



**Finance Circular Number: 01/2022**

## **2022 BUDGET STRATEGY and OPERATIONAL RULES**

**To: National Parliament  
Ministers**

**Date: 24<sup>th</sup> February 2022**

**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 2022 National Budget is: **“Building Our Resilience: Laying Strong Foundation for Growth”** The theme is built on the spirit of “building strong and better”, government’s economic ability to adapt and withstand the ongoing impacts of the COVID 19 Pandemic and damages caused to businesses by looters in November 2021.
2. Under a top down approach, the DCGA has revised its 2022 policy priorities to reflect the changing health and economic environment faced by Solomon Islands since the community transmission outbreak late in January 2022. The government has revised its objectives to living and overcoming COVID 19 by effectively controlling and managing community transmission to protect our vulnerable citizens; and to accelerate economic recovery in the short to medium term.
3. The top policy commitments of the government are to urgently respond to COVID 19 outbreak, reconstruction of business buildings damaged during the recent unrest and maintain our domestic economy afloat and accelerate economic recovery.
4. The 2022 Budget Strategy Framework demonstrates DCGA’s ongoing efforts to response to the ongoing adverse impacts of the COVID Pandemic by streamlining government operations and support essential services through managing critical costs pressures, lay strong foundation for growth through focusing resources to targeted investments that will accelerate economic recovery in the short to medium term while at the same time strengthen macro-fiscal stability and discipline and build back SIG finances to a sustainable level.

5. The Government remains committed to prioritise the Productive and Resources sectors. These two sectors are drivers and enablers of economic growth. The government plans to narrow down and focus project to those that have already started in 2021 and that are expected to yield higher economic returns in the short to medium term.
6. The Government encourages effective collaboration and coordination amongst all ministries in terms of planning and implementation of the 2022 budget, ensure sectors establish working relationships to address cross-cutting needs through cost sharing arrangements to fast-track implementation of government priorities to the people of Solomon Islands.
7. The government is planning to have a planned deficit of \$409.6 million. The deficit is attributed to the development budget and the government will work within the Debt Management Framework and PFM Act 2013 requirements to ensure funding is secured through external and domestic borrowing to fully fund the funding shortfall.
8. Ministries are therefore required to strengthen their internal budget coordination and preparation to ensure adequate resources are allocated towards Government's priorities in the 2022 Budget. As such, all ministries' corporate and annual work plans for 2022 must align to the DCGA's policy priorities and mandated functions, as well as the Medium Term Development plans (MTDP) and National Development Strategy of Solomon Islands.
9. The man power requirement for 2022 is the same as the 2021 Budget. The government through the Ministry of Public Service will continue to support the human resource capacity across ministries, prioritising the productive/resource sectors including essential services. Ministries are kindly asked to collaborate with the Budget Coordinating Committee (BCC) through the Ministry of Public Service and adhere to the guiding strategies highlighted in this document for 2022 human resource priorities.
10. Given the tight fiscal position the government expected in 2022, there will be no bid allowed or accepted for payroll and other charges budget. Ministries will only be provided with baselines and it is required that ministries strategically realign priorities within given baselines, do away with unproductive activities and only consider those that are urgent and important (cannot be delayed or deferred) in 2022 financial year. This is to ensure that the fiscal ceiling that has been set is not exceeded by expenditure which could add more pressure on the current situation.
11. 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.

## Table of Contents

1. MINISTERS FORWARD .....	4
2. INTRODUCTION .....	6
3. GUIDING PRINCIPLES OF THE 2022 BUDGET .....	7
4. POLICY DIRECTION AND BUDGET PRIORITIES 2022 .....	7
A. Community Transmission Response Policy .....	8
B. Economic Response to COVID 19 Community Transmission.....	9
C. Economic Response to the 2021 Civil Unrest .....	12
D. Fundamental Sector .....	13
E. Productive Sector .....	16
F. Resource Sector .....	17
G. Social Sector.....	19
5. OVERALL 2022 BUDGET STRATEGY .....	20
(i) Macroeconomic Outlook .....	20
(ii) Debt Outlook .....	34
(iii) Loan and Financing .....	36
6. THE 2022 BUDGET PARAMETERS AND ESTIMATES.....	38
(i) Fiscal Strategy for 2022 Budget - Revenue .....	38
(ii) Fiscal Strategy for 2022 Budget – Expenditure.....	39
7. OPERATING RULES AND GUIDELINES .....	42
i. Recurrent Budget (Other Charges) .....	42
ii. Recurrent Budget – (Payroll).....	47
iii. Development Budget .....	50
8. STATEMENT OF RISKS .....	54
9. DONOR CONTRIBUTIONS.....	56
10. CONCLUSION .....	58

# 1. MINISTERS FORWARD

In accordance with *section 45 (1) (a) of the Public Financial Management Act 2013*, I am pleased to present to the National Parliament the 2022 Budget Strategy and Operational Rules.

This Budget Strategy sets the framework for Government's 2022 Budget. The 2022 Budget Strategy Framework builds on the 2021 budget priorities and continues to demonstrate the Government's ongoing efforts to contain and manage the transmission of COVID 19 pandemic and maintain our domestic economy afloat and recover. This document provides guide to the formulation of the 2022 Budget and will constitute the content of the Government Budget in the 2022 Financial Policy Objectives and Strategies, Volume 1 as according to section 47(a) of the *PFM Act 2013*.

The draft 2022 Budget has been revised to capture the recent series of economic shocks faced by the Solomon Islands in the recent months, the civil unrest in November 2021 followed by community outbreak of COVID 19 in January 2022, particularly in Honiara but also increasingly in other provinces. These shocks are expected to further worsen government's economic projections in 2022.

Solomon Islands economy is projected to grow at -4.5 per cent in 2022 from -0.2 percent in 2021. This reflects the contraction in key sectors such as wholesale and trade, construction, manufacturers, financial intermediation, public Administration and other business services as a result of the civil unrest associate with the current covid-19 community transmissions. This growth projection expects SIG to collect \$2,972.9 million for budget year 2022.

The Budget 2022 is developed to build a Resilience Budget, a budget that focuses resources to improve the ability of the government to build a resilient economy, one that will maintain stability and response to the ongoing impacts of the COVID 19 Pandemic.

The urgent policy commitments of the government will be focused on three priority areas; (1) response to effectively control and manage COVID 19 transmission in Honiara and provinces, (2) reconstruction of buildings destroyed during the recent civil unrest including support to affected businesses and (3) implementation of new economic initiatives to support economic recovery.

The 2022 financial year will be a very challenging year. The Government has less than 8 months to implement its key policy priorities. Hence, the Government through PIMEU will strengthen its monitoring and evaluation of government policy and investment priorities. Therefore, encourage all line ministries to improve sector coordination and collaboration in terms of planning and implementation of the 2022 budget, ensure sectors establish working relationships to address cross-cutting needs through cost sharing arrangements to fast-track implementation of government priorities to the people of Solomon Islands.

The government plans to operate a deficit budget of \$409.6 million in 2022. Any additional funding request by ministries must be sourced from additional funding secured by the government before consideration in

2022. The government will work within the debt management strategy requirements and ensure funding is secured through external and domestic sources to fully fund the deficit.

**I call upon all Permanent Secretaries to deliberate through your Ministry Budget Committees and scrutinize each divisional budgets to ensure 2022 Budget fund only key priorities and mandated functions for recovery and delivery of essential services.**

A handwritten signature in black ink, appearing to read 'H. D. Kuma', is positioned above a horizontal red line.

**Hon. Harry D Kuma**  
**Minister of Finance and Treasury**

## 2. INTRODUCTION

This Financial Circular is required under *section 45(1) (a) (b) of the Public Financial Management (PFM) Act 2013*. 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 document represents another series of DCGA's fiscal plans developed to guide the formulation and implementation of the 2022 National Budget. Premised on the Government's top down approach, the governments is determined to further streamlined and better focused government policy priorities and spending plans to ensure realistic and tangible development is realised within a financial year to move our country forward in the face of political, health and economic challenges facing the country.

The strategy is developed within the parameters of the overall macroeconomic performance and projections of the economy in 2022. The government strives to ensure the revenue estimates are realistic and based on conservative modelling and assumptions. Ensure the expenditure ceilings for 2022 are constructed within the economic parameters and more so, resources sourced by the government from external and domestic sources within the debt management framework.

**The first section** contains the macroeconomic outlook of the economy for which the revenue estimates for 2022 has been developed and subsequently follows by a summary of key economic indicators and assumptions. This information together with the DCGA policy priorities form the basis in framing the 2022 National Budget, and in continuity with the policy redirection that was set for the 2021 National Budget.

**The second section** sets out the operational rules and guidelines that all ministries are to adhere to while preparing baseline submissions. Activities captured in the baselines must reflect the government's policy priorities and functional mandates, to ensure public resources are implemented prudently by the requirements of the PFM Act. These activities are expected to align clearly towards planned outputs achievable within a realistic timeframe. Contractual commitments, fixed costs and other essential services are to be ring-fenced within baseline budgets.

The Budget Strategy document seeks to remind all ministries of the purpose of the **PFM Act in sections 5 and 6(a) and (b)** which emphasize sound public financial management practices across government ministries through the administration of the Consolidated Fund and other public resources according to **Budgeted Priorities of the Government**.

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 four key Central Ministries and Office that are members of the Budget Strategic Committee for the Government.

### 3. GUIDING PRINCIPLES OF THE 2022 BUDGET

The 2022 Budget Theme is **“Building Our Resilience: Laying Strong Foundation for growth”**. The theme is built on the spirit of “building strong and better”, government’s economic ability to adapt and withstand the ongoing impacts of the COVID 19 Pandemic.

The DCGA recognizes the potential that Solomon Islands has in terms of its natural resources and manpower to support its recovery initiatives in 2022. The government believes that by putting resources to key targeted areas of our economy. Solomon Islanders will be able to see tangible outcomes in the short to medium term. Adapting and building a strong economic foundation will certainly strengthen the ability of the government to withstand adversity. In this thrust, the government lays the following principles to support the formulation of the Budget 2022.

- a) **Continue to strengthen our domestic COVID 19 response ‘fire walls’ and ensure all Solomon Islanders adapt and response effectively to the COVID 19 community transmission and to protect our vulnerable citizens.** Ensuring the government supports COVID 19 vaccination rollout program to achieve 90 to 100 percent fully vaccination by June 2022, and open our borders to boost domestic and international trade to build our resilience.
- b) **Streamlining and refocusing development investments to projects that yields high economic returns** - Investments to be targeted and prioritised with the realistic level of budget resources to avoid wastage and unnecessary spending of limited resources. Investments selected based on the expected returns that will be obtained and with tangible results according to policy priorities. Furthermore, this principle seeks just the right amount of investment to prevent thinly spreading the budget resources where full implementation would be difficult to achieve, owing to capacity and the level of available resources issues amongst other competing functions of ministries.
- c) **Improving the quality of spending through managing critical pressures.** Ministries are encouraged to improve their internal budget planning and coordination, to conduct thorough review of ministry submissions. Ensure divisional plans are aligned to ministry’s key priorities provided with well costed spending plans, apply value for money principles of cost effectiveness and stop wasteful spending that does not benefit the government and the people of Solomon Islands.
- d) **Strengthen macro fiscal stability and discipline and build back SIG finances.** Despite the slow progress, the fiscal challenge remains in the short to medium term. The government is committing to a planned deficit and ensure government spending is focused to growth initiatives and at the same time ensure essential services, health, education, national security, and other major social services are not disrupted but continued to be delivered to all Solomon Islanders.

### 4. POLICY DIRECTION AND BUDGET PRIORITIES 2022

The Budget 2022 is one of the critical and important budget for the people of Solomon Islands. This is the second budget of the DCGA after the outbreak of the COVID 19 around the globe and into our domestic front since 2020. The government had implemented series of policy measures to mitigate adverse impacts of the COVID 19 through the 2020 supplementary budget and 2021 budget. The fight against the pandemic is not over yet, health and economic challenges remains critical as countries continue to experience increasing number of positive cases.

The budget 2022 will be operating under a backdrop of two devastating events, the November 2021 riot and the COVID 19 Pandemic community transmission. This is why Budget 2022 is developed to be a Resilience Budget, a budget that focuses resources to improve the ability of the government to build a resilient economy, one that will maintain stability and withstand ongoing impacts of the COVID 19. In principle, an economy must have a strong foundation in order to be resilient and economic recovery can be achieved afterwards.

## **A. Community Transmission Response Policy**

### **Living with and Overcoming COVID19 (C19): Containing and managing the COVID 19 Outbreak**

The top priority for the government has to be containing and managing the community transmission outbreak in the country, preserving livelihood and protecting the most vulnerable members of our population. The uncertainty in how long the pandemic will continue and the fact that we now have a community transmission demands resources to focus on improving both our health institutional capacity and improvement in medical and health care facilities around the country. The priority for SIG and its development partners for 2022 must focus on the following;

- Implementing a clear vaccination strategy and strengthen medical infrastructure to contain the threat in communities.
- Improving our capacity to deal and respond effectively with similar health crisis of such magnitude in future.
- Strengthening our institutional capacity through the development and passing of the Health Bill and other additional subsidiary legislations and policies.
- Strengthening and Resourcing our agencies and frontline personnel (Health, Police, Immigration, and Quarantine) and set up of necessary infrastructures

Living with the virus and overcoming it through implementation of all the 10 strategies and measures, which includes;

1. Regulating movement of people in and out of Emergency Zones.
2. Efficient rollout of nationwide vaccination.
3. Distribution of basic PPEs including facial masks (fabric masks to be distributed free/subsidized), surgical gloves (if possible but not necessary) and hand sanitizers.
4. Prioritizing the vulnerable.
5. Provincial Isolation Centers.
6. Support business operations.
7. Reopening of borders.
8. Communication.
9. Coordination.
10. Fundamental Reforms to support C19 response objectives.



