise duties** are projected at SBD 195.7 million, a 4 per cent increase from existing estimates of SBD 188.0 million for 2019. The increase in the 2020 estimate for excise duties is due to indications of easing monetary policy conditions which should help stimulate private-sector growth in 2020-2021. The year-to-date collection of excise duties on Tobacco and Beer are 10 per cent and 44.8 per cent lower than what was recorded within the same period in 2018. The primary reason declines in collection on excise duties was due to low business confidence in the lead up to the general election earlier in 2019.

As always, there are a number of risks and uncertainties around forecasts especially in relation to forward estimates on revenues. Internationally, some risks have increased since the mid-year budget estimates as indicated by the International Monetary Fund's latest update to the World Economic Outlook (June, 2019). Downside risks on the domestic front will remain for forward estimates in balance of payments data due to fluctuations in import-export ratios. The outlook for commodity prices for logging and mining activities are also a source of significant uncertainty which can undermine a reasonably positive outlook on nominal GDP in the medium term.

III. Non-tax revenue estimates for 2020-2023

Non-tax revenue estimates for 2020-2021 are projected at SBD million dollars for 2020-2021. A combined year-on-year revenue increase of approximately SBD 35 million dollars is expected for 2020-2021 from the Ministries of Fisheries, Home Affairs and Communications and Aviation alone. The Ministry of Fisheries attributes some of the additional expected review to originate from revenues collected under the Forum Fisheries Agency agreement. Further strengthening procurement and competitiveness of commodity exports such as Fisheries will help address any inefficiency and contribute to the expected outlook.

Non-tax revenue estimate for 2020 is expected to increase by 7.6 per cent in line with recent revenue measures taken in order to get additional revenue for the government. One of the measures is to improve the compliance on casino taxes. Another NTR measures will be to increase licence fees on logging to SBD 50,000 (from SBD 20,000) to offset revenue declines resulting from the forestry sustainability policy.

IV. Other Non-Tax Revenue Initiatives

a. Fees and Charges, and Land Rents Review

It has been observed that the level of fees, licenses and charges applied by the government ministries for services rendered to the public have not been regularly reviewed as stipulated in the Financial Instructions (1994) sections 77 and 98. Section 77(2) provides that all fees, dues, charges etc. shall be reviewed at least once a year. Section 98 further states that a review of all fees, license, charges, on-cost additions etc. shall be carried by all Accounting Officers for all Divisions under their control by 30 May each year and a report covering their recommendations shall be forwarded to the Permanent Secretary of Finance no later than 30 June each year. It is evident that over the past years these relevant sections of the Financial Instructions have been totally neglected and not being complied with and enforced by almost all Accounting Officers.

It is recommended that the relevant sections of the Financial Instructions (1994) regarding the regular reviewing of fees, dues and charges be strictly complied with and firmly enforced by all Accounting Officers to ensure fair tariff and rates are levied for goods and services rendered. This exercise will include review on all registered land rents

b. **Sugar Sweets Beverage Policy (SSB)**

Furthermore, as part of the 2020 revenue strategy, the Sugar, Sweets and Beverage (SSB) Policy will be fully implemented in 2020. SSB will focus on tax or levy on high risk products that directly linked to obesity, heart disease and diabetes, especially, sugar, salt and sugary drinks. Non-Communicable Diseases (NCDs) are already causing health crises in the Solomon Islands. The current budget has allocated more resources towards treatment and little effort or focus was tailored towards prevention. The fight against NCD requires a multi-sectoral approach and sustainable financing. Taxation policy was regarded as the most cost effective policy tool for making products that directly contribute to NCDs unaffordable. It is envisaged that the SSB Policy will generate approximately $53 million dollars in 2020. These resources will help fund key programs to address NCDs in the Solomon Islands

c. **Enforcement of Gaming Tax**

Enforcement of gaming tax has been weak for many years. With the growth of gaming industries in the country and fair or equitable tax obligation is predominantly absent, the 2020 revenue strategy modelled 15% tax across the board on income of all the operating Casinos and Gaming related operation.

d. **Benchmarking Bauxite Price to International Standard**

SIG has no method to determine the price of the bauxite shipments since the Mining operations commenced on the Islands of Rennel in 2015. This means the Government rely on the company's price calculation to determine royalties and income for Corporate Income Tax and other taxes. In July this year, the Ministry of Finance and the Ministry of Mines received Technical Support from the IMF to benchmark both the Bauxite and other minerals like Nickel into international standard pricing mechanism. Officials from the Ministry envisaged implementing the policy recommendation later this year and onward.

e. **Environmental levy on plastics, containers and electronic equipment**

As part of the policy commitment of the government on Climate Change and Environmental Management, environmental levy on plastics, containers, tins and other electronic equipment also formed part of the 2020 Revenue Strategy Package. Officials in the Ministry of Finance and Treasury, with close consultation with the Ministry of Environment, Climate Change, Disaster Management & Meteorology.

f. **Review Fisheries licencing regime for the locally flagged fishing vessels**

The locally flag fishing vessels were charged lower licence fee as an incentive for them to supply the local cannery. The licencing fee has been set at USD 3,000 per day. The fees has not been amended for some time and should be revisited. The price of fish under the customs and excise act also needs to be revised to ensure the 5% rate applies to a reasonable base.

Table 1: Estimates for Domestic Tax and Non-Tax Revenue in 2020-2023

REVENUE (SI $million)	2018 Actual	2019 revised	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2020 growth rate
Inland Revenue Division	**1,983.0**	**1,969.1**	**2,003.6**	**2,036.9**	**2,051.8**	**2,084.3**	1.7
Company tax	306.6	301.6	313.7	320.4	321.7	324.0	4.0
Personal tax	500.7	509.5	446.5	451.6	453.4	456.2	- 12.4
Withholding tax	285.7	294.2	306.0	312.4	313.7	315.9	4.0
Goods tax	775.2	755.7	824.9	838.0	837.9	852.4	9.1
Sales tax	83.5	77.7	80.9	82.3	89.8	97.4	4.1
Stamp duty	15.5	13.0	13.6	13.6	14.6	16.2	3.9
Licence revenue	15.7	17.4	18.1	18.6	20.6	22.3	3.9
Customs and Excise revenue	**1,323.2**	**997.5**	**961.6**	**975.9**	**994.7**	**1,037.8**	- 3.6
Import duty	293.7	246.2	267.3	284.8	311.1	341.0	8.6
Export duty	794.2	562.2	497.4	473.5	450.3	439.4	- 11.5
of which: export duty on logs	789.8	541.4	475.2	449.1	424.1	410.6	- 12.2
export duty of non-log related	3.4	19.8	21.2	23.4	25.1	27.7	6.8
Excise duty	232.7	188.0	195.7	216.2	231.9	255.9	4.1
Fees, Charges and others	2.6	1.1	1.2	1.3	1.5	1.6	10.3
Total CED/IRD	**3,306.2**	**2,966.6**	**2,965.2**	**3,012.8**	**3,046.5**	**3,122.2**	- 0.0
Other revenue	**502.7**	**482.1**	**518.8**	**499.0**	**509.0**	**519.0**	7.6
Total Estimated revenue	**3,808.9**	**3,448.7**	**3,484.0**	**3,511.8**	**3,555.5**	**3,641.2**	1.0

II. Debt Outlook

The Government is committed to keeping the level of debt in the Solomon Islands at a sustainable and affordable level. To this end, it is guided by the Debt Management Framework (DMF) that provides guidelines for the Solomon Islands to enter into new borrowing.

The DMF comprises of part 8 of the Public Financial Management (PFM) Act, a Debt Management Strategy (DMS), Sub-National Borrowing Policy, On-lending Policy and Guarantee Policy.

Under the PFM Act section 66, only the Minister for Finance has the sole authority to authorise any Government borrowing, which includes borrowing by the Central government, a provincial government or a State Owned Enterprises but with strict requirements as per section 71 of the PFM Act.

The Debt Management Advisory Committee (DMAC) has been established to review borrowing proposals and make recommendations to the Minister for Finance regarding new borrowing proposals.