## **B. Economic Response to COVID 19 Community Transmission**

### **Accelerating Economic Recovery: Lay foundation for growth**

The focus of the Budget 2022 is building our resilience to progress economic growth and keeping our economy afloat. Our domestic economy has shown positive growth in the midst of uncertainty and therefore the government is encouraged to lay foundation for strong growth;

- Streamline and focus ongoing growth initiatives under the productive and resources sectors
- Adapt to the new trading environment and create economic opportunities to Solomon Islanders
- Improve capacity and increase the ability to withstand the ongoing impacts of the COVID 19

Given the limited resources available, it is important to focus financial resources on targeted economic sectors and industries that can meaningfully generate and stimulate economic growth and augment our recovery effort post pandemic.

### **Fiscal measures**

Given the tight limited fiscal space, several expenditure areas have been identified by the Ministry of Finance and Treasury (MoFT) as a critical priority. The priorities listed below will ensure the government can continue to deliver essential services to all Solomon Islanders.

- Provincial health care grants, to match the rising pressure on health care provision in the provinces,
- Quarterly service grants to provincial governments, given the possibility of lockdowns in some provinces,
- Utility payments – these fixed costs must be honoured,
- Communication contract payments, to ensure SIG communication channels remain open,
- COVID-19 emergency accounts payments (pending interim budget availability),
- Police general and COVID-19 operations, to ensure both day-to-day security operations, and
- Increase the Annual Borrowing Limit (from the initially approved SI\$350 million).

To mitigate the impact of COVID-19 on public finances, proposed medium-term measures include increasing government borrowing (such that debt levels remain sustainable) and reviewing the Public Service labour force. In the short-term, following expenditure and revenue measures are proposed:

- a. Ensure that all essential Government machineries are operational even during a lockdown;
- b. Rationalizing government resources to focus on the productive and resources sectors and create funding space for priority commitments the Government may want to implement in 2022
- c. Reviewing public service COVID-19 allowances;

- d. Introducing new revenue measures, which will imposing export duty on minerals. The Government will also strengthen compliance and introduce new operations within Customs/Excise and in the Inland Revenue Division.
- e. The Government will also review the Treasury Bill with the intention to increase the issuance limit. The Annual Borrowing limit will also be reviewed to align with the planned commitments in the 2022 Development budget.

Inland Revenue Division and Customs and Excise Division will both implement measures in 2022 to strengthen revenue administration and compliance in 2022. These measures are expected to impact positively on overall revenue collections, and include:

- a) Inland Revenue Division (IRD)
  - i. Increase compliance activities on businesses sectors operating as normal
  - ii. Increase collaboration with provincial IRD staff to improve compliance
  - iii. Work on tax debt recovery
- b. Customs and Excise Division (CED)
  - i. Increase investigation activities in areas where revenues have dropped unexplainedly
  - ii. Implementation of the re-structuring within the key executive, including filling of vacant positions in the organization
  - iii. Strengthen the examination and approval of exemption applications

**(Details are captured in the Fiscal and Economic Response Paper)**

## **Economic Measures**

A key priority for the DCGA is to continue building economic resilience and focus on policies that will promote economic recovery and growth. To mitigate a further deterioration of the economy and to promote economic recovery across all sectors of the economy (including trade and investment), it will be critical for borders not only to open internally, but also internationally by mid-2022. A strong alignment with the COVID-19 National Response Plan will be required to ensure these objectives can be met – most importantly through ensuring the efficient and effective rollout of the COVID-19 vaccine.

The government could implement the following measures to stimulate domestic economic activity. These include:

### **Short term**

- Promote domestic and international trade in cash crops (including copra and cocoa) and timber through subsidizing domestic shipping services to facilitate trade between rural areas, the domestic market, and main export hubs.

- Review and standardize border exchange mechanisms at the Honiara Emergency Zone to ensure continued market access to rural farmers and avoid food shortages with associated rising consumer prices (inflationary pressures) within the emergency zone.
- Provide, where needed, capital injections to large State-owned Enterprises (SOEs) that are critical to the economy, as well as large private sector firms that contribute substantially to employment creation and domestic value-added.
- Tax administration measures, including i) the recalculation of provisional tax; ii) extending tax filing deadlines; iii) assess temporarily allowing PAYE tax relief for three to six months; iv) revising the PAYE threshold and tax brackets; and v) providing tax exemptions on health items to make them more affordable. The last of these recommendations has already been granted by way of a Ministerial order in 2021.

### **Medium term**

- Support the domestic agricultural sector through i) leveraging on the new diplomatic relationship with China and other South-east Asian countries to expand international market access for local exporters; ii) gain accreditation to ISO standards for local commodity exports to promote international competitiveness; iii) promote investments in biosecurity technologies to comply with standards applied in potential export markets; and iv) facilitate access to finance through the Development Bank of Solomon Islands (DBSI) and CBSI credit facilities to assist domestic producers and exporters.

### **Long term**

- Promote value-added for domestic consumption and export in key sectors, including agriculture, forestry, fisheries, and minerals.

Underpinning the above, an environment conducive to economic activity, trade and investment must be promoted, albeit finely balanced with health-related aspects. As noted above, even the most minor lockdown is likely to have a negative impact on the economy, including loss of employment as businesses scale down operations, and increasing inflationary pressures in line with shortages of goods and services. Government finances are likely to be affected, and financial institutions could also come under stress with a build-up in loan arrears.

**(Details are captured in the Fiscal and Economic Response Paper)**

## C. Economic Response to the 2021 Civil Unrest

On 28 November 2021, the National Disaster Operations Committee (NDOC) of the National Disaster Management Office (NDMO) held a meeting and requested the Chair of the Infrastructure Sector (Deputy Secretary/MID) to put together a team to conduct a Damage, Loss and Needs Assessment (DLNA).

A total of 54 buildings were assessed to be fully damaged, with a further 27 partially damaged. Of the partially damaged buildings, 40 percent were considered severe in nature and damaged to such an extent that the structural integrity may of the buildings could be undermined. As such, a total of 64 buildings were assessed to require full reconstruction during the recovery stage following the unrest. Lastly, a further 81 businesses were affected by the civil unrest, with no damage caused to their buildings. This brings the total number of affected businesses to 162.

Based on the responses from the affected owners and site visits, there were 81 buildings/business establishment where contents were looted. The items looted consists of cash, hardware goods, liquor, general merchandise etc. An average amount of SI\$20,000 was assumed for estimation purpose (the figures are subject to ongoing revision). The total cost of reconstruction/repair of damaged buildings is estimated to be approximately SI\$694 million.

**Table 1. Summary policy options in response to riot-affected businesses, public and private properties**

Scenario	Type of Damage	Compensation Option
<b>A. Business-owned property</b>	Reconstruction	<ul style="list-style-type: none"> <li>• Import duty exemptions/concessions on building materials and machineries</li> <li>• Fast-tracking of design and construction approvals</li> <li>• Short-term tax relief and/or deferrals</li> <li>• Possible capital contribution or special products channeled through commercial banks like DBSI, or alternative arrangement</li> </ul>
	Rehabilitation	
	Damaged/looted goods	<ul style="list-style-type: none"> <li>• Possible import duty exemptions/concessions on, or capital contribution to procure building materials or goods and equipment.</li> </ul>
<b>B. Business renting property</b>	Reconstruction	<ul style="list-style-type: none"> <li>• Temporary rental support</li> <li>• Short-term tax relief and/or deferrals</li> <li>• Possible capital contribution or special products channeled through commercial banks like DBSI or alternative arrangement</li> </ul>
	Rehabilitation	
	Damaged/looted goods	<ul style="list-style-type: none"> <li>• Import duty exemptions/concessions on, goods or equipment</li> </ul>
<b>C. Public properties</b>	Reconstruction	<ul style="list-style-type: none"> <li>• Re-prioritization of line ministry budget to accommodate for costs</li> <li>• Seek additional development partner financing to cover costs</li> </ul>
	Rehabilitation	
<b>D. Private properties</b>	Reconstruction	

	Rehabilitation	<ul style="list-style-type: none"> <li>• Import duty exemptions/concessions on building materials</li> <li>• Possible capital contribution or special products channeled through commercial banks like DBSI</li> </ul>
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**Noted:** The final reconstruction response plan will be presented to cabinet.

The following sectors below will be critical towards ministries planning and implementation of the 2022 budget to achieve government's efforts to address the health pandemic and stabilise and buttress our domestic economy from further economic slowdown.

## **D. Fundamental Sector**

Fundamental sector plays an important role in trying to address the structural impediments that had historically undermine our effort to grow the economy. Major legislative and policy reforms to promote growth and development is expected to be carried out in 2022. These reform will tackle the major obstacles to drivers of growth by improving market and investment conditions in the economy, including improving an economy's competitiveness, growth potential and adjustment capacity to improve our structural and institutional weaknesses.

The 2022 budget therefore must focus strategically to ensure our budget spending produces tangible results and one that grows our economy and provide support towards containing the health pandemic. On this fundamental pillar of growing and stabilising our economy, typically it has three elements;

- Embarking on Tax Reforms to support stabilise and accelerate economic growth
- Pursue institutional reforms and improving institutions of our country
- Support good governance reform and developing robust legislations and policies to drive investment and growth

### **Tax Reforms to Accelerate Growth**

Tax is an inevitable part of life for individuals and businesses but can be burdensome, Tax reform is vital as far as the drive to growing the economy is concern. The government need to continue to aggressively pursue tax reforms that is fair, efficient and that broadens the tax base.

Vital component of the tax reform is to have a tax regime that is fair which means a tax regime that balances the interest of both the taxpayer and the tax recipient. Reform must address the culture of tax evasion that is pervasive in our system, and the application of the tax must apply to all and treat all taxpayers equally.

We must have a tax system that supports those that complies and penalises those that are not complying. Far too often, we have been penalising those that are complying, while those evading tax are not penalised. As part of the reform, a more improved tax administration is required to improve tax collection. The government have lost a significant amount of tax revenue due to poor tax administration. For the 2022 budget strategy, the government will pursue improvement on the following areas;

- Proper tax registration and digitisation for ease of tax administration and it is vital that all businesses are legally obliged to have electronic cash sales register.
- Increase level of tax awareness, and audit and enforcement capacity of the tax authority of IRD and Customs
- Address Tax laws enforcement problems, and develop a level playing field treatment for all taxpayers. Let not our tax regime to become a system that creates an unfair advantage for some companies and corporations.
- Tax must not overly burdensome and punishable to only a few taxpayers who are faithful in paying their obligation. Tax evaders must not escape punishment and there will be a system to reward taxpayers that are always compliant

Broadening our tax base is vital not only to improve revenue collection but also to address meeting the cost and mitigating the impact of negative externalities on the national economy. Certain new taxes are relevant to promote positive investment and creating a level playing field. The government for example have embark on a new tax on plastics that have negative effect on the environment and on sugar sweets and beverages. These are important tax initiatives to pay for the cost of negative externalities related to the activity.

### **Supporting institutional reform and improving institutions of our country to promote growth**

The institutional incapacity has often become our own undoing; we have a system with too much red tapes and often discourages investment in the country. There is a serious need to improve the way we conduct business by improving our institutions to efficiently deliver their mandate. Our 2022 budget strategy will look at immediately addressing some of the issues to allow for or improve the investment environment in the country. Some of the ongoing and intending activities that supports this drive are the following;

- Establishment of the Special Economic Zones (SEZ) in the country and recognise the comparative advantage and economic strengths of each zones or province in the country.
- Reform the Commodity Export Marketing Authority (CEMA) to improve and expand market for commodities to our rural population.
- Revisiting the concept of establishing one stop shop or a centralised platform for investors to acquire approval for investment and allow ease of doing business in the country,
- Pursuing land reform to ease the process of acquiring land for investment. This includes improving the Registrar of Titles (RoT) office in the delivery of its function.
- Formalise and implementing the partnership arrangements between the Government and Private Partner (PPP)
- Improve access to finance by developing a mechanism for willing and genuine borrowers to easily access finance. E.g. Guarantee Scheme with DBSI and Other Financial Institutions
- Support improvement of financial literacy in the country amongst individuals and SMEs and make them bank ready. Supporting the Financial Inclusion Initiatives championed by CBSI.
- Pursue the improvement of our court system and improve the turnaround time for legal cases and enforcement action.

- Develop and formalise robust engagement framework with all donor partners as a compulsory requirement. The engagement with donor partners must be within the terms and priorities of the national government.
- Pursue new opportunities/markets with countries to expand external trade, increase employment and investment, for example, the labour mobility scheme with Australia and New Zealand.
- Leverage on the new diplomatic relation with China and other SE Asian countries to expand market access for our products and services.
- Accreditation to ISO Standards for local commodity exports to fully maximise our commitment to PACER Plus and other trade agreements.
- Create PIC export bubble and tap on the opportunities to trade especially with our neighbouring countries in the northern pacific.
- Develop domestic bubble for tourism industry by creating a local demand for our domestic tourism products and airline industry. Example: Public Service Iumi Tugeda Holiday Package.