The Minister may borrow money on behalf of the Government. The Minister shall, have in regards to the Government's medium term fiscal strategy and public debt management strategy to determine the borrowing limit as part of the Annual Appropriation Act for any financial year, including any Government borrowing, on-lending or guarantee. In addition, the Provincial governments, state owned enterprises and the Honiara City Council shall require the consent of the Minister before undertaking Government borrowing. The Minister may for a specified period delegate to an accountable officer in writing the technical and other preliminary tasks involved in preparing for specifically named borrowings or other arrangements. The minister shall report it in the budget statement presented in the National Parliament all the Government borrowings in the financial year and the terms and conditions thereof.

Debt to GDP is currently around 10 percent. This is a sustainable level. However, with the need for important development infrastructures, this Debt to GDP will increase in the near future. To ensure that debt remains at a sustainable and affordable level, new debt should only be incurred incrementally, in a steady and predictable manner. The Framework does not encourage large, one off borrowings, as they limit the Government's ability to: a) adapt to economic shocks; and b) fund yet to be identified development initiatives that may exhibit high economic and social returns.

A key feature of the DMF is the requirement for Government to set an Annual Borrowing Limit as part of the Budget process. This places a limit on how much new Government borrowing can be undertaken in any given year.

For the 2020 Annual Borrowing Limit, it will be set as part of the budget process 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. A debt sustainability analysis is also undertaken annually, as part of the budget process, to determine an appropriate Annual Borrowing Limit. The Annual Borrowing Limit for 2019 was $300 million.

Fiscal discipline will continue to be imposed on the Government through the Public Financial Management Act 2013, **which excludes the use of borrowing to fund planned recurrent budget deficits.**

Debt to GDP is expected to remain at 10 percent by 31 December 2019, which is a sustainable and affordable level.

The Government had also increased the Treasury bill cap to 100 million in 2018 thus committed to sustaining the Treasury bill market by maintaining it at the 100 million of these instruments on issue throughout the years until the cap is reviewed and amended.

III. Development Financing

The Government expects implementation of the following government borrowing supported projects to begin in 2019. The Minister for Finance authorised government borrowing related to these projects in 2018.

Tina River Hydro Power Project

The Tina River Hydro Project aims to provide, by reducing the dependence on expensive imported fuel, more cost-effective and reliable electricity to Honiara.

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.

Financing details for the Project are yet to be finalised, but it is expected that the Government will incur around USD$175 million in government borrowing, comprising of around USD$155 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.

Arrangements and negotiations is in progress since 2014.

Solomon Islands Road and Aviation Program (SIRAP)

In 2018 the SIG approved a borrowing proposal of US$30.5 million and US$20.5 million in grant funds from World Bank to finance SIRAP. The objective (s) of SIRAP is to improve safety and oversight of air transport and associated infrastructure, and strengthen the sustainability and climate resilience of the project roads and airports in the Solomon Islands.

The aviation component of the Project will include Munda and Honiara Airports Infrastructure investments which includes:

- Munda Airport Terminal Construction and Aid Navigation
- Honiara Airport Runway extension and rehabilitation

The road component will be for Malaita road Improvement and maintenance. The other component of the program is institutional strengthening and project implementation support.

2023 Pacific Games Stadium

In the course of 2018, the SIG also approved a borrowing proposal of US$47.2 million from the Taiwanese Government (via a Taiwanese designated bank) to finance the construction of the 2023 Pacific Games Stadium. A Taiwanese construction company is already identified to be the main contractor to build the stadium which will be built to an international standard with the capacity of 9,000 seats.

Access to Renewable Energy Project (On-lend Loan)

The third borrowing proposal that was assessed by the Debt Management Advisory Committee and approved by the SIG in 2018 was the Access to Renewable Energy Project. This is an on-lend borrowing which the SIG borrows from an external creditor the amount of USD$5.5 million and on-lend it to Solomon Power.

The Access to Renewable Energy Project four includes;

Component 1:

- Financing the supply, installation, and initial maintenance of new hybrid mini-grids throughout the Solomon Islands.

Component 2:

- Finance electricity connections in low-income areas, including connections to households, micro enterprises, and community infrastructure through an Out Put Based Aid (OBA) mechanism, building on an existing Electricity Access Expansion Project (EAEP).

Component 3:

- Finance the supply, installation and maintenance for one or more grid-connected solar facilities in the Solomon Islands.

Component 4:

- Finance specific areas of technical assistance and project management cost for Solomon Power and also provide support for technical assistance for Ministry of Mines Energy and Rural Electrification (MMERE).

These components aims to increase access to grid-supplied electricity and increase renewable energy the Solomon Islands.

Solomon Islands Submarine Cable Company (SISCC)

The Solomon Islands Submarine Cable Project will complete at the end of 2019 and SISCC will commence commercial wholesale operations from the beginning of 2020.

SISCC was fully funded from equity contributions from ICSI and SINPF in 2018. The equity funding is sufficient to complete the project and transition to full operational cash flow. SISCC intends to use commercial debt in the form of a line of credit from a commercial bank to provide an extra buffer for early operational phase.

The International Coral Sea Cable System will be novated to an Australian domiciled Operating Company, The Coral Sea Cable Company, in December 2019. SISCC is an equal third shareholder in this Company along with The Commonwealth of Australia and PNG DataCo. During 2020, SISCC will be jointly operating the Coral Sea Cable through this Company.

The Commonwealth of Australia will also be novating the Indefeasible Rights of Use (IRU) for 2 fibre pairs it signed with each of PNG DataCo and SISCC to the Coral Sea Cable Company. SISCC and PNG DataCo will each provide 50% of the operating costs of the Coral Sea Cable Company through Operations and Maintenance payments under the IRU's from 2020 until the end of life of the system.

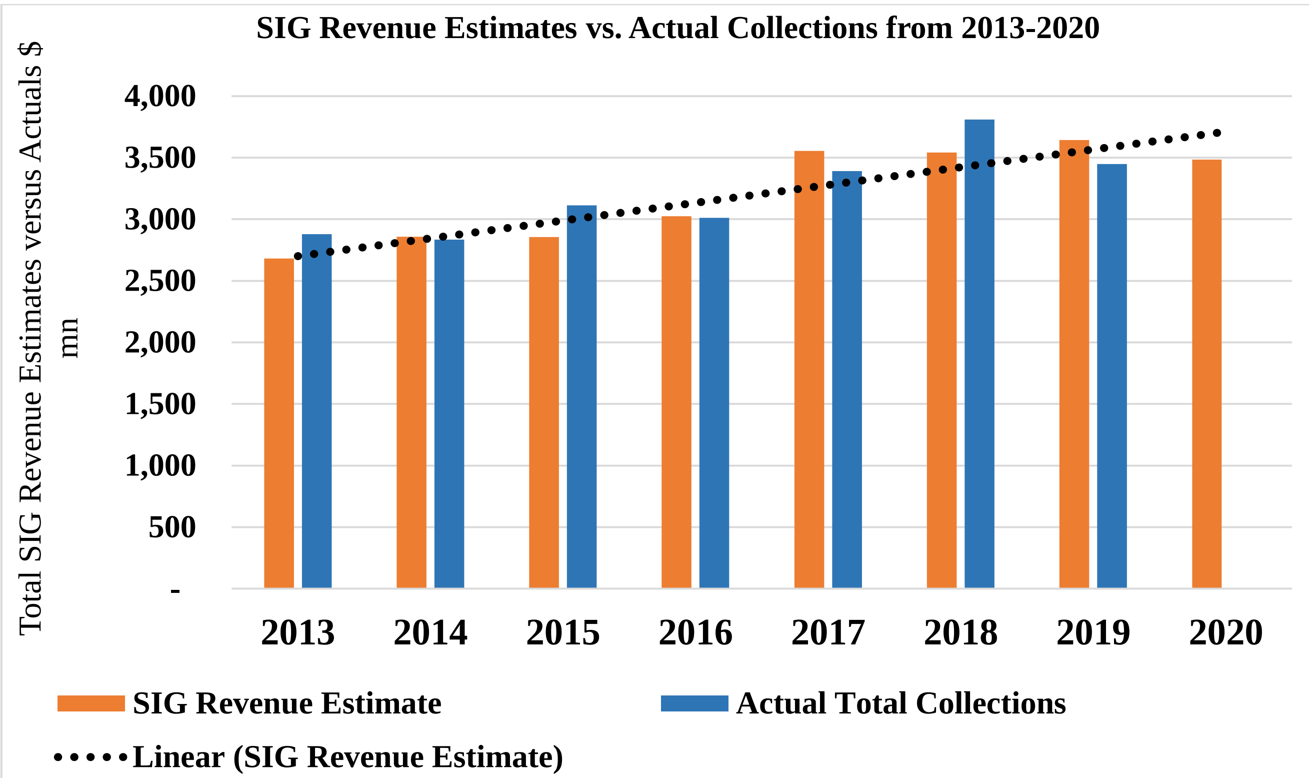
The Commonwealth of Australia will novate the Solomon Islands Domestic Network (SIDN) to SISCC at the end of December 2019.

SISCC will commence scoping on possible future expansion during the latter part of 2019 and in to 2020 aligned to SIG policy.

6. The 2020 BUDGET PARAMETERS AND ESTIMATES

I. Fiscal Strategy for the 2020 Budget -Revenue

As summarised in the following fiscal table, total revenue estimates for 2020 is $3,767.0 billion including $213 million of Budget Support revenue from donor partners and $70 million from ROC. SIG revenue estimates for both tax and non-tax revenue for 2020 is $3.484 billion, a slight increase of $35.6 million or 1% from the 2019 revised Budget estimates. This slight reduction is to keep within the expected level of revenue collections for 2020 especially to reflect the reduction in the logging receipts being a key source of revenue for the Government. Non tax revenue estimates for 2020 has increased by $37million or 8% from the 2019 revised budget of $482.1million. This is based on the revenue estimates collected through Government ministries which shows gradual improvement in the collection of revenue for 2020. It is vital that the government remain within these overall parameters to maintain a stable, disciplined and balanced budget for 2020. Constant adjustments to budget appropriations each year reduce the ability of Government Ministries to deliver on the policies and outputs that were approved through Parliament in the previous year. This distorts budget execution and further damages the ability for Ministries to effectively plan for their resource needs in advance.



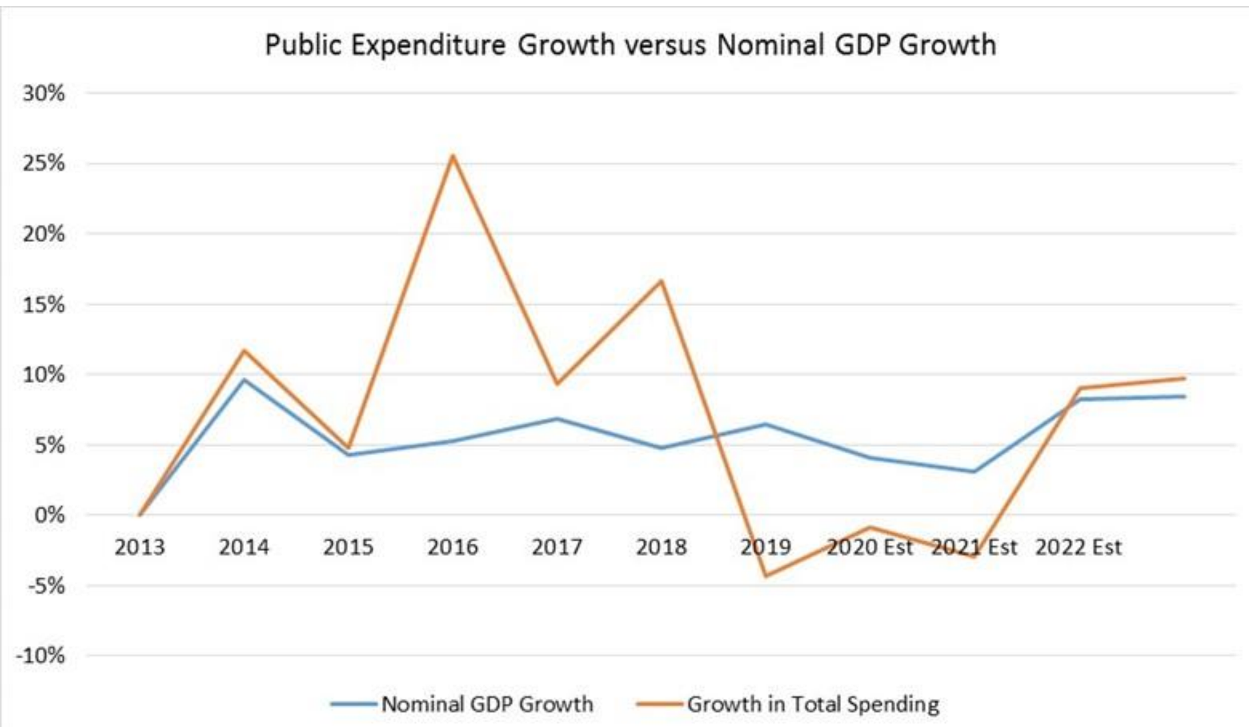
The graph illustrates the trend of SIG revenue estimates against actual collections from 2013 to 2020. The total SIG revenue estimate for 2020 is forecasted at $3,484 million, a decrease of 4.4% from the 2019 revenue estimate of $3,643 million. The Government is mindful of the reduction in logging receipts which will put pressure on Government finances being a key source of revenue to the Government. Therefore has capped the expected revenue estimate to be around 1% increase or around the same level to the expected actual total collection by end of 2019. The 2019 actual collection is expected to reduce by 9% or $360 million from the actual collection in 2018 of $3,809 million. The actual collection in 2018 is about 12% or $417million higher than actual collection in 2017 of $3,392 million.

Actual collections in 2015 of $3,114 million were higher than the 2015 revenue estimates of $2,855 million by $259 million or 9 %. 2016 revenue estimates of $3,024 million were $90 million or 3% lower than 2015 actuals, however the 2016 actual revenue collections of $3,012 million were $12 million or 0.4% less than the anticipated collections of $3,024 million.

II. Fiscal Strategy for the 2020 Budget – Expenditure

The 2020 Budget will continue to embed DCGA commitment to maintain fiscal discipline and government spending to be within the overall revenue envelope that the Government can adequately secure in 2020. This is fundamental to achieving one of DCGA's targeted areas for improvement, and that is fiscal stability.

As shown in the fiscal table, the 2020 total expenditure is capped within the total revenue estimates of $3.767 billion. Total expenditure for 2020 is $3.767 billion including Budget support of $213 million and ROC funding of $70m. Government is committed to improve the quality of expenditures across all Ministries, as expansionary fiscal policy over the years have had little or limited impact on nominal GDP growth and the quality and coverage of service delivery to the people of Solomon Islands. **The government is therefore committed to improve the quality of expenditures by reducing and stopping unproductive and wasteful spending, remove leakages and inefficiencies and reallocate resources to key identified activities that would help to achieve government policy priorities in 2020 and onwards.**



Due to the downward revision of the 2020 revenue estimates from 2019 original revenue estimates, the budget ceilings provided for payroll, other charges and development budgets have also been reduced and ministries are asked to be strategic and innovative in their planning and to do more with less.

Reducing expenditure does not mean that ministries activates will scale down, it is a great opportunity to improve planning, review of annual work plans and remove inefficiencies and ineffectiveness that undermine service delivery and prevent Government from using public resources to achieve its objectives. Ensuring that adequate resources are allocated to legitimate contractual commitments and policy priorities that are provided in the Government's Policy translation document. The 2020 Budget will be the necessary vehicle to stimulate growth again, investment opportunities and better service delivery outcomes for all.

The 2020 budget is designed to improve link between government policy priorities and budget allocation, ensuring strategic priorities of the government are clearly articulated and prioritised by ministry budget committees. This will streamline ministries submissions for consideration and should not waste resources on unnecessary activities that will not make any difference even if implemented.

The development allocation will be strictly for capital expenditures and all recurrent related costs will be transferred to the Recurrent Budget, if they are legitimate and necessary for the ongoing operations of the Ministry. The Development Budget will no longer be used to supplement the recurrent spending of ministries. The government is prioritizing productive and resource sectors and ensure adequate resources are allocated to the proposed activities that will be easily achieved and implemented in 2020, considering ministry capacity and technical capability to plan and implement within a given timeframe.