### **Good Governance and legislative Reform – Develop robust legislations and legal infrastructures and policies.**

Good governance is essential and can have a strong positive influence in supporting and stimulating our economy. Tackling corruption is a key objective of the government and this is reflected in the government action to establish and resource the newly established Solomon Island Corruption Commission. The government does not stop here but continue to support good governance through;

- The review and amendment of legislations and development of regulations and governance framework to tackle corruption.
- Establish and strengthen good governance institutions such as the Ombudsman's Office, Leadership Code Commission (LCC), and other institutions that supports good governance.
- Develop physical court infrastructures in the provinces to support speed up of hearing of court cases, this year the national government will built two new court houses in Seghe and Atori and in 2022, there will be further development of courthouses in the provinces.

The review and amendment of key specific legislations to buttress the initiatives of the private sector to grow the economy is also critical but this must align with our overall strategy to support sectors that will drive growth and investment. The following important Bills and regulations are currently on going and pursued, some of the reform will carry into 2022.

- Non-Government Organization (NGO) Bill
- Tax Administration Bill
- VAT Legislation Reform
- Special Economic Zone (SEZ) Bill
- National Payment System Bill
- RCDF Act Review
- Land Reform Bill

- Mining Bill
- Forestry Bill
- Health Bill
- Other Bills and Regulations

The above list is non-exhaustive but the passage of the bills and regulations will be prioritised based on supporting and driving the two fundamental objective underpinned in the policy redirection, containing COVID 19 and stabilising our domestic economy.

## E. Productive Sector

Productive sector represents government's key policy priorities in 2022. Under the Productive Sector, the government plans to implement 2022 budget priorities under the following strategic policy objectives, which includes:

- Infrastructure and communication investment to support socio-economic development;
- Primary production to promote food security, create employment and entrepreneurship to empower youth and women;
- Value adding to improved quality of food security and encouraging new MSMEs to pay tax to SIG.
- Support towards Diversifying and Expanding our Export base to increase production of exportable goods and facilitate access to finance through DBSI and CBSI credit facilities to encourage private sector growth.
- Customary Land Reform to be mainstreamed in the sector planning processes and budgets.

**The implementation of these key policy priorities shall be aligned with the Solomon Islands C19 Community Transmission Response Policy of Living with and Overcoming C19 in Solomon Islands.**

Ministry of Agriculture and Livestock	<ul style="list-style-type: none"> <li>✓ Develop Commercial Agriculture to boost Crop exports.</li> <li>✓ Develop Livestock industry and Strengthen Food security.</li> <li>✓ Strengthen SI Biosecurity.</li> <li>✓ Support Agriculture Research &amp; Development</li> </ul>
Ministry of Commerce, Industries, Labor and Immigration	<ul style="list-style-type: none"> <li>✓ Export oriented strategy toward achieving economic independence (d)</li> <li>✓ Create and promote more opportunities for business investment, employment and income generation in the rural areas (k, m, i)</li> <li>✓ Create a Pacific Island export bubble</li> <li>✓ Conduct reform and coordination role where appropriate (h)</li> </ul>
Ministry of Fisheries and Marine Resources	<ul style="list-style-type: none"> <li>✓ Provide opportunities for rural fishers and communities through promotion of on-shore fisheries and increase contribution of commercial and large scale tuna fisheries to the national revenue (e &amp; f).</li> <li>✓ Improve and strengthen the contribution of small-scale fisheries for food security and socio-economic benefits of fishing communities (b).</li> <li>✓ Support indigenous resource owners in marine resource business management plans (g)</li> <li>✓ Strengthen Provincial and National Fisheries Governance (a)</li> </ul>



Ministry of Lands, Housing and Survey	<ul style="list-style-type: none"> <li>✓ Investigate and execute Constitutional amendments to land law in Solomon Islands.</li> <li>✓ Implement First Phase of Greater Honiara Urban Development Strategy and Action Plan (GHUDSAP 2020 – 2023).</li> <li>✓ Establish standardize rate and regulate government Land rentals as well as review Government Land leases and rentals in Honiara and provinces.</li> <li>✓ Reform the Lands &amp; Titles Act and Implement the Strata Title Act.</li> <li>✓ Initiate Relocation and Resettlement Schemes relating to Climate Change and Urban Development.</li> <li>✓ Prioritize and promote Housing Projects focusing on Mamara Public Service Housing and Solomon Islands Housing Ltd/SINPF through PPP approach</li> </ul>
Ministry of Culture and Tourism	<ul style="list-style-type: none"> <li>✓ Increase Unique Tourism Products and offerings (a, e)</li> <li>✓ Facilitate and support the development of transport infrastructure to increase accessibility (c)</li> <li>✓ Strengthen Marketing Alliances with international partners (l, d).</li> <li>✓ Pursue large scale tourism development (a)</li> </ul>
Ministry of Communication and Aviation	<ul style="list-style-type: none"> <li>✓ Competent Air Services Management (b)</li> <li>✓ Airport Infrastructure Upgrade (e, a)</li> <li>✓ Telecommunication and Broadband expansion (c, g, f)</li> <li>✓ Co-financing</li> </ul>
Ministry of Infrastructure Development	<ul style="list-style-type: none"> <li>✓ Develop and Enhance Economic infrastructures (a)</li> <li>✓ Social Services infrastructures (c)</li> <li>✓ Sea infrastructure and transport services (b, e).</li> <li>✓ Legislate development and review (g, i, h).</li> <li>✓ Prioritize implementation of Donor funded Mega projects</li> </ul>

## F. Resource Sector

Resource sector also represents government's key policy priorities in 2022. Under the Resources Sector, the government is planning to implement 2022 budget priorities under the following strategic policy objectives, which includes;

- Building resilient environment and support socio-economic development;
- Create innovative development models that add values to our resources, provide employment opportunities and increase production;
- Review and strengthen development frameworks of extractive industries;
- Encourage and support strategic development through public private partnership ( PPP);
- Maximize economic benefits from our resources and support livelihood and food security.

Mines Energy and Rural Electrification	<ul style="list-style-type: none"> <li>✓ Implement Legislative review and development of relevant bills;</li> <li>✓ Pursue In-country mineral processing</li> <li>✓ Develop robust Energy Sector Planning, Management, and effective Service delivery both in urban and rural areas;</li> </ul>
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	<ul style="list-style-type: none"> <li>✓ Support mounting the share of renewable energy in the country energy mix;</li> <li>✓ Increase Renewable Energy development;</li> <li>✓ Strengthen mining Institutional improvement;</li> <li>✓ Promote Oil and Gas Exploration and extraction</li> <li>✓ Implement Hydrological survey and drilling;</li> <li>✓ Pursue identification of Geological Resources for economic growth.</li> </ul>
Forestry and Research	<ul style="list-style-type: none"> <li>✓ Develop and review Forest resource policies, legislations and regulations;</li> <li>✓ Prioritize and Implement Sustainable Development of Forest Resources Products;</li> <li>✓ Support School Institutions to provide Timber Industry training courses;</li> <li>✓ Encourage investment in Forest Resource development and develop forest Industries to be one of the nation's economy base;</li> <li>✓ Implement Sustainable Logging Policy (SLP</li> <li>✓ Promote and encourage research in forest silviculture, forest products and non-timber forest products including REDD+ to support resource owners, all stakeholders and the national economy;</li> <li>✓ Encourage and support local entrepreneurs to participate in the forestry and timber industry;</li> <li>✓ Promote Integrated Forest Management Approach;</li> </ul>
Environment, Climate Change, Disaster Management and Meteorological Services	<ul style="list-style-type: none"> <li>✓ Support legislative review &amp; development;</li> <li>✓ Strengthen and support of the national meteorological services;</li> <li>✓ Improve the national waste and pollution management programs;</li> <li>✓ Protect, preserve and promote the biological diversity, ecosystems and conservation in the country ;</li> <li>✓ Manage the nation's natural environment, ecosystems and biodiversity ;</li> <li>✓ Promote and Protect World Heritage sites in the country;</li> <li>✓ Strengthen and support the National Disaster Management Office (NDMO);</li> <li>✓ Develop a resettlement policy for low-lying atolls and artificial islands highly vulnerable to climate change ;</li> <li>✓ Establish nature parks and nature sanctuaries;</li> <li>✓ Promote low carbon emission technologies.</li> </ul>
Rural Development	<ul style="list-style-type: none"> <li>✓ Review CDF Act in compliance with Public Finance Management Act ;</li> <li>✓ Support establishment of Constituency Development Centres ;</li> <li>✓ Develop essential Constituency Infrastructure;</li> <li>✓ Develop ,implement and prioritize rural development decentralization framework;</li> <li>✓ Support development of Constituency Development Plan ;</li> <li>✓ Improve service delivery by, expanding market access to rural products;</li> </ul>

- |   |
|---|
| ✓ Support Commercial investment and development plans for rural communities, wards, and constituencies. |
|---|

## **G. Social Sector**

Social sector ministries plays a vital role of any government in delivering essential services to the people and the economy. The sector is integral in the pursuit to achieve the two fundamental objectives of the policy redirection. The budget strategy for the sector for 2022 will be focused on the following;

- Efficiently and effectively deliver improved and quality social services as the foundation for future economic growth and development.
- Improved support to women, youth and children empowerment
- Investing in social infrastructures to drive economic growth rural communities.
- strengthen national security, maintain law and order and advance respect and peaceful co-existence
- Provision of improved basic health services, and to manage the level of COVID 19 transmission in both urban and rural communities

### **Improved quality social services**

Our strategy to invest in human resources is manifested and will be reflected in the increase of development budget to the education, health sector and national security programs. The strategy aspires to see level and quality of education improved, health systems and services are efficient and effectively delivered with law and order stable and peaceful co-existence.

### **Education**

Commitment to Solomon Islands National University (SINU) remains a top priority to transform beyond the transition. Despite challenges yet resource support is necessary to expand and strive to be comparable to other universities. Continuous increased support in targeting development objective intentions to provide not only a better and a conducive learning environment but also to become a competitive institution in the region.

### **Health**

Based on Objective three (3) of the National Development Strategy 2016-2035 and commitment on the National Health Strategy 2016-2020, Role in Delineation policy and framework, Ministry of Health and Medical Services remains committed to efficiently and effectively deliver improved and quality services. Additionally, more resources and efforts are given towards supporting the role of Ministry in its effort through its prepared and respond plan to contain transmission of COVID 19.

### **National Security**

National Security of this country is paramount in the face of the challenges experienced during this pandemic. In order to keep our national borders secure to curb the intrusion of the risk of COVID 19 the budget gives priority to national security. This also to ensure that economic activities in the country continues to function and harmony is maintained amongst the people of this country.

In the face of this pandemic, the fight against COVID 19 continues until we can be certain that our country is safe. This budget ensures that available resources are provided in order we safeguard the lives and avoid any outbreak to happen.

National Security	<ul style="list-style-type: none"> <li>✓ Strengthen community policing</li> <li>✓ Improve welfare and professional standards</li> <li>✓ Maintain infrastructure and resources to equip police and maritime Services</li> <li>✓ Improve support towards health services to manage COVID 19 transmission</li> </ul>
PCDF Funding	<ul style="list-style-type: none"> <li>✓ Funding to prioritise economic growth</li> <li>✓ Improve education and health facilities</li> <li>✓ Support to Development Centres and programs</li> </ul>
NGO Bill	<ul style="list-style-type: none"> <li>✓ Develop the NGO Bill</li> <li>✓ Align NGO support towards development priority programs of the program.</li> <li>✓ Ensure NGO support must benefit socio-economic development in the country.</li> <li>✓ Legislation to ensure NGOs given the support needed.</li> </ul>
Health Service	<ul style="list-style-type: none"> <li>✓ Manage COVID 19 community transmission</li> <li>✓ Essential Health Services available in the country</li> <li>✓ Improve the protocol to minimize intrusion of Covid-19</li> <li>✓ sustain and improve the level of Health service in the country</li> <li>✓ ensure Healthy population which will contribute to a healthy economy</li> </ul>
Public Service	<ul style="list-style-type: none"> <li>✓ early Retirement Scheme</li> <li>✓ realign public Service to support economic growth</li> <li>✓ public to cope to the new normal</li> </ul>
Education	<ul style="list-style-type: none"> <li>✓ improve infrastructure development complying COVID 19 protocols</li> <li>✓ develop level and quality of Education in the country</li> <li>✓ Education system to contribute to economic growth</li> </ul>
Sports Facilities	<ul style="list-style-type: none"> <li>✓ Sports facilities are available in the provinces to identify potential athletes to take part in the SP Game 2023</li> <li>✓ Develop and improve sports programs in the country</li> </ul>

## 5. OVERALL 2022 BUDGET STRATEGY

### (i) Macroeconomic Outlook

#### World Economic Outlook

The global economy enters 2022 in a weaker position than previously expected. As the new Omicron COVID-19 variant spreads, countries have re-imposed mobility restrictions. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated, notably in the

United States and many emerging markets and developing economies. The ongoing retrenchment of China's real estate sector and slower-than-expected recovery of private consumption also have limited growth prospects.

According to World Economic Outlook –IMF January 2022, the Global growth is expected to moderate from 5.9 in 2021 to 4.4 percent in 2022—half a percentage point lower for 2022 than in the October World Economic Outlook (WEO), largely reflecting forecast markdowns in the two largest economies, with USA produce a downwards of 1.2 per cent and China decline by 0.8 percent.

Global growth is expected to slow to 3.8 percent in 2023. Although this is 0.2 percentage point higher than in the previous forecast, the upgrade largely reflects a mechanical pickup after current drags on growth dissipate in the second half of 2022. The forecast is conditional on adverse health outcomes declining to low levels in most countries by end-2022, assuming vaccination rates improve worldwide and therapies become more effective.