The government provides Contingency Warrant (CW) provision of 20 million to cater for urgent and unforeseen circumstances. CW is strictly not to fund outstanding arrears, expenditure shortfalls and unplanned expenditures.

Please note, that unlike previous years, the CW provision will NOT be used under any means unless any spending proposals brought forward by Ministries are **both URGENT and UNFORSEEN as per Section 58.1 as of the PFM Act 2013.**

Table 2: the 2020 Fiscal Table

Budget Estimates ($ millions)	2019 Original Budget Estimates	2019 Revised Budget Estimates	2020 Budget Estimate	% Change between 2019 and 2020
Total SIG Revenue	**3,642.9**	**3,456.0**	**3,484.0**	**1%**
IRD	**2,044.0**	**1,968.6**	**2,003.6**	**2%**
Customs	**1,096.6**	**997.3**	**961.6**	**-4%**
Non-Tax	**502.3**	**490.1**	**518.8**	**6%**
Budget Support Revenue	**283.5**	**365.6**	**191.4**	**-48%**
Budget support	**213.5**	**295.6**	**121.4**	**-59%**
Donor funded Development	**70.0**	**70.0**	**70.0**	**0%**
Total Revenue	**3926.4**	**3821.6**	**3,675.4**	**-4%**
Total Expenditure	**3,926.4**	**4,016.5**	**3,675.4**	**-8%**
Total SIG Expenditure	**3,642.9**	**3,650.9**	**3,484.0**	**-5%**
Payroll	**1,242.8**	**1,242.4**	**1,291.8**	**4%**
Other Charges	**1,905.6**	**1,914.0**	**1,782.9**	**-7%**
Contigency Warrant Provision	**19.2**	**19.2**	**20.0**	**4%**
Development Budget	**545.3**	**545.3**	**459.3**	**-16%**
SIG Funded	475.3	475.3	389.3	**-18%**
Donor Funded	70.0	70.0	70.0	**0%**
Budget Support	**213.5**	**295.6**	**121.4**	**-59%**
Sector Budget	213.5	295.6	121.4	**-59%**
Fiscal Balance	**0.0**	**-194.90**	**0.0**	**-100%**

The Government's national total expenditure estimate for 2020 will be $3,675.4 billion. This is an 8% reduction from 2019 revised total expenditure. **Total SIG expenditure Ceiling will be $3,484 billion, a slight increase of 1% or $28 million from 2019 revised estimates.** Total expenditure ceiling for payroll will be $1,291.8 billion, an increase from 2019 revised estimates of 4% or $49.4 million. **This is based on existing filled positions, allowances and vacant positions of strategic importance across whole of Government ministries and offices.**

The total Other Charges ceiling is $1,782.9 billion, a 7% or $134.1 million decrease from 2019 revised estimates. The Development Budget will have a total expenditure ceiling of $459.3 million for the 2020 budget - a decrease of 16% or $86 million from the 2019 revised estimates. $389.3 million will be SIG funded while the remaining $70 million will be donor funded. The projected decrease in Development Budget is to ensure that the development envelope only focuses on the key priority programs that will stimulate growth and enhance the productive potential of the Solomon Islands.

There will be no planned deficit in the 2020 Budget. The Government cannot borrow to fund planned budget deficits especially for recurrent expenditure. It is preferable to incur debt for investments but only those that promote economic activity and are able to bring economic returns that can be used to repay the debt. This is in accordance to section 71 of the Public Financial and Management Act 2013. The section further clarifies that the Minister of Finance may only enter into new borrowing for high priority infrastructure and development initiatives in line with Government's development and debt policies. The Government however, will remain committed to its priority to regain stability in its financial position and hence will not borrow to fund planned deficits or recurrent pressures.

7. OPERATING RULES AND GUIDELINES

I. Recurrent Budget (Other Charges -Baseline Budget)

Ministry Level Recurrent Budget Expenditure Ceilings		
Head	**2020 Payroll Ceiling**	**2020 Other Charges Ceiling**
268	2,305,934.10	1,989,228.95
269	2,396,768.52	3,196,865.30
270	16,687,143.86	17,587,467.00
271	2,830,346.05	5,562,026.00
272	526,658,975.30	669,265,539.70
273	33,326,853.05	110,384,355.65
274	7,152,698.84	58,578,517.25
275	2,677,699.46	6,407,085.25
276	255,419,467.09	171,032,607.75
277	10,296,621.57	51,262,960.30
278	-	82,741,647.29
279	47,715,747.41	54,442,024.05
280	10,174,002.50	12,960,111.95
281	47,269,840.77	68,686,811.35
282	14,014,866.30	-
283	145,176,663.07	148,648,916.95
284	25,102,920.11	90,656,795.20
285	7,158,385.52	11,325,651.70
286	2,991,480.88	3,788,329.70
287	3,345,488.45	23,432,168.65
288	11,992,814.60	29,076,135.05
289	13,472,531.34	33,095,829.85
290	10,316,766.99	12,473,733.35
291	17,392,353.62	11,863,101.00
292	16,277,879.71	18,906,047.35
293	2,194,477.70	14,796,816.60
294	5,394,290.86	11,328,469.55
295	6,416,992.39	9,659,305.65
296	18,552,009.53	14,633,247.60
297	3,089,944.74	8,630,121.80
298	13,017,221.56	6,251,047.55
299	10,970,516.65	20,255,192.90
TOTAL	**1,291,789,702.54**	**1,782,918,158.24**

Other Charges Baseline Estimate Assumptions

Ministries are asked to be strategic and innovative in their planning and to **do more with less**. **No bids or spending proposals for any 'new policy' will be accepted for 2020.**

With that, the 2020 Other Charges baseline is prepared on the following assumptions to ensure the total Other Charges ceiling is capped within the affordable level.

- 2020 Other Charges indicative ceiling for each ministry is based on the 2019 Revised Budget.
- All bids that ministries categorize as "one-offs" in 2019 are removed from the 2020 Baseline.
- All adjustments for 2019 are captured in 2020, particularly for increases to fixed costs and any reductions in discretionary areas of spending.
- Virement adjustments (as at 24th August 2019) are reflected in the 2020 baseline.
- Any new account code created during the year through virement is part of 2020 baseline.
- 15 percent reduction to all expenditure items especially those categorized as administration, consumables, some maintenance items, hire of goods and services, entertainment, training, workshops, conferences and seminars and uniform.
- 10 percent reduction on travel and fuel related expenditure items.

There are some significant outstanding payments phased out over the years that the Government will continue to priorities in 2020 to ensure these payments are paid off as these are Government's obligation and were not prioritized over the past years. As an example, Ministries must prioritize any subscription fees relating to their membership to regional or international bodies within their 2020 Budget. This is to avoid the Government having to pay outstanding arrears in the coming years.

No submission for arrears, fixed costs and utilities should be submitted for supplementary during the year because these are priorities that should be properly allocated with budget during the budget preparation for 2020. It is important that each Ministry Budget Committee collectively decide on what key priorities can be prioritized for 2020. If the indicative baseline may not accommodate all the key priorities for 2020, the committee needs to make strategic decision as to which programs could not be deferred as they will have negative impact to the people and the economy. Also to identify which activities are important but could be delayed because even if delayed will not have negative impact to the public. It is time that the Government must seriously allocate the limited resources secured for each year towards the most needed areas for effective service delivery and where economic activities can be realized that could lead to the expansion of the economic base of the country in the medium to long term.

Similar to the 2019 Budget, 2020 budget allocation for capex-Motor vehicles will be centralized under Ministry of Infrastructure Development.

Other Charges Submission Rules

1. **All Ministry submissions are to be prepared through their Ministry Budget Committees.**

   The purpose of this institutional arrangement is to ensure that decision in planning and formulating ministries budgets is collectively done inclusive of all Heads of Divisions, HRMs, Financial Controllers, Planning/Procurement Officers and the Permanent Secretary to oversee and chair the meetings. Collective decision and discussion can provide clear understanding within ministries on what key priorities ministries can focus on in a given year with the limited resources allocated to each ministries. If resources are properly allocated to where the priorities are, the government can prove that much can be done with less resources because funds are efficiently allocated towards priorities.