Risks to the global baseline are tilted to the downside. The emergence of new COVID-19 variants could prolong the pandemic and induce renewed economic disruptions. Moreover, supply chain disruptions, energy price volatility, and localized wage pressures mean uncertainty around inflation and policy paths is high. Other global risks may crystallize as geopolitical tensions remain high, and the ongoing climate emergency means that the probability of major natural disasters remains elevated.

With the pandemic continuing to maintain its grip, the emphasis on an effective global health strategy is more significant than ever. Worldwide access to vaccines, tests, and treatments is essential to reduce the risk of further dangerous COVID-19 variants. This requires increased production of supplies, as well as better in-country delivery systems and fairer international distribution especially developing countries.

## Figure 1: World Economic Outlook

World Economic Outlook, January 2022 Update

**Table 1. Overview of the World Economic Outlook Projections**

(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
	2020	Estimate	Projections		Difference from October 2021		Estimate	Projections	
		2021	2022	2023	WEO Projections 1/			2022	2023
<b>World Output</b>	-3.1	5.9	4.4	3.8	-0.5	0.2	4.2	3.9	3.4
<b>Advanced Economies</b>	-4.5	5.0	3.9	2.6	-0.6	0.4	4.4	3.5	1.8
United States	-3.4	5.6	4.0	2.6	-1.2	0.4	5.3	3.5	2.0
Euro Area	-6.4	5.2	3.9	2.5	-0.4	0.5	4.8	3.2	1.8
Germany	-4.6	2.7	3.8	2.5	-0.8	0.9	1.9	4.2	1.6
France	-8.0	6.7	3.5	1.8	-0.4	0.0	5.0	1.9	1.7
Italy	-8.9	6.2	3.8	2.2	-0.4	0.6	6.2	2.5	1.7
Spain	-10.8	4.9	5.8	3.8	-0.6	1.2	4.9	5.0	2.5
Japan	-4.5	1.6	3.3	1.8	0.1	0.4	0.4	3.6	1.1
United Kingdom	-9.4	7.2	4.7	2.3	-0.3	0.4	6.3	3.8	0.5
Canada	-5.2	4.7	4.1	2.8	-0.8	0.2	3.5	3.9	1.9
Other Advanced Economies 3/	-1.9	4.7	3.6	2.9	-0.1	0.0	3.8	3.4	2.5
<b>Emerging Market and Developing Economies</b>	-2.0	6.5	4.8	4.7	-0.3	0.1	4.0	4.3	4.8
Emerging and Developing Asia	-0.9	7.2	5.9	5.8	-0.4	0.1	3.7	5.4	5.7
China	2.3	8.1	4.8	5.2	-0.8	-0.1	3.5	5.1	5.0
India 4/	-7.3	9.0	9.0	7.1	0.5	0.5	4.3	5.8	7.5
ASEAN-5 5/	-3.4	3.1	5.6	6.0	-0.2	0.0	3.5	5.6	5.9
Emerging and Developing Europe	-1.8	6.5	3.5	2.9	-0.1	0.0	5.8	2.2	3.0
Russia	-2.7	4.5	2.8	2.1	-0.1	0.1	4.2	2.1	1.8
Latin America and the Caribbean	-6.9	6.8	2.4	2.6	-0.6	0.1	3.7	1.8	2.6
Brazil	-3.9	4.7	0.3	1.6	-1.2	-0.4	0.6	1.5	1.4
Mexico	-8.2	5.3	2.8	2.7	-1.2	0.5	2.9	3.4	1.9
Middle East and Central Asia	-2.8	4.2	4.3	3.6	0.2	-0.2	...	...	...
Saudi Arabia	-4.1	2.9	4.8	2.8	0.0	0.0	5.2	5.3	2.8
Sub-Saharan Africa	-1.7	4.0	3.7	4.0	-0.1	-0.1	...	...	...
Nigeria	-1.8	3.0	2.7	2.7	0.0	0.1	2.4	2.1	2.3
South Africa	-6.4	4.6	1.9	1.4	-0.3	0.0	1.3	2.6	0.9
<i>Memorandum</i>									
World Growth Based on Market Exchange Rates	-3.5	5.6	4.2	3.4	-0.5	0.3	4.2	3.9	2.8
European Union	-5.9	5.2	4.0	2.8	-0.4	0.5	4.9	3.5	1.9
Middle East and North Africa	-3.2	4.1	4.4	3.4	0.3	-0.1	...	...	...
Emerging Market and Middle-Income Economies	-2.2	6.8	4.8	4.6	-0.3	0.0	4.0	4.3	4.8
Low-Income Developing Countries	0.1	3.1	5.3	5.5	0.0	0.0	...	...	...
<b>World Trade Volume (goods and services) 6/</b>	-8.2	9.3	6.0	4.9	-0.7	0.4	...	...	...
Advanced Economies	-9.0	8.3	6.2	4.6	-0.7	0.6	...	...	...
Emerging Market and Developing Economies	-6.7	11.1	5.7	5.4	-0.7	0.0	...	...	...
<b>Commodity Prices (US dollars)</b>									
Oil 7/	-32.7	67.3	11.9	-7.8	13.7	-2.8	79.2	-4.7	-6.8
Nonfuel (average based on world commodity import)	6.7	26.7	3.1	-1.9	4.0	-0.4	17.2	1.5	-1.6
<b>Consumer Prices</b>									
Advanced Economies 8/	0.7	3.1	3.9	2.1	1.6	0.2	4.8	2.8	2.0
Emerging Market and Developing Economies 9/	5.1	5.7	5.9	4.7	1.0	0.4	5.9	5.1	4.3

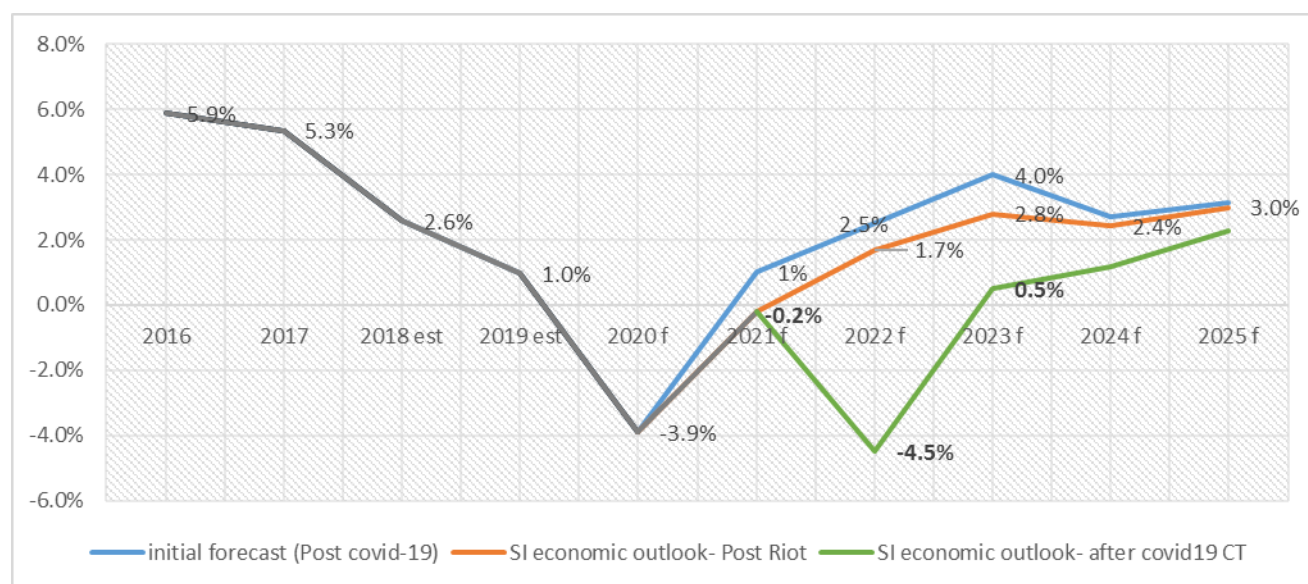
## Domestic Outlook

### Overview 2021

The recent unrest and riots in Honiara is already evident and represents one of the largest economic shocks the Solomon Islands has experienced since 2006. The senseless widespread looting and burning of shops and properties have endangered the lives of many innocent individuals and families, including indigenous Solomon Islanders.

Ministry of Finance and Treasury (MOFT) initially has estimated 2021 real GDP growth of around 1 percent, this was based on the assumption that the economy might slowly pull itself out of the tranches of covid-19 in line with recovery in the domestic economy. By December 2021, MOFT has revised down its real GDP growth from 1 percent to around -0.2 percent. This reflected the contraction in key sectors such as wholesale and trade, construction, manufacturers, financial intermediation, public Administration and other business services as a result of the November riots and lootings. MOFT then has revised its real GDP projections to around -0.2 percent. This is a fall of -1.2 percentage points.

**Figure 2: Solomon Islands Real Economic Growth 2010-2025**



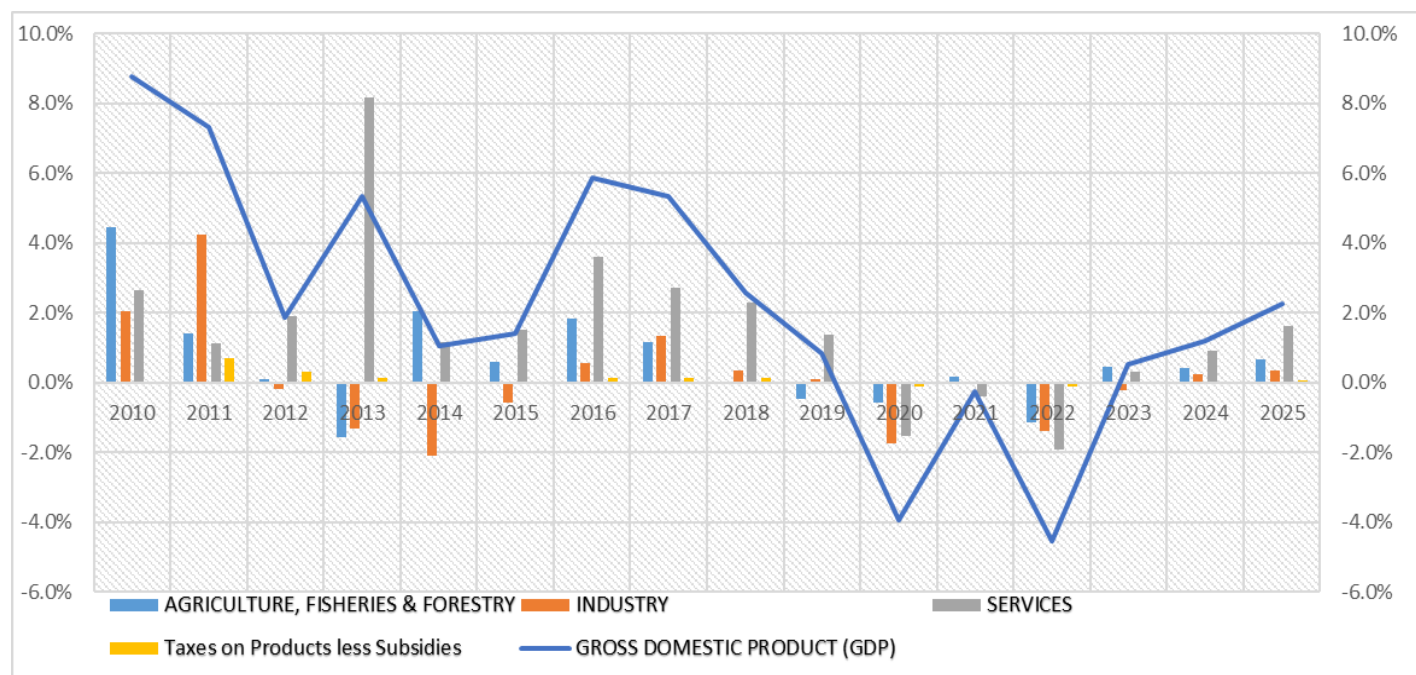
In terms of contribution to real GDP growth, the agriculture sector is to contribute around 0.2 percentage point to growth in 2021, while fishing contributes around 0.3 percentage point.

Construction and electricity & water are projected to contribute by around 0.05 percentage and 0.03 percentage point to growth in 2021, This was in line with the current national infrastructure development and other development projects, particularly the upcoming South Pacific Games and other donor-funded projects. Whilst mining and public administration are expecting moderate growth of 0.01 percent and 0.02 per cent in 2021.

Forestry, wholesale & trade and manufacturing, however, are forecast to subtract from growth by 0.3 per cent, 0.05 per cent and 0.1 per cent in growth for 2021. This is based on the assumption that logging activities are expected to decline in volume to around 2 million cubic meter in 2021 and in line with the low confidence in business operation due to the uncertainty of the impact of Covid-19 and the looting and burning of 50 plus business.



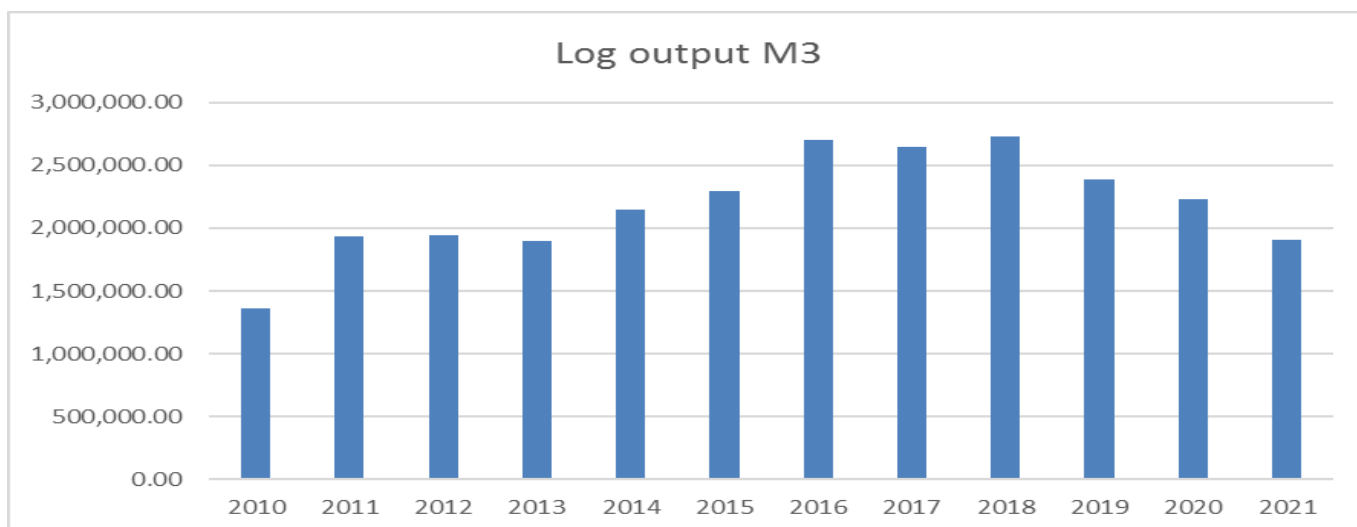
**Figure 3: Contribution to Growth 2010-2025**



**Logging activities continues to be one of the key export commodities, but its contributions to growth are expected to continue to decline over the medium term as log exports move to more sustainable levels.** Logging activity was severely affected by COVID-19 as log volumes dropped by 14 percent in 2021 compared to the same period in year 2020, and there continues to be heightened uncertainty about impacts on trade for 2022. The total volume of log exports for 2021 was recorded to be around 1.9 million cubic meters, with downward pressure on the price of logs in 2021 compared to 2020 driven by reduced demand and also slowing down of the sector.

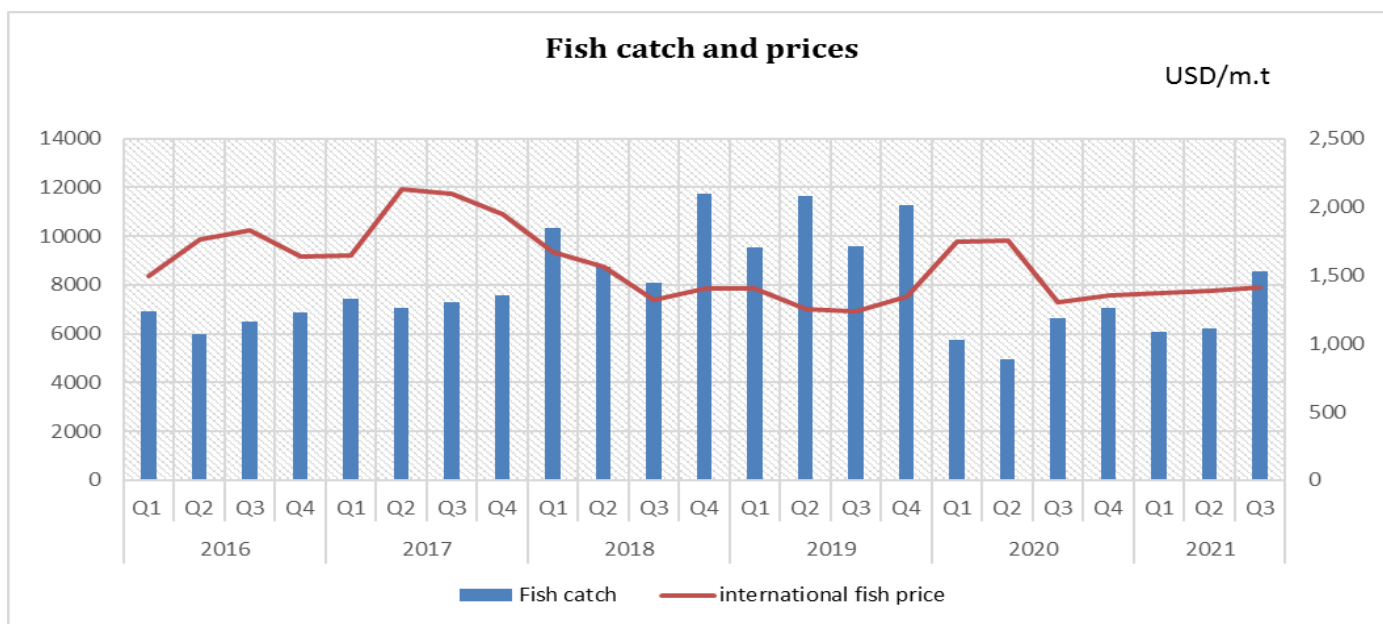
**Figure 4: Log volumes**





The tuna industry adapted and showed resilience during the pandemic, though pathways have not been simple. According to the commodity production data, fish catch for Solomon Islands has risen by 20 percent as at the end of September 2021. This is primarily due to the horizontally integrated supply chain and strong local management which has meant while other fish processing facilities in the region have had to close due to labour repatriation, Solomon Islands processing has not been impacted as much. Due to catch performance to date, the fisheries sector is estimated to increase by 7.5 percent in 2021.

**Figure 5: Fish catch and price**



A lasting challenge across the tuna industry is the high cost of shipping: container rates are almost twice as high as they were pre-pandemic. Demand has surged in the European and US markets for durable goods shipped from Asia, yielding logistical challenges in moving (empty) containers from the US and EU to other locations where they are needed to ship fisheries products for export.

**Tourism sector is estimated to drop significantly in 2021.** According to the June business consultation survey, major Solomon Islands Tourism businesses expect revenue, workforce and profits to drop by around 50 to 100 percent in 2021.

The economic recovery is still very uncertain given the heightened uncertainty in the global outlook and community transmission in Solomon Islands. Tourism is unlikely to return to pre-COVID-19 levels until beyond 2022 and this will be highly dependent on the COVID-19 outlook and vaccination in Solomon Island.

**The agriculture sector is estimated to have moderate growth of around 1 percent in 2021.** This is primarily owed to the informal sector, which is expected to offset any formal sector contractions as global demand declines and uncertainty impacts supply chains and volatility in commodity prices. YTD to September 2021, total agricultural commodities decreased by 7 per cent. Significant drop occurred in commodities such as cocoa by around 31 percent and palm oil by 18 percent.

Production in copra, however, has increased by 26 per cent and P/K oil increased by 28 per cent in the 3<sup>rd</sup> quarter in 2021 compared to the same period in 2020. Despite the strong performance in some production commodities, the COVID-19 shock has caused difficulties in timely marketing and sale of agricultural produce. Lockdowns in-country have seen a change to the value chain with farmers now selling directly to the consumer.

**Business activities and service output is estimated to slowly improve by -0.7 percent in 2021 from negative 2.7 per cent in 2020.** This is primarily due to the economic slowly recovered as business and company are slowly bound back from disruptions and border lockdown in 2020, however albeit lower than 2019 levels. Firms are still hold back on investments due to supply interruptions, and uncertain future earnings outlooks due to the recent unrest and burning of business in November 2021.

**Construction sector is estimated to slightly increase by around 1.4 percent in 2021 broadly in line with the original forecast.** This is based on the ongoing construction activities and national infrastructure projects and private projects that are currently underway in the second half of 2021. Manufacturer sector have had worse performance since 2020 and the outlook is uncertain, as business conditions and operation has declined by around 25-50 percent as of June 2021. Manufacturing is estimated to decrease further down from the 1.5 percent forecast in 2021, with key manufacturers facing depressed demand or supply side issues due to the unrest in November. Other than the hospitality industry, manufacturers have also been reducing their staff's working hours as their operations have been strained.

### **Outlook for 2022 and 2023**

**Solomon Islands economic growth is projected to contract by -4.5 percent in 2022 and 0.5 percent in 2023.** This reflects the contraction in key sectors such as wholesale and trade, construction, manufacturers, financial intermediation, public Administration and other business services as a result of the November riots and lootings associate with the current covid-19 community transmissions. These projections may likely change due to the uncertainty of covid-19 outlook and government policy to keep the economy afloat.

**Agriculture and Hunting sector expected to contract by 2.9 percent,** while fishing sector is project to contract at around -3.5 per cent, mainly driven by pandemic development and changes in policy support.

**Logging activities, however, is project to further decline by 4.6 per cent in 2022** derives largely from the expected downwards of log exports to around 1.8 million cubic meter associate with decline number of

licenses and uncertainty about the impact of covid-19 community transmission towards trade in the first half of 2022.

**Business and economic activities are expected to be moderate in 2022** as Covid-19 pandemic virus is expected to be at the higher levels associated with low vaccination rate and expected to slow down the ongoing national infrastructure project and private project particularly south pacific game and Tina hydro.

**In terms of contribution to growth, Services and industry sectors are expected to contract by -1.9 per cent and -1.4 per cent, respectively, in 2022.** As a resulted in decline of logging, primary sector is projected to contract by around -0.6 per cent in 2022, this is attributed to the expected disruption in business activity in in agriculture sector and fishing output in the near term.

After the rebound in 2022, Solomon Islands growth is expected to grow at around 1.3 per cent in average into the medium term (3 years).

### **Inflation**

The inflation rate for 2022 is expected to increase between 3-5 percent in 2022. This inflation rate has been driven by expected firm up of world commodity prices such as oil price (coupled with expected rise in domestic commodity prices since government will impose tax for certain product such as \$0.50 increase per litre for plastic product, sugar and soft drinks respectively.

### **Balance of Payment**

The global slowdown has markedly affected the Solomon Islands economy, resulting in a sharp decline in commodities exports, (particularly logs and oil palm) and tourism which is also expected to negatively impact the economy and produce a weaker external position in 2021.

As a result, Solomon Islands current account deficit is forecast to increase to 10.8 per cent of GDP in 2021 and continue to widen in 2022. The Trade balance as a percent of GDP is also projected to drop by 8 per cent due to COVID-19 as demand for commodity exports decline, including logging exports, and tourism. According to the latest Central Bank data for the 2st quarter in 2021, however, foreign reserves are forecast remain **well above the 3 month minimum import** benchmark at 13.7months.

### **Figure 7: Solomon Islands Balance of Payment**

Balance of Payments Analytical Reporting in SI\$ Millions											
	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221	
<b>Table 1: BOP Analytical Summary</b>											
<b>A. Current Account</b>	- 335	32	- 488	- 471	62	67	- 288	- 45	- 146	- 266	
Goods	- 94	31	- 61	- 174	152	- 184	- 165	- 13	- 64	- 246	
Services	- 232	- 147	- 432	- 215	- 170	- 219	- 200	- 249	- 192	- 244	
Primary Income	- 10	55	- 36	- 145	34	176	- 48	132	26	5	
Secondary Income	0	93	40	63	45	294	125	85	84	219	
<b>B. Capital &amp; Financial Account</b>	<b>154</b>	<b>113</b>	<b>149</b>	<b>271</b>	<b>- 14</b>	<b>140</b>	<b>418</b>	<b>28</b>	<b>230</b>	<b>312</b>	
Capital	103	126	120	171	58	145	198	110	70	171	
Financial account 1/	50	- 13	28	100	- 72	- 5	220	- 83	160	141	
<b>C. Net errors and omissions</b>	159	- 35	60	119	- 77	25	- 22	- 93	87	- 47	
<b>D. Overall BOP position (+ve = Surplus)</b>	<b>- 23</b>	<b>110</b>	<b>- 280</b>	<b>- 81</b>	<b>- 29</b>	<b>232</b>	<b>108</b>	<b>- 111</b>	<b>171</b>	<b>- 1</b>	
<b>F. Financing</b>	<b>22.9</b>	<b>- 110.2</b>	<b>279.9</b>	<b>81.0</b>	<b>29.2</b>	<b>- 231.8</b>	<b>- 108.1</b>	<b>110.9</b>	<b>- 171.4</b>	<b>0.7</b>	
Official reserves (-ve = increase)	27	- 106	284	85	30	- 469	- 108	110	- 171	2	
IMF program (-ve = decrease)	- 4.1	- 4.1	- 4.3	- 4.3	- 0.3	237.1	-	0.9	-	- 1.2	
Exceptional financing											
<b>G. Position of gross foreign reserves at end</b>	<b>4,985</b>	<b>5,082</b>	<b>4,733</b>	<b>4,706</b>	<b>4,585</b>	<b>5,250</b>	<b>5,296</b>	<b>5,315</b>	<b>5,433</b>	<b>5,427</b>	
Months of import cover of goods and services	12.5	12.8	11.9	11.9	11.3	13.3	13.4	13.4	13.7	13.7	

## Export

Total exports are projected to contract by 6 percent in 2021, led by lower exports of logs and agricultural export. However, commodities such as fish, still projected to grow slightly due to combination of base related effects, higher price and steady demand.

In 2022, total exports are anticipated to improve by 9 per cent in line with the projected recovery in the international and domestic activity. External demand for all categories of exports expect for round logs are forecast to decline. Total exports are projected to expand by 1 per cent in 2023, due to positive contribution from agricultural exports, minerals and fish exports.