   As soon as ministries received their indicative Other Charges Baseline, the Ministry Budget Committees are expected to meet and deliberate on the priorities to focus on in the respective ministries to be reflected in the 2020 budget submissions. All members of the Committee must agree and understand how decisions for prioritizing is made. Not all priorities can be funded in a given year as it depends on the overall level of revenue government can afford to collect. Therefore it must be made clear at the ministries to ensure that the level of funding allocated to each ministry are carefully allocated towards activities that are prioritized as provided in this Budget Strategy Paper. This can only be successful if there is effective coordination and unity in making strategic decisions at the ministry level.

2. **Budgeting for fixed costs:**

   All fixed costs must be prioritized first and foremost within the indicative baseline for Other Charges. Ministry Budget Committees (MBC) must ensure all fixed costs are properly allocated with funds for the rest of 2019. This include; all rentals, education and service delivery grants, mission grants, utilities, subscriptions to overseas bodies/organizations and contracts.

   Fixed costs can be easily be identified based on current and previous records of expenditure, contractual agreements, number of staffs on rental etc. and using this information, Ministries must allocate funds to cover the cost of basic ministry operations. **Budget Unit do not encourage virement applications in 2020 for fixed costs because of the failure of Ministries (through the MBC and FCs) to plan their budgets properly.**

   a) Utilities: paramount basic running costs of all Government Ministries, Offices and Agencies must be properly captured in the 2020 estimates. However, utilities bills must be carefully capped, managed and reviewed based on per capita spend in each Ministry and across divisions.
   b) House rent: although this qualifies as a fixed cost, house rent in recent years has increased to unsustainable levels and must also be managed properly within each Ministry.
   c) Subscriptions, licenses and fees: all service contracts and requirements must be adequately catered for. Where there are international commitments, these should be monitored as well.

3. Budgeting for discretionary areas of spend

10. Discretionary expenditures have been growing year after year without any significant improvement to the quality and coverage of public service goods and deliverables. **In most cases the cost of these services are inflated, they produce no clear service delivery outputs and are usually a significant waste of public servant resources and time**. The focus for 2020 Budget is **'Together, Driving Growth Through Productive and Resource Sectors'**. Therefore the priority for the 2020 budget and beyond is to grow and diversify the economy through improved public expenditures and investment. Therefore, all wasteful and excessive expenditures on consumables, travel, conferences, seminars and training will be reduced or stopped, to prevent Ministries from allocating funds to spending that doesn't contribute back to improvements in revenue collections and increased economic opportunities for all Solomon Islanders.

    a) **Motor Vehicles should not be funded annually**: Ministry requests for brand new motor vehicles will have to be tendered through the Ministry of Infrastructure. Unless the proposal of a new vehicle is specifically for increasing service delivery potential or generating income/ revenue for Government, these requests will not be considered. Ministries can either liaise with Ministry of Infrastructure Development or allocate funding for within the Other Charges Baseline and provide justification on the need to purchase vehicle.

    b) **Travel (both domestic and international)**: All FCs and Accounting Officers, through their MBCs are expected to develop a travel plan for the year, in consultation with their PS' and Minister to determine which trips are mandatory for SIG officials to take in the year. Ministries are requested to provide sufficient evidence that the planned trips are for the benefit of the country, rather than meeting ad hoc requests from external stakeholders. Unplanned international trips will not be funded in the 2020 budget during the execution phase and SIG will not be accepting virement applications or Supplementary requests for them unless they support the DCGA priority of expanding the productive sector and diversifying the economy.

    c) **Training and skills service development:** The Government must be transparent about the time and resources it invests in skills development and training versus actual service delivery. Ministries must be innovative and provide solutions for 2020 and beyond to maximize the benefits of public spending. **That means improving expenditure efficiencies and creating fiscal space internally to do more with less.** Ministries should consider having international experts to be brought into country for comprehensive training rather than sending multiple officers from different Ministries to the same course. Ministries must also consider using teleconference and video conference services where available.

       Ministries must ask themselves the following before putting together their training plans for 2020:

       a. Is the training of value?

b. Is it going to improve service potential to the Solomon Islands?
c. Is the training going to result in additional revenue or growth effects?
d. Is the training/ workshops/ conferences and seminars part of a previously assumed ‘mandatory’ requirement of SIG, though the outputs and benefits of these events have never been reviewed?

If the answer to any of these questions is ‘no’, then Ministries (along with their stakeholders) should reconsider organizing the same conferences, seminars and workshops that are conducting each year, with limited service delivery improvements or expansion of services. **Unless Ministries submit a training plan for the year and proper supporting evidence of a skills gap analysis for the Ministry, please do not include unnecessary training, events, workshops, conferences, seminars or consultations in your budget submission.**

2020 Budget templates and Priority Activities

Given the need for greater fiscal discipline and budget estimates that are aligned to the economic and fiscal outlook for 2020, **all Divisions in Government Ministries** must prepare 2020 work plans/ procurement plans prior to the budget formulation process and properly cost out activities and key spending areas so that allocated budget estimates against single or multiple account codes match their actual *needs* for 2020. The work plans should be able to clearly outline what activities could be possibly done with the available capacity in terms of manpower, expertise and other available resources in the Ministry.

Ministry Budget Committees must be active to ensuring ministries submit the required plans and also to share with ministries the necessary assistance to ensuring the budget process is completed within the schedule.

II. Recurrent Budget – (Payroll)

For 2020 Payroll Budget Strategies, three of the five 100 days DCGA priorities falls in the medium to long term strategies objectives of the Ministry of Public Service together with the Budget Coordination Committee to support the Human Resource capacity require of the Democratic Coalition Government for Advancement. The 2020, payroll Budget will focus on the following areas; the long service benefits Ministries will require to submit bids, however, it must be adhered to the requirement bids submission.

While we face with financial pressure to support our ongoing commitment on social delivery the social sector especially with health where quite number of nurses are going seeking employment overseas and the challenge of service gap to perform the higher nursing roles; similarly, the Education services with the propose plan of no Secondary Entry Examinations may require additional facilities and Human Resources and to maintaining law and order with the young growing population.

The Resource and Productive Sector is the focus of the DCGA hence the support to deliver the functions of legal mandates to maximise our service is a prerequisite. The support from the respective Ministries Corporate Services is to liaise with the Respective Head of Department. This is to support the Economic Growth of the country. While payroll submission is expected from these Clusters it is advisable for us to strategically do our Human Resource Planning.

This requires additional human resources with financial support; hence, it is important that all Ministries must commence the requirement and selection process to have the current vacant positions filled. It is a prerequisite for the Head of Divisions especially Directors and Financial Controllers to work with your Corporate Services to prepare the formalities of advertisement. Therefore, before preparing to submit for additional new positions, it is advisable to fill up your vacant positions. The advice here is if the vacant positions are not filled within six months period, MPS will liaise with you to reprioritise to other divisions or Ministries.

Succession planning is important for Ministries and Agencies to fill up the core positions in our Departments both for long term training and replacing the retirees. This is to manage the transitional and not to disrupt the continuity of service delivery in the Public Service.

Ministries who have signed the Memorandum of Agreement with the Ministry of Public Service and have already go through the Functional Review of your Organization Restructures. The Cost Neutral is the optimum option unless justifications and preparation for approval has to be done according to the requirements for approval. That is all the documents required especially the New Organization Structure together with the Function Statements of each divisions, adjustment costs and Job Descriptions of each positions. Therefore, Ministries who have shown interests for restructuring, it is advisable that your proposal must come through the Ministries of Public Service. This is for us to strategically work together to identify the challenges and assess our organizational functions and capacity gaps on our legal mandates, policy directives and strategic objectives/goals. The recommendations will then submit to the National Functional Review Taskforce before the Minister of Public Service approval.

It is of important that any increases of Ministry Establishment as a result of the Functional Review that are agreed should be affordable.

The Ministry of Public Service is conducting Human Resource reforms from medium to long terms strategic objectives, where it is anticipated to implement in 2020; these includes contracting of Under Secretary Positions across the Ministries and the review of Public Service Unified Pay Structure. These may also require additional financial resources. The approach we are undertaking on these reforms is should there be require of additional financial commitment, the Ministry of Public Service will liaise with the Ministries to identify saving within the Payroll. With the Term of Reference of the working groups have already commenced the consultations which we require your collaboration.

III. Development Budget

2020 Development Budget

The 2020 Development Budget focuses on funding the Government's prioritised programmes and projects under the priority sectors identified in the DCGA government policy statement. Year 2020 will be the first year to implement any new prioritized policy projects that the current government anticipated to achieve during its term hence a crucial year to decide on what the government will commit to deliver in the next four years.

2020 Development Budget Baseline Assumptions, Rules and Guidelines

Budget Baseline Assumption

The 2020 Development Budget will focus available resources on funding key ongoing investment programmes and projects with existing contractual obligation, those that are being implemented effectively and that are prioritised by the DCGA government.

Ministries are advised that 2020 Development Budget will not fund any new programs as funds will be allocated to reprioritised programmes/projects that are properly scoped, designed and costed that will deliver greatest impact nationally and grow the economy.

The 2020 Development Budget will continue to support programmes across all sectors based on the DCGA government's priorities whilst ensuring a fully funded budget to meet government contractual obligations but at the same time lessen the burden of arrears to government contractors and suppliers.

Budget Baseline Rules and Guideline

Contractual Projects

Ministries through its Ministry Budget Committee – MBC must deliberate and prepare its MTDP 2020 – 2024 and 2020 budget bid prioritising its contractual programmes and projects. The 2020 budget baseline would be allocated to most pressing contractual obligations that government must settle hence ministries are urged to differ any new contractual agreements anticipated for 2020. Ministries must ensure all contractual obligations both to be due in 2020 and outstanding ones are factored in the bid before considering allocating funds to other ongoing programmes that are not tied to any contracts or agreements.

Ongoing Programmes and Projects

Ongoing programmes will be prioritised for funding based on its implementation rate in 2019 in regards to efficiency and effectiveness in the delivery and achievements of the immediate outputs as per the indicators and targets at the output level as indicated in the logical framework. Output and activities recurrent in nature will be shifted to recurrent budget with allocation based on assessment.

New Programmes and Projects

The 2020 Development Budget will not consider any new Programme/project bid.

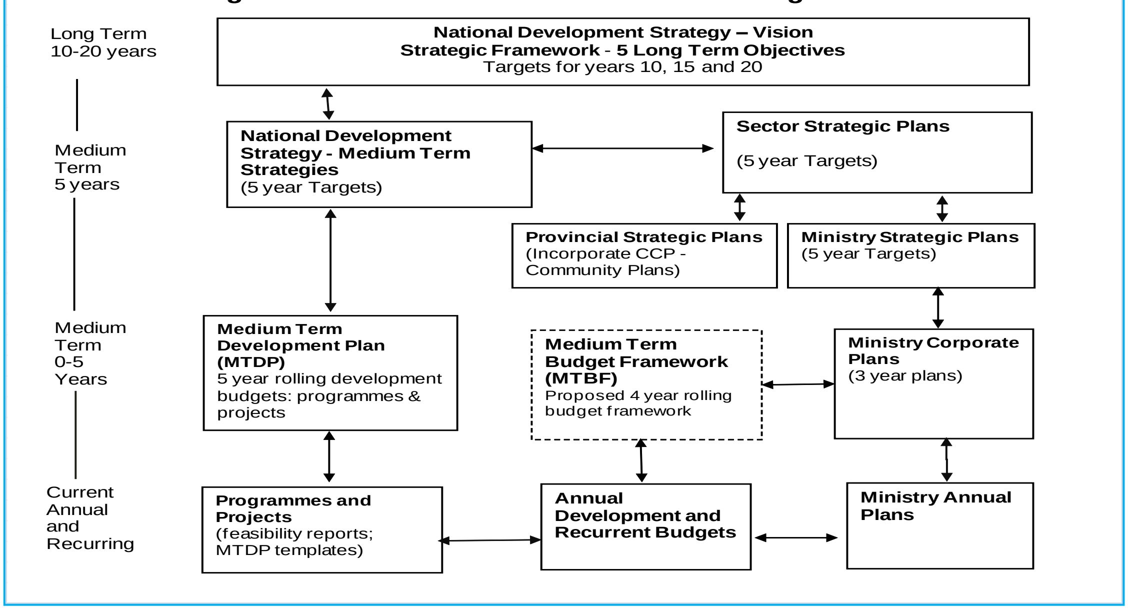
Non- Appropriated Funding

The 2020 Development Budget seek to show a more credible data on the non-appropriated donor funding, donors are kindly reminded for their support in providing the necessary data for the budget. In terms of funding information, all donors and implementing agencies are reminded again to provide information on programmes and projects being implemented in the country. This has to be improved in order to provide a complete report on both SIG and Donor support in implementing the NDS 2016 – 2035.

The Planning Framework

National Development Strategy (2016-35) & Medium Term Development Plan 2020-2024 (MTDP)

Figure 1. Structure of the NDS and Planning Process



The National Development Strategy 2016-2035 maps out a strategic direction for the future development of Solomon Islands. It presents a visionary strategy for the next twenty years, setting out a long term vision, mission and objectives that reflect the aspirations of all Solomon Islanders. The NDS covers a twenty-year period to provide a longer term framework for planning and is the vehicle to implement the global Sustainable Development Goals (SDGs) as well as the Samoa Pathway, IPoA and other regional and international commitments that Solomon Islands signed up to.

The NDS is implemented through the rolling five year Medium Term Development Plan (MTDP) which outlines key medium term priorities and medium term strategies (MTS). The first year of the rolling MTDP sets the planning priorities for the Annual Development Budget. Thus in this case, for this MTDP 2020 becomes the first year and hence will be considered as the budget brick for 2020 Development Budget. The MTDP and the annual budget as the implementing vehicle for the NDS must be properly scoped, designed and costed with measurable indicators and targets to realise the results of implementation contributing to achieving the overall NDS targets and indicators in the short, medium and long term.

Figure 1 shows the structure of the NDS and its linkage to the sector strategic plans, provincial strategic plans (including constituency, ward and community development plans), ministries strategic/corporate plans and the annual work plans and budgets and vice versa. Hence depicts a holistic linkage of the three budget components (recurrent other charges, payroll and development) thus form the basis for resource allocation for implementation of these plans and development programmes/projects.

Development Budget Implementation Report

The 2018 Development Budget Implementation Report is the third monitoring and evaluation report produced by the Ministry of National Planning and Development Coordination (MNPDC) in collaboration with line ministries. The report provides up to-date information to Solomon Islands Government and its development partners on the overall progress of the development budget implementation for 2018. The report continues to evaluate progress in the delivery of planned outputs and achievements per target indicators. It also reviews the efficiency and cost effectiveness of programme implementations and further examined the strengths and weaknesses from project design states through towards implementation against performance on project outputs and its linkages to the development priorities set in the Medium Term Development Plan (2018-2020). The NDS and MTDP include an M&E Performance Framework at the strategic NDS level, showing alignment with the Sustainability Development Goals (SDGs), and at the programme and project level.

The report is part of MNPDC's monitoring and evaluation framework to measure progress towards achieving the objectives of the National Development Strategy (NDS 2016-35). The first NDS performance report was produced in 2017 under the (2016-35) plan with the next full report to be produced in 2020. This report covers only SIG appropriated expenditure during 2018. In the future, it is hoped to include a summary of non-appropriated expenditure (i.e. expenditure on projects financed by development partners).

A bi-annual reporting system was first introduced in 2016 for line ministries to monitor and report on project and programme achievement. This is currently output focused and forms the basis for this report. The reporting template does includes the anticipated programme/project outcome, and the NDS/MTDP objective that the programme/project is anticipated to contribute to. Currently this linkage is weak for many programmes and projects, but efforts are being made to improve the quality of this results framework.