## Imports

**Total imports are expected to improve by 13 percent in 2021 compared to 2020.** All categories of imports are expected to increase, primarily driven by machinery & transport equipment, fuels and manufactured food. The slightly improvement in machinery & transport equipment is the due to private and public construction activity.

In 2022 and 2023, total imports are estimates to grow by 22 per cent and 3 percent respectively, led by growth in the machinery and Transportations equipment.

## Risks

Uncertainty surrounding the global outlook remains high, primarily related to the prospects of emerging market and developing economies continue to pose significant risks to the Solomon Islands outlook for 2022 and beyond. Although growth could turn out to be stronger than projected, downside risks dominate in the near term. Together with the ongoing global threat on COVID-19, the growing tension in the Eastern Europe, especially with the escalation of conflict between Ukraine and Russia.

On the upside, better global cooperation on vaccines could help prevent renewed waves of infection and the emergence of new variants, end the health crisis sooner than assumed, and allow for faster normalization of activity, particularly among emerging market and developing economies. Moreover, a sooner-than-anticipated end to the health crisis could lead to a faster than-expected release of excess savings by households, higher confidence, and more front-loaded investment spending by firms.

On the downside, growth would be weaker than projected if logistical hurdles in procuring and distributing vaccines in emerging market and developing economies lead to an even slower pace of vaccination than assumed. Such delays would allow new variants to spread, with possibly higher risks of breakthrough infections among vaccinated populations. Moreover, households' excess savings may be released more gradually if they remain worried about employment prospects and income security, weighing on aggregate spending. As part of the containment measures to the spread of community transmission, longer lockdown periods could pose a significant risk to aggregate demand resulting in weaker economic growth in almost all sectors.

Domestic risks to the economic outlook reflect low fiscal and external buffers and subdued investment due to impact of the pandemic. At present, lower economic growth relies disproportionately more on expansionary fiscal policy and resource industries, such as logging. The impact of COVID-19 on logging activity, while seemingly short-lived, has heightened the risk of an eventual collapse in current logging activity that may be more rapid and disruptive on the economy than anticipated. Thus, over the medium-term, the end of commercial logging will pose a significant risk to the macroeconomic outlook in the economy, especially as it accounts for a large share of exports and government revenues. Any decline in logging in the future would adversely affect the government's finances and require it to identify new sources of revenue, such as strengthening the taxation regime for the mining sector, to support core government expenditures. Successful completion and implementation of the tax review will enable more informed discussions on the redesign of a taxation system more attuned to enabling business and employment, promoting economic growth and foreign investment in the medium term.

Beyond pandemic-related downside risks, social unrest, geopolitical tensions, cyberattacks on critical infrastructure, or weather-related natural disasters—which have increased in frequency and intensity due to climate change—could further weigh on the recovery.

## **Fiscal Outlook**

The COVID-19 pandemic has caused a major decline in tax revenue in most economies. This is caused both directly by the economic slowdown and indirectly by tax policy and administration measures taken in response. The implications for households and businesses cause a disruption of economic activity in ways that are unique to this crisis. For instance, the need for social distancing has distinct effects on the tax base, tax administration, and taxpayer compliance. Furthermore, the pandemic may affect the structure of economies more permanently. Due to waves of uncertainty surrounding this outlook, domestic revenue projection for 2022 will not in line with the nominal GDP growth.

## **Domestic Revenue Outlook 2022**

The weaker economic growth outlook in 2022 has a flow-on effect on Government revenues (Table 1). The Covid-19 pandemic will surely have a significant deterioration in public finance, adding to pre-existing strains from long term structural challenges including a narrow economic base and limited investment opportunities.

Total tax revenue from Inland Revenue Division (IRD) and Customs and Excise Division (CED) are projected at around SBD 2,552.4 million in 2022 which is 3.6 percent lower from the 2021 actual of 2,649 million and 7.1 per cent below the 2022 original Budget, while the total revenue from other ministries is forecast at SBD 420.5 million dollar. This is primarily due to the impact of covid-19 community transmission creating weaker economic activity in 2022. The upturn of commodity prices, including crude oil, will also have a profound support on revenue for Solomon Islands.

**Figure 8. 2022 Domestic Revenue Estimates**

REVENUE (SI \$million)		2021	2022	2022	2023	2024	2025
		Actual	original budget	revised Budget covid-19 CT	Budget Estimates	Budget Estimates	Budget Estimates
<b>Inland Revenue Division</b>		<b>1,782.89</b>	<b>1,801.2</b>	<b>1,694.7</b>	<b>1,758.2</b>	<b>1,735.8</b>	<b>1,789.6</b>
Company tax		280.5	320.0	269.2	301.1	283.6	292.4
Personal tax		412.1	410.3	400.5	410.3	405.4	418.0
Withholding tax		301.6	287.9	272.8	287.2	280.0	288.7
Goods tax		684.8	671.4	657.0	657.4	666.4	687.1
Sales tax		74.3	76.4	67.7	72.8	71.6	73.8
Stamp duty		11.1	15.3	10.9	11.3	11.1	11.4
Licence revenue		18.6	19.9	16.7	18.1	17.8	18.3
<b>Customs and Excise revenue</b>		<b>866.1</b>	<b>946.8</b>	<b>857.7</b>	<b>860.4</b>	<b>872.7</b>	<b>899.7</b>
Import duty		272.6	273.6	272.0	277.5	291.3	300.4
Export duty		384.2	435.7	380.4	372.8	369.1	380.5
of which: export duty on logs		406.4	384.6	375.6	368.1	364.4	375.7
export duty of non-log related		-22.2	51.1	4.8	4.7	4.7	4.8
Excise duty		201.8	230.2	197.7	202.3	204.3	210.6
Fees, Charges and others		7.5	7.2	7.5	7.9	8.0	8.2
<b>Total CED/IRD</b>		<b>2,649.0</b>	<b>2,748.0</b>	<b>2,552.4</b>	<b>2,618.6</b>	<b>2,608.5</b>	<b>2,689.4</b>
<b>other revenue</b>		<b>457.9</b>	<b>420.5</b>	<b>420.5</b>	<b>421.5</b>	<b>422.5</b>	<b>423.5</b>
<b>Total Estimated revenue</b>		<b>3,106.9</b>	<b>3,168.5</b>	<b>2,972.9</b>	<b>3,040.1</b>	<b>3,031.0</b>	<b>3,112.9</b>

Source: MOFT estimates

### Estimates for the Inlands Revenue Division for 2022

The weaker economic growth outlook in 2022 has a flow-on effect on Government revenues (Table 1). The Covid-19 pandemic will surely have a significant deterioration in public finance, adding to pre-existing strains from long term structural challenges including a narrow economic base and limited investment opportunities.

There has been a significant downward revision to the revenue as a result of the covid-19 community transmission and the November 2021 riots and looting, both the IRD and CED revenue to be around \$96.7 million lower than the 2021 actuals.

Total IRD revenue forecast for 2022 is projected at SBD \$1.694 billion. This is around \$106 million lower than the original 2022 Budget estimate of \$1.801 billion. The significant downward revision was mainly on all IRD revenue tax items estimates:



Sales tax is forecast at around 67.7 this is a drop of around 8.9 percent from the 2021 actuals 6 per cent lower compared to 2022 original Budget. The downward growth is due weak economic activity as a result of the pandemic.

Company tax estimate was revised down slightly to \$269.2 million from \$320.0 million in the original 2022 budget. Company tax is projected to fall by around 4 percent compared to 2021, as the pandemic may cause few businesses to close, due to a demand reduction, and health concerns. The Government's policy response in providing relief and promoting recovery from the Covid-19 pandemic through financial support for both businesses would prevent further decline in income and output.

Goods tax estimate was revised down to \$657 million from 671.4 million; this primarily reflects the overall weakness in the domestic economy.. Minimal decrease in revenue as a result of uncertainty outlook in the economy in 2022 due to pandemic. Additionally, major manufacturing companies like Solbrew, Solomon Tobacco and other sector are have also been impacted by the November civil unrest.

Personal tax estimate was revised down to \$400 million from \$410.3 million. With the revised outlook for the economy, growth in personal taxes collections is also expected to be weaker than previously forecast. This captures the closure of many businesses during the November civil unrest, however, with the pandemic, it is expected that most businesses may scale down operations. Although personal tax has been reduced from the 2022 original budget, the government is the largest employer, any policy action taken by the government will impact the personal tax. In addition, any government support also provided to business will prevent further decline in employment.

Contribution to tax revenue from stamp duty and licences and fees are expected to collect 10.9 and SBD 16.7 million in 2022 which are 2.3 per cent and 10.3 per cent lower from the actual amount collected in 2021. Most business are expected to be affected throughout 2022, as there is still the risk of another wave of Corona virus that would force the economy into longer lockdown periods as part of the government's mitigation and containment measure. This would exacerbate the uncertainty surrounding recovery of the economy and for businesses.

### **Estimates for Customs and Excise Division (CED) for 2022**

Total CED revenue has been revised down for 2022 around \$857.7 million from the original 2022 Budget estimate of \$946.8 million (around \$89 million lower).. This downward growth is due to the expected decrease in log output as border and uncertainty in market conditions that continue to dampen the outlook for export duty as export duty from logging represents half of CED revenue.

Import duties are expected to increase approximately by 8.5 per cent (SBD 21million) in the 2022 budget compared with the 2021 revised estimates of around SBD 252.3 million and 7 per cent higher than actual collection of SBD 256.2 million dollars in 2020. The increase in growth is due to revenue measure from SSB tax and plastic levy amount of \$7.96 million that will implemented in 2022 associated with the Covid-19 is expected to be brought to low levels everywhere by the end of 2022 through a combination of better-targeted precautions and improved access to vaccines. Amid the strengthening global recovery, oil prices are expected to rise close to 60 percent above their low base in 2020. As a result, this increase the receipts for import duty in 2022.

Export duties estimate was revised down to \$380.4 million from \$435.7 million; this takes into the downward trend of logging activity; however, this is expected to be offset by the increase in the export duty

of plantation logs that is expected to be implemented this year. Log output, however, is expected to decrease to around 1.9 million meter cubic align with the current disruption across the globe due to covid-19, affecting production levels and slowing down the frequency of shipments abroad. Mix impacted of covid-19 on commodity prices, as well as contraction in trade volumes are likely to results in net loss of receipts for export in 2022.

Excise duties are expected to decline by around 14.1 percent from the 2022 original budget, this accounted for the 6 months of slow economic activity from the major manufacturers. The decrease in the 2022 revised estimate for excise duties also reflects business confidence, and weaker economic activities from the pandemic in earlier 2022.

Forecasting government revenue under these circumstances is challenging. Growth could be weaker still if downside risks materialise. In the near-term, the major downside risk is that the impact of the pandemic proves longer lasting and more intensive than assumed in the projections. 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.

### **Non-tax revenue estimates for 2022**

Other Ministries revenue are forecast at SBD 420.5 million for 2022. This source of revenue primarily depends on each ministries ability to collect revenue; as strategic direction of Ministries may have shifted to focus on other government priorities.

## **BUILD ON TO THE ONGOING PRIORITY INITIATIVES**

### **Increase investment in growth sectors**

The key focus to increasing investments in growth sectors is to provide jobs and create wealth for the economy and the people. Sustaining the livelihood of the people in such uncertain times creates a buffer and provides security especially to the majority of those in the informal sectors. The government in 2020 has provided support to key productive sectors such as agriculture, fisheries, forestry and tourism through the Economic Stimulus package (ESP). A review of the stimulus Package initiative provided by the government in early 2020, could provide a strategic direction for the government in providing support to key business. The monitoring and Evaluation of the ESP initiative was carried out in 2021, this could provide the government with ‘lessons learnt’ and the way forward.

### **Agriculture**

As one of the key sectors of the country with more than 82 percent of the households involved in agriculture and forestry, it contributes 24 percent to national exports, the government has been supportive of this sector. The National Development Strategy’s objectives and Medium Term Strategies (MTS) related to agriculture are aligned with the United Nations Sustainable Development Goals (SDGs). As such the agriculture sector makes a broad contribution to its key objectives through its contribution to economic growth, livelihoods, food and nutrition security and good governance. Thus achieving the goals of the agriculture sector could help alleviate poverty, enhanced food security and rural livelihood, sustainable management of natural resources.

In addition to the commitment towards Agriculture in the Development Budget, 2022, the Government also approved approximately US\$15 million mixture of World Bank/IDA concessional loan and grant for the Agriculture and Transformation Project. The project will assist smallholder farmers in forming Producer



Organizations to enhance crop productivity, improve small livestock development, increase their access to markets, and promote climate smart agriculture. The project is consistent to the recovery effort of the Government.

## **Fisheries**

Like Agriculture, the fisheries sector is one of the key sectors of the economy being the second largest exporter after the logging industry. The Solomon Islands fisheries sector are divided into four major sectors: offshore, inshore (coastal) inland freshwater and aquaculture. The focus of the sector will be to increase the value add of the tuna resources contributing to government revenue and improving economic development. The National Fisheries Policy 2019-2029, focuses on three policy areas which are inshore and inland fisheries, offshore fisheries and aquaculture. This was reiterated by the Policy redirection of the government that focuses on the promotion of onshore fisheries and increasing the contribution of commercial fisheries, improving and strengthening the contribution of small scale fisheries for food security and socio-economic benefits of fishing communities.