Programmes performance ratings were done using Traffic Light Rating system. Analysis from the report shows that in Economic Sector, most outputs are progressing well with only minor issues thus it can be determined that implementation of economic sector programmes are heading in some encouraging directions. In rural development and other social sectors, a high number of outputs have significant issues and are off track with the risk of likely failures if there is no proper action or strategy put forward to solve some of the ongoing challenges. This hinders smooth implementation of activities as per their targets. Programmes in the environment and education sectors are performing well with only minor issues, but in health sector where almost no progress has been made, urgent actions need to be undertaken to deal with problems affecting output achievement. Performance in the public governance and safety sector was mixed but generally as usual for the past three (3) years.

The Traffic Light Reporting was used to analyse the implementation status of outputs using criteria consistent with the MNPDC Project/Programme reporting templates launched in 2016. The MNPDC M&E team checked the self–assessment traffic light assessment provided in the line ministry's report and subjected them to further analysis to verify and/or amend the assessment. An output was ranked "green" if it was progressing broadly as planned and within acceptable variances; "yellow" if there were minor issues considered recoverable; "orange" if there were significant issues that may derail the project if not addressed; "red" if the output was off track requiring urgent management attention to deliver, defer or abort; and finally 'cream" if the status of the output could not be verified either because reporting was incomplete or absent.

The report has found that there were a number of issues which continues to appearing quite significantly in the development budget for almost three years now since 2016. But efforts to address these issues remain challenging as some are beyond MTDP management process which may require some policy adjustments and political support.

8. STATEMENT OF RISKS

Fundamental to the fiscal outlook are risks to the Budget which could be as a result of general developments or specific events.

Although the government is committed to maintaining fiscal stability and discipline in 2020, there will always be some destabilizing factors that could possibly have negative impacts on the fiscal outlook or the implementation of the 2020 Budget. In consideration of these instances, it is important to outline some of the specific risks to the 2020 Budget.

I. **Deviation from DCGA policy priorities.** The government has made it very clear that 2020 is *not business as usual* and the priority will be towards the productive and resource sectors. This requires budgets to be allocated towards the specific sectors being prioritised to be able realise some progress on the development activities or growth opportunities for investment in the sectors being identified. With the limited resources government can afford to collect, and to be able to see progress in implementing the priority programs, ministries must only focus on implementing just a couple of necessary programs that can be achieved within the available budget. If ministries have other key priorities as well apart from that of DCGA, then it is likely that the budget will be thinly distributed across all the priorities and this can lead to incurring arrears or additional pressures which cannot be funded within the affordable level government can afford to collect for 2020. This is a risk to the approved budget passed in Parliament.

II. **Supplementary Budgets**: The provision of Supplementary Appropriations as per Section 51 of the PFM Act require that the Minister be satisfied that **'an urgent and unforeseen need has arisen and that issues must be authorised from the consolidated fund to meet that need'**. Any Supplementary budget request must be made on the basis that it is **urgent AND unforeseen.** However, this provision of the Act is used annually as a way to correct Ministry budgets, increase Ministry budgets to include spending proposals that were rejected during the budget proper, and mistakes or oversight as a result of poor planning during the formulation stage. This have significant impacts on the entire formulation process and brings into question the validity of annual Appropriations that are approved in Parliament.

This common practice is inhibiting the ability of Ministries to effectively plan for their spending requirements annually and is preventing the Government from effectively expediting PFM reforms such as multi-year budgeting as a result of annual, in-year appropriations being altered and revised constantly.

The approval of additional funding through supplementary appropriation is also a risk to the Budget especially when government may not afford to collect additional revenue to fund these unbudgeted pressures. It is important to understand that additional and unforeseen expenditures should always be approved only if Government is able to collect additional revenue on top of the appropriated budget. To maintain stability or fiscal discipline, if the government is unable to collect additional revenue, a mid-year review should be conducted in all Ministries and a reprioritisation exercise could be an option for reallocating resources from other budgeted items to fund the unbudgeted pressures. Approving additional expenditures without securing revenue to fund these pressures is a risk to fiscal stability and reduces the ability of the budget to be used as a vehicle for policy delivery. Reprioritisation or making a lot of adjustments within the approved budget may also tarnish the credibility of the budget approved in Parliament as well. It is important that the government maintains spending within the approved limit passed in parliament or approved supplementary only when there is additional revenue secured and after Ministries have conducted comprehensive budget implementation reviews before seeking additional funding.

III. **Tertiary Scholarship Awards:** The tertiary scholarship awards scheme is a medium to long term commitment of the Government, however the policy may continue to pose risk to the 2020 Budget if not carefully costed and managed within how much Government can afford to allocate for scholarships each year. It is important that proper costings be prepared during the budget formulation process to ensure there is sufficient funding to cater for the whole year, rather than seeking additional funding after the budget is passed in Parliament.

IV. **The 2023 South Pacific Games**: Government is committed to allocating funding towards the 2023 South Pacific Games over the next four years. To successfully host the Games in 2023, adequate resources must be allocated towards this event to have the full extent of infrastructure and servicing requirements catered for over the preparatory years. Although the Government has secured support from other development partners, it must maintain its commitment by having a dedicated secretariat to oversee the extensive preparations and regular participation and inputs from the Ministry of Finance and Treasury, Office of the Prime Minister, Ministry of National Planning and Development Coordination, Foreign Affairs, Home Affairs, Infrastructure, Commerce, Industry, Labour and Immigration and finally Public Service. If Government is unable to maintain effective coordination and dedication in the preparatory stage within a reasonable budget, some of the infrastructures may not be ready by 2023 or that the government may not afford to maintain its commitment in terms of its budget. All infrastructure investments must be maintained after the Games for future domestic and international events.

V. **Recurrent Payroll Budget**: The Ongoing increase in revised rates for certain allowances across SIG is a pressure to the Budget as well as the vacant positions that were budgeted for in 2019 but were not filled. Any claims that were not budgeted for must be properly assessed and ensure that funding is available prior to approving such submissions. Government budgeted for about 1,448 vacant positions in 2019 payroll budget, however these positions were not filled. The Government recognises the importance of having an effective and efficient workforce, however is equally important that the increasing rate of manpower must also actively perform to deliver government's services to the people as

VI. **Development Budget**: The 2020 Budget is committed to focus on key priority projects of DCGA including any ongoing contractual commitments that will continue into 2020 and are prioritised by the government. If ongoing contracts are not properly allocated with Budget, it will pose risk to the 2020 Budget. Ministries will have to only focus on the key priority projects approved by DCGA, any other projects should not be approved to avoid incurring outstanding bills for the Government to pay due to no funds to cater for them. The Government would like to only focus on some key projects that could pave the avenue for growth and commercial activities to ensure development is progressing and not just business as usual.

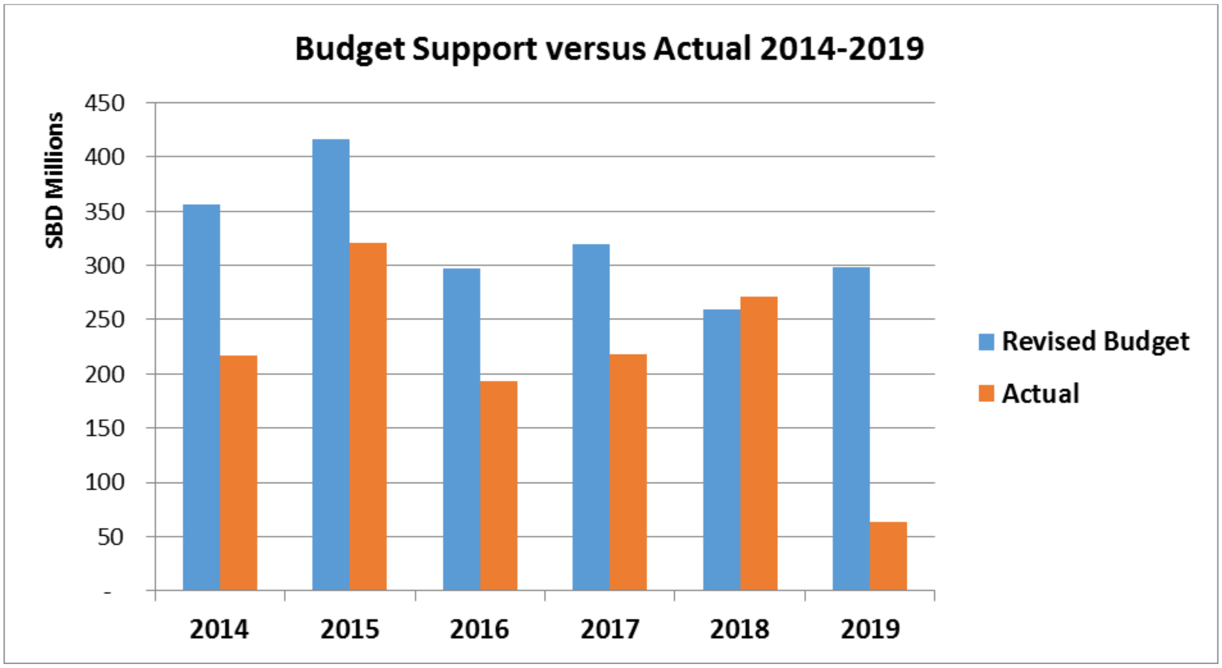
9. DONOR CONTRIBUTIONS AND 2020 BUDGET TIMELINE

I. Donor Contributions

The Ministry of Finance and Treasury (MoFT) and the Ministry of National Planning and Development Coordination (MNPDC) are working closely to strengthen the coordination with Donor partners to get revenue estimates through Budget Support as well as non-appropriated funds for 2020.

The ongoing challenge over the years is having to get the revenue estimates from development partners in a timely manner when the budgeting process starts relating to contributions from donor partners for each financial year. Ministries receiving donor support are committed to ensuring estimates are received to be included in the 2020 Budget Strategy document once finalised.

The graph below shows the trend of Appropriated Budget Support estimates against actual budget received from 2014 – 2019.



The graph illustrates that actual budget received in 2018 is 5 percent or $11.9million above the 2018 revised budget. The 2017 actual budget is around 32% less than the revised budget of $320 million. Revised Budget estimate for 2016 is $297 million and actual budget received by SIG is $193 million or 35% less than the revised budgeted estimates. 2015 recorded the highest actual budget support received in the 5 year period which recorded $320 million, although is about 23% less than the revised budget estimate for that year.

II. Key Dates

Ministries are strongly reminded to adhere to the Key dates as outlined in the **2020 Budget Timetable as *Attachment A***. This will allow the coordinating ministries to finalise ministries submissions and to submit to Cabinet within the expected time.

10. CONCLUSION

This document provides the framework in preparing the 2020 Budget in accordance with section 45 (1) (a) (b) of the Public Financial Management Act 2013. Given the overall macro-fiscal estimates and parameters Government has used to prepare the 2020 Budget, it is of paramount importance that all ministries adhere to the guiding principles and the operating rules laid out in this document when preparing their 2020 Budget submissions. All ministries are to ensure that all service grants, fixed costs, subscriptions to international organisations, and most importantly Government's ongoing contractual commitments both in the recurrent and development budgets must be adequately funded or given priority when preparing the 2020 Budget.

Any contributions to co-funded activities or bilateral and multilateral agreements must be properly costed and in compliance to the SIG National Budget Process

The DCGA is committed to focusing on the productive and resource sector. Ministries are therefore required to allocate resources to areas of growth and service delivery outputs only. It is therefore important that Government is committed to funding all its priorities, essential services and fixed costs within the affordable level of revenue estimates for 2020 to maintain fiscal stability in Government finances and for a healthy and better Solomon Islands.

Attachment A: The 2020 Budget Timetable

Key Milestones	Comments	Action Areas	Deadline
1. Budget Coordination Committee and Budget Strategic Committee Deliberations on Budget Strategy for 2020	The BCC preparation for the 2020 national budget requirements and BSC to formulate an appropriate national budget strategy for the Democratic Coalition Government for Advancement, maintaining expenditure within fiscal parameters, providing fiscal space for new initiatives and development budget; and building of cash reserves. To be agreed to by Cabinet before the budget launch.	BCC BSC	26th June - August 2019
2. Budget Launch **Key Audience:** PS's, Management Teams/ Budget Implementation Committee members, Chief Accountants, Planning Officers, Heads of Divisions, donors and other important stakeholders.	The launch to outline the approved National Budget Strategy, Process, consultations with line ministries and timeline. It will cover: (a) recurrent; (b) development budgets [appropriated]; and (c) payroll [establishment] processes and time line. Following the launch, ministries will be able to collect: (i) Baselines (ii) Templates (iii) Bid Proforma	MOFT MNPDC MPS Ministries Donor Partners	2nd September 2019

Foundation Document: Finance Circular.	Donor partners will be able to collect: (i) Budget projection forms. (ii) DP implementation update templates Required to be submitted for the consolidated budget on time.		
3. Detailed Ministry Consultations to assist them with finalizing their 2020 Budget Submissions	This consultation provides an opportunity for Ministries and donor partners to formally meet with the Budget Unit, MPS and MNPDC to engage on discussing any issues they have with submitting their baseline budgets or managing how to allocate funds against DCGA policy priorities and new proposals, within their budget ceilings for 2020. Filling in their Ministries Cash Flow Templates and Output information to align work plans with budget allocations. Ledger 3 proposals financed by development partners to be discussed to ensure appropriate distinction between recurrent and development budget proposals and associated documentation. Ministries outline Development Budget Contractual Commitments.	MOFT MNPDC MPS Ministries	2 - 6th Sept 2019 Schedule of consultation attached.
4. Budget Submissions Due Critical that EACH Minister signs off on Budget Submissions proposed to be financed by SIG, otherwise they will not be considered.	Recurrent baseline with Cash flow template and Development Budget (contract) Submissions including budget support due to be submitted to MOFT and MNPDC	MOFT MNPDC MPS Ministries	27th Sept 2019
5. Collate Budget Submissions	This is an internal MOFT and MNPDC tasking process. Designed to ensure all submissions are complete and able to be	MOFT MNPDC and MPS [as	30th September

	assessed as submitted. Allocate to Recurrent (MOFT) or Development (MNPDC) budgets for appraisal.	required]	
6. Review and Appraisal of Budget Submissions	All submissions to be reviewed in terms of their consistency with Budget strategy and the DCGA priorities, e.g.; • Meets Government priorities • Contribution to MTDP • Rate of return and cost-effectiveness • Transparency and credibility • Capacity to be implemented • Within fiscal envelope/ no debt implications Draft Budget Proposals proposed by MOFT and MNPDC	MOFT Budget Unit ERU FEDU IRD Customs MNPDC	1st to 8th October
7. Initial Review by Government	Central Agencies (through BSC) review draft proposals and final assessments from the BCC on the 2018 Budget Submissions and recommendations	MOFT MNPDC PMO MPS	10th of October
8. Feedback to Ministries	Following review of draft budget proposals by the BSC, Ministries can receive feedback on the position in relation to submissions and baselines for agreed positions that will be recommended to Cabinet. Explanations of success or rejection of particular submission will be discussed in terms of their fit to agreed criteria for the budget. This also provides a basis for Ministry PS's to brief their Minister on recommendations being made to Cabinet.	MOFT MNPDC	11th to 14th October
9. Final Position to Caucus/ Cabinet	This will include Final Budget Strategy Submission including: (i) Medium Term revenue and expenditure (ii) Summary budget for each head and development project linked to	MOFT MNPDC	17th October

	priorities agreed to by the Government at the start of the year and expected deliverables. Risks in terms of revenue or expenditure constraints, capacities of Ministries.		
10. Budget Cabinet	Budget decisions on revenue, recurrent bid allocations, and development allocations to be tracked and updated as decisions are made.	MOFT MNPDC	24th October
11. Draft Budget to PAC	Draft Cabinet Approved Budget scrutinised by PAC	MOFT MNPDC	4 – 15th of November
12. Budget Papers Preparation and Presentation to Parliament	All budget papers are prepared and printed. Following the 2nd Reading or “Budget” Speech, papers are tabled in Parliament and considered by the Supply Committee. Following the Budget vote, Royal Assent to be sought.	MOFT [with Input from MNPDC on Development Budget Documentation]	18 – 29th November
13. Warrant release	Following Royal Assent, warrant releases to Ministries by MOFT. This will include the work plan templates in preparation for the new financial year work activities. (iii) Will include all fully documented appropriated development projects.	MOFT Ministries.	December 31st