In light of the covid-19 situation currently facing our communities, it is essential that the government continue to support the explorations of value-adding activities in the formal fisheries sector. However, the support towards the informal fisheries sector is also important. Majority of the rural communities rely on fisheries products for income and food. To help assist with the food security and nutrition of these communities, government support is important as fisheries products face perishability, requiring capital intensive cold chains or processing methods that meets quality standards.

As much of the value chain for nutrient- rich products lies in the rural communities who are highly affected by restrictions on movement, despite the important contribution that fish products could have in ensuring food security, and nutrition during this time due to their portability, affordability and storage life.

## **Forestry**

The forestry sector has been the key driver to growth contributing to government revenue and exports and supporting the local employment sector. Recent years have seen a decline in log volumes impacting government revenue in particular export duty. The government is committed to develop and review Forestry Resources policies, legislation and regulations as part of the policy redirection. This will strengthen the guiding policy that is focused on strengthening the sector and maximising the benefit thus contributing to the development of the economy. There is a need for reforestation and plantation development and more focus should be placed on promoting downstream processing. Downstream processing promotes the best value of logs that come from harvesting operations with added value. It allows the government to make use of our resources by maximising the benefit to the locals and the government.

## **Tax Reform**

The current tax system is a major constraint on business. Tax reforms remains a key priority for the Government to simplify the tax system and encourage a more efficient, transparent, fair and competitive tax system. This will reduce collection costs and promotes compliance, produces a level playing field and lessen opportunities for rent-seeking (to be discussed further under Revenue Strategy). The government over the medium term is focused on reforming the tax system. This included reforming consumption-based taxes and income taxes to ensure fairness and efficiency. The reforming of the tax system is crucial, the redesigning of the tax system should focus on the cost-effectiveness of revenue collection and its overall excess burden on the overall economy. Thus, by redesigning and broadening the tax base, the government is also reducing the incentives effects of taxation.

The government has progressed the National Payment systems (NPS) and the Tax Administration bill (TAB). The NPS provides the financial infrastructure comprising of institutions, instruments rules, procedures, standards and technical means to transfer and move money safely, efficiently and swiftly. This encourages more business to do transactions between banks more efficiently, such financial development could be beneficial in the long run economic growth. Such initiatives are part of the government long term commitment to broaden the tax base by prioritising a comprehensive tax reform agenda that would support economic growth and development of the country.

## **Infrastructure**

Infrastructure investment and development are key to economic growth. Infrastructure play a key role in three dimension, the economy, the environment and society. When it comes to infrastructure, it should not be viewed as individual assets, rather it should be view as part of a system of portfolio of assets that could collectively hold great potential to achieving the three pillars.

In 2020-2021, Covid-19 has disrupted infrastructure projects and have delayed implementation. However, over the medium term, infrastructure development is expected to play a crucial role in the economic growth recovery of the country. The government is committed to investing in strategic physical infrastructure to support economic growth over the medium term. There is a strong correlation between infrastructure development and economic growth. As such, building strong relationships with development partners is key to pursuing long term economic growth. Infrastructure is expected to play a key role in the recovery of the economy, however as a small economy we are constrained by financing conditions that compete with spending priorities and the increasing debt dynamics. Nevertheless, it is crucial that such infrastructure developments continue, supporting and strengthening of infrastructure investment should prioritized for the economic recovery of the country.

## **Telecommunication infrastructure**

Telecommunications plays an important role in the current pandemic situation. To adopt to new realities and normal routines, telecommunications plays an important role in keeping individuals and organisations connected. With the current covid-19 situation, telecommunication has enabled connectivity and productivity despite the disruption caused by the pandemic. Government's effort to promote and invest in telecommunication infrastructure is vital to ensure that connectivity and productivity are maintained during the current pandemic. Government services, health, education are some of the essential ministries that should be able to adapt to new realities and new routines made possible through telecommunications. As part of mitigation and containment measures of both government and the private sector, the portal of e-commerce should be promoted to ensure that we continue with connectivity, yet keeping our economy afloat.

## **(ii) Debt Outlook**

The Government is committed to keeping the level of debt in the Solomon Islands at a sustainable and affordable level. The Debt Management Framework (DMF) provides guidelines for Solomon Islands to enter into new borrowing. The DMF comprises of a Debt Management Strategy, State Owned Enterprise (SOE) Borrowing Policy, On-lending Policy and Guarantee Policy. Under the Public Financial Management (PFM) act section 66, with reference to the Debt Management Framework provides for the Solomon Islands to enter into new borrowings are provide with strict requirements to be met. 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.

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. After the entire, 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.

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

**Debt to GDP is currently around 15.9 percent (December 2021 debt report)** 30% on Domestic Loans and 70% on direct external borrowings. This is a sustainable level. However, this level of debt, the Solomon Islands has limited capacity to borrow to fund much needed development. 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.

### **Medium Term Debt Strategy (MTDS) 2021 – 2024**

The Debt Management Unit (DMU) had successfully launched the new MTDS 2021- 2024 in the second quarter of 2021. The MTDS maps out the government's plans for financing its much needed development and infrastructure projects for the period between 2021 and 2024. It reflects the government's intention to ensure that there is flexibility to raise much needed funding for short term financing through bond and the Treasury Bill issuance. To achieve a balance mix on both the domestic and external borrowings, work is in progress to develop a Bond Policy which is its draft stage and review.

More technically the MTDS ensures SIG is pursuing a strategy, which supports the development of the capital market and reduce foreign exchange risks. The strategy goes along with the government target to achieve an appropriate mix between domestic (50%) and external (50%) borrowing by end of FY2024.

### **Annual Borrowing Limit**

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. In 2022 this will be set at Government borrowing includes 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.

For the 2022 Annual Borrowing Limit (ABL) was set as part of the budget process and 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 2022 is set at SBD\$500 million and subject to change based on the governments development financing needs.

Furthermore, fiscal discipline is imposed on the Government through the Public Financial Management Act (PFMA), which excludes the use of borrowing to fund recurrent budget deficits.

With the current level of Debt to GDP it is still considered sustainable and affordable. The current level of debt stock stood at around SBD1.98 billion (December 2021 Report), this represented disbursed loan amount to date. Undisbursed loans were not counted as debt until they were actually drawn down.

The Government is also planning to increase the Treasury Bill market to \$200 million issue throughout the year.

### **(iii) Loan and Financing**

#### **1. Land and Marine Connectivity Project (LMCP)**

The Solomon Islands Government and the Asian Development Bank (ADB) signed the Land and Maritime Connectivity Project on 22 July 2021. The project aims to improve connectivity, efficiency, and disaster resilience of the transportation network in Solomon Islands and it is aligned with the Government's National Development Strategy objectives particularly improving infrastructures for better access to essential services and markets. LMCP key activities includes the rehabilitation and upgrading of about 35 kilometres (km) of roads in and around the capital, Honiara, which include the Point-Cruz to White River Main Road rehabilitation, the Henderson Airport to Barande Bridge; the construction of two provincial wharves at Ahanga, Rennel and Bellona, and Kira Kira, in Makira Province; and the reconstruction and improvement of the old wharf in Honiara International Port.

#### **2. SIG Development Bonds**

SIG had issued SBD 290 million development bonds in the course of 2021. Bond buyers includes SBD 50 million bond sold to Pan Oceanic Bank, SBD120 million bond sold to Solomon Islands National Provident Fund, SBD60 million bond sold to Solomon Power and SBD60 million bond sold to Solomon Islands Ports Authority. Proceeds of these bonds were mainly used to finance the development programs of the government in the course of 2021.

#### **3. First Solomon Islands Transition to Sustainable Growth Development Policy Funding for Seghe Airport Upgrade.**

SIG entered a direct loan agreement with the WB/IDA funding to secure a total credit of USD3.16million for the Seghe airport upgrading project. This funding was sourced in addition to the First Solomon islands

Transition to Sustainable Growth Development Policy (SOTSGDP) grant offer of USD11.84millions, bringing in a total funding envelop of USD15million.

The development policy operation (DPO) of US\$15m equivalent is the first in a programmatic series of two DPOs and aims to meet three key objectives. First, to provide financing through this operation to directly support the Solomon Island Government's (SIG) fiscal consolidation efforts and the rebuilding of fiscal buffers, including helping SIG to manage risks of additional financing needs emerging due to the potential impact of COVID-19 on government revenues and growth.

#### **4. ABD COVID-19 RAPID RESPONSE PROGRAM**

ADB is fully committed to supporting Solomon Islands during the challenging economic times, and this commitment is evident in the recently approved \$20 million COVID-19 response package that offer much needed additional liquidity resources to the country.

The program supported the government in financing critical COVID-19 health expenditures, delivering basic services, and supporting the economy through temporary fiscal measures. Since Solomon Islands is a Group A country and is eligible for 50% Concessional Ordinary Resources loans and 50% Asian Development Fund grants, the program consist of a \$10 million concessional loan and a \$10 million grant.

#### **5. World Bank COVID 19 Emergency Response Project Loan.**

The total amount for this program is \$5 million, which consist of a \$2.5 million concessional loan and a \$2.5 million grant. The program supported the Solomon Islands government to implement its countercyclical public expenditure program to provide funds to;

- a. Emergency COVID-19 preparedness and Response;
- b. Health Systems Strengthening; and
- c. Project implementation Management and Evaluation.

The proposed program is critical, as it provided timely support to help the government implement socioeconomic responses - supplementing the ongoing effective health responses to contain the pandemic.

#### **6. Solomon Islands Proposed Land and Maritime Connectivity Project**

The project is to rehabilitate or upgrade about 84 kilometres of urban and rural roads in Honiara city and the surrounding regions in Guadalcanal Province, construct 7 rural wharves in 6 provinces, build a new wharf in Noro port, and reconstruct an old wharf in Honiara port.

The objective is to improve transport connectivity and efficiency of trade activities in Solomon Islands. The east-west Guadalcanal road corridor is in deteriorating condition, critical urban road sections have capacity constraints leading to traffic congestion, and inadequate maritime facilities aggravating efficiency of shipping services.

The proposed project will provide land and maritime infrastructure, ensuring access to basic services, increasing income generating opportunities, and promoting social cohesiveness. It is aligned with National Development Strategy 2016-2035 objectives, in particular improving infrastructure for better access to essential services and markets. Tranche 1 (total funding of USD43.88million from ADB) of the project was approved and signed on the 22nd of July 2021.

## **7. Pipeline Loans**

SIG had just completed a negotiation with the World Bank for the Islands Agriculture and Rural Transformation Project (SIART). This was projected funded with a combination of USD6million credit and USD9million grant.

The proposed development objectives for the project are to **“increase household food production and provide improved market access in the selected value chains in the project provinces, and in the event of an Eligible Crisis or Emergency, to provide an immediate response to such Eligible Crisis or Emergency”**.

The SIART project is proposed to cover three provinces. They are Guadalcanal, Malaita and Makira. The three proposed project provinces were selected due to their largest share of agriculture holdings and agricultural production base. While additional provinces would also benefit from increased investment in agriculture, it was agreeing that three province targeted under this project, given the available funding. If future funding is available, MAL may consider scaling up these activities to other provinces, while at the same time allowing time for any lessons to be incorporated.

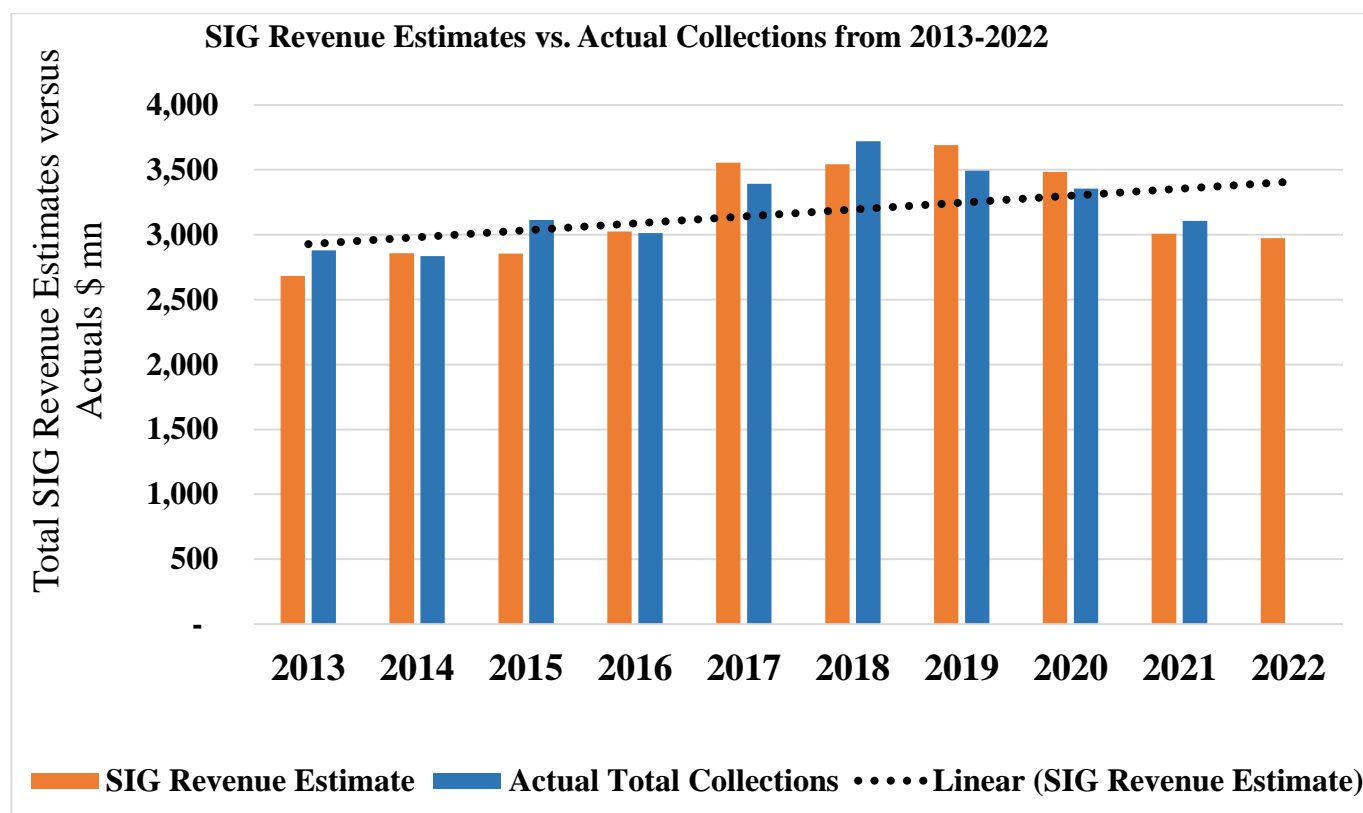
The project will go through the DMAC approval process and approval of this loan will certainly expand the SIG debt portfolio.

## **6. THE 2022 BUDGET PARAMETERS AND ESTIMATES**

### **(i) Fiscal Strategy for 2022 Budget - Revenue**

The overall total revenue estimates for 2022 is \$3,558.6 million, comprised of SIG revenue estimates of \$2,972.9 million, \$505.77 million Donor Budget Support, \$20 million People’s Republic of China (PRC) support to constituency development. Also, the government will secure \$80 million cash reserves to support its recurrent spending. SIG revenue estimates for both tax and non-tax revenue for 2022 has reduced by \$35.8 million from the 2020 original budget estimates \$3,008.6 million. The slight fall is reflective of the expected impacts of the COVID 19 community transmission in our domestic economy and damages caused to businesses in the recent unrest. However, a significant reduction in the logging receipts as the main source of revenue for the Government has been also noted. The non- tax revenue estimates for 2022 is \$420.5 million, a decrease of \$12 million or 12% from the 2021 original budget of \$432.5million. It is

prudent that the government's fiscal expenditure remains within the overall parameters to achieve a balance and stable budget in year 2022.



Graph illustration depicts trend of SIG revenue estimates against actual collections from 2013 to 2022. The total SIG revenue estimate for 2022 is forecasted at \$2,972.9 million, a decrease of 1% from the 2021 revenue estimate of \$3,008.6 million. The prolonged COVID 19 pandemic, delay of the public's response to the continuous calls made by the government to get everyone of the eligible age to get vaccinated and decrease in log export receipts will exert pressure on Government finances for 2022. The 2021 actual collection is expected to increase from the actual collection in 2020 due to some revenue measures set by the government.

## (ii) Fiscal Strategy for 2022 Budget – Expenditure

The 2022 budget expenditure is guided by the top down approach embarked on by the DCGA. The 2022 budget will be funded by SIG revenue including donor support and other financial arrangements the government will engage on to maintain the required level of resources for 2022 priority activities and programs. The DCGA fiscal expenditure remains focus on policy priorities targeting economic recovery, delivery of essential services, and to contain and manage community transmission of the Covid-19 outbreak, including other related illnesses and diseases.

The fiscal table below shows the Budget 2022 total expenditure estimate of \$4,531.2 million, which is higher than the total revenue projection of \$3,558.6 million or 27 percent above the total revenue estimate,

hence recording a budget deficit of \$409.6 million. Total recurrent expenditure is capped at \$3,049.6 million. Total development expenditure is \$870.9 million including Peoples' Republic of China (PRC) support of \$20 million. Total budget support expenditure is \$610.7 million inclusive of sector budget support.

The overall SIG expenditure for 2022 is \$3,900.5 million slightly increased by 6 percent from the 2021 Original budget estimates of \$3,678.5 million. The government is committed to streamline key activities and improve the quality of expenditures across all Ministries by stopping unnecessary or unproductive spending and redirect resources towards government priorities that will support growth, COVID 19 response, economic recovery while at the same time continued to provide essential services to all Solomon Islanders.

The 2022 budget will continue to focus on DCGA priorities through budget allocations, ensuring ministries through their budget committees review and identify key strategic outputs and expected outcomes and provide sufficient resources without compromising with other competing priorities. Unplanned activities will not be prioritised unless urgent and unforeseen and requires immediate government action, such as activities relating to the two key objectives of containing the entry of the COVID 19 virus and accelerating economic recovery.

The development allocation will be strictly for capital and development projects that will boost economic growth and all recurrent related costs should be transferred to the Recurrent Budget, if they are legitimate and necessary for the ongoing operations of the Ministries. The Development Budget will no longer be used to supplement the recurrent spending of ministries.

The government provides Contingency Warrant (CW) provision of \$20 million in the 2022 budget. CW is strictly for **URGENT** and **UNFORESEEN** circumstances and not to fund outstanding arrears, expenditure shortfalls and unplanned expenditures. This is in accordance with section 58.1 of the PFM Act. Any new proposals that does not meet this provision will not be considered.

## **Table 2: The 2022 Fiscal Table**



Budget Estimates (\$ millions)	2021 Original Budget Estimates	2021 Mid Year Revised Budget Estimates	2022 Budget Estimates	Revised 2022 Budget Estimates	% Change between 2021 Original and 2022 Revised Budget Estimates
<b>Total SIG Revenue</b>	<b>3,008.6</b>	<b>3,002.0</b>	<b>3,171.0</b>	<b>3,052.9</b>	<b>1%</b>
IRD	1,743.7	1,744.7	1,801.2	1,694.7	-3%
Customs	832.4	867.7	946.8	857.7	3%
Non-Tax	432.5	389.6	423.0	500.5	16%
<b>Budget Support Revenue</b>	<b>360.5</b>	<b>712.5</b>	<b>220.7</b>	<b>505.7</b>	<b>40%</b>
Budget support	258.5	517.0	200.7	304.1	18%
Donor funded Development	90.0	90.0	20.0	20.0	-78%
ESP Support	12.0	105.5	0.0	1.0	-92%
Covid 19 Support				180.6	
<b>Total Revenue</b>	<b>3,369.1</b>	<b>3,714.5</b>	<b>3,391.7</b>	<b>3,558.6</b>	<b>5.6%</b>
<b>Total Expenditure</b>	<b>4,039.0</b>	<b>4,496.1</b>	<b>4,198.5</b>	<b>4,531.2</b>	<b>12%</b>
<b>Total SIG Expenditure</b>	<b>3,678.5</b>	<b>3,783.6</b>	<b>3,977.8</b>	<b>3,900.5</b>	<b>6%</b>
<b>Total Recurrent Expenditure</b>	<b>2,830.5</b>	<b>2,933.8</b>	<b>2,993.9</b>	<b>3,049.6</b>	<b>8%</b>
Payroll	1,290.1	1,290.1	1,366.5	1,363.1	6%
<b>Other Charges</b>	<b>1,520.4</b>	<b>1,628.2</b>	<b>1,607.4</b>	<b>1,666.5</b>	<b>10%</b>
Contingency Warrant Provision	20.0	15.5	20.0	20.0	0%
<b>Development Budget</b>	<b>938.0</b>	<b>939.8</b>	<b>1,003.9</b>	<b>870.9</b>	<b>-7.2%</b>
SIG Development Expenditure	848.0	849.8	983.9	850.9	0%
Donor Development Expenditure	90.0	90.0	20.0	20.0	-78%
<b>Budget Support</b>	<b>270.5</b>	<b>622.5</b>	<b>200.7</b>	<b>610.7</b>	<b>126%</b>
Sector Budget	258.5	517.0	200.7	304.1	18%
ESP Support/Reconst. and rehab. of business buildings	12.0	105.5		126.0	950%
Covid 19 Support				180.6	
<b>Budget Balance</b>	<b>-669.9</b>	<b>-781.6</b>	<b>-806.8</b>	<b>-972.6</b>	<b>45%</b>
<b>External Development Financing</b>	<b>341.0</b>	<b>670.5</b>	<b>246.0</b>	<b>563.0</b>	<b>65%</b>
<b>Fiscal Balance</b>	<b>-328.9</b>	<b>-111.1</b>	<b>-560.8</b>	<b>-409.6</b>	<b>25%</b>

The total expenditure estimate for 2022 will be \$4,531.2 million. This is an increase of 3 percent from 2021 original total expenditure. Total expenditure ceiling for payroll will be \$1,363.1 million, an increase of 6% from 2021 original estimate. **This is based on existing filled positions, allowances and new health payroll pressures excluding vacant positions across whole of Government ministries and offices.**

The total Other Charges ceiling is \$1,666.5 million, a 10% increase from 2021 Original estimates. The Development Budget will have a total expenditure ceiling of \$870.9 million, a decrease of 7.2 percent from the 2021 original estimates. SIG funding for development budget is \$850.9 million while the remaining balance of \$20 million will be funded by the People Republic of China (PRC).

## Development Budget Financing

The government is intended to have an overall planned budget deficit budget of \$972.6 million in 2022, of which \$523.0 million will be funded from resources secured by the government through financial assistance from multilateral and bilateral institutions and domestic borrowings. The remaining deficit of \$409.6 million will be funded from a number of new revenue measures and expenditure control measures, external support and other domestic borrowings to balance the remaining development funding shortfall.

## 7. OPERATING RULES AND GUIDELINES

### i. Recurrent Budget (Other Charges)

Head of Expenditure		2022 Budget Estimates \$m
01	Solomon Islands Electoral Office	19,505,657.00
02	Office Of The Ombudsman	2,913,104.00
03	Ministry of Agriculture and Livestock Development	17,407,906.00
04	Office of the Auditor General	6,224,835.00
05	Ministry of Education and Human Resources Development	511,121,985.00
06	Ministry of Finance and Treasury	98,329,538.00
07	Ministry of Foreign Affairs and External Trade	46,466,723.00
08	Office of the Governor General	4,957,332.00
09	Ministry of Health and Medical Services	182,800,051.00
10	Ministry of Infrastructure Development	45,012,116.00
11	National Debt Servicing	98,919,973.00
12	National Parliament	48,598,320.00
13	Ministry of Forestry and Research	12,288,747.00
14	Office of the Prime Minister and Cabinet	40,872,110.00
16	Ministry of Police National Security & Correctional Services	140,945,755.00
17	Ministry of Provincial Government & Institutional Strengthening	75,259,501.00
18	Ministry of Lands, Housing and Survey	11,132,536.00
19	Ministry of Development Planning and Aid Coordination	2,562,226.00
20	Ministry of Culture and Tourism	22,211,634.00
21	Ministry of Commerce, Industry and Employment	29,410,872.00
22	Ministry of Communications and Aviation	32,493,780.00
23	Ministry of Fisheries and Marine Resources	13,087,508.00
24	Ministry of Public Service	8,512,308.00
25	Ministry of Justice	21,804,022.00
26	Ministry of Home Affairs	11,894,644.00
27	Ministry of National Unity, Reconciliation and Peace	22,213,655.00
28	Ministry of Mines and Energy	9,245,213.00
29	National Judiciary	12,746,450.00
30	Ministry of Women, Youth and Children's Affairs	7,367,369.00
31	Ministry of Rural Development	85,792,102.00
32	Ministry of Environment, Conservation and Meteorology	24,449,835.00
<b>Total</b>		<b>1,666,547,807.00</b>

### Other Charges Baseline Estimate Assumptions

Given the resource envelop projected for the 2022 Budget, the Other Charges Baseline is prepared within the allocated envelope to leverage resources in fulfilling the intention of the 2022 Budget Strategy Framework. With the available level of resources, there will be no bids or new spending proposal unless ministries have made some savings within current baselines and with the endorsement of the Cabinet. As such the Other Charges Baseline is prepared in accordance with the following assumptions.

- Total Other Charges Ceiling for 2022 is prepared based on the 2021 revised Budget, less contingency warrants and ESP support processed in 2021.
- Other Charges baseline across all productive/resource sector ministries remain as the 2021 revised baseline. This is to be in line with the government's policy direction to ensure these ministries plan and allocate resources on activities that can contribute to sustaining the economy or encourage economic activities.
- All fixed costs across all ministries including non-productive/resource sector ministries are also maintain in 2022 baseline.
- Baselines for key ministries not under productive sector but mandated to provide essential services in maintaining the objective of protecting the country during this covid-19 pandemic are also maintained, such as Ministry of Health and Medical Services, Ministry of Education, Ministry of Police and Ministry of Environment, Climate Change, Disaster Management and Met. Services.
- A 15% reduction on some discretionary budget lines across non-productive/resources sector ministries. These budget lines include;
 

<ol style="list-style-type: none"> <li>1. Printing/Photocopying</li> <li>2. Capex - Office Equipment</li> <li>3. Public Servants - Local Accommodation</li> <li>4. Publicity and Promotions</li> <li>5. Office Stationery</li> <li>6. Capex - Computer Software and Hardware</li> <li>7. Capex - Motor Vehicles</li> <li>8. Conferences, Seminars and Workshop</li> </ol>	<ol style="list-style-type: none"> <li>9. Public Servants - Overseas Fares</li> <li>10. Hire Plant &amp; Vehicles</li> <li>11. Gifts and Presents</li> <li>12. Public Servants - Local Fares</li> <li>13. Security</li> <li>14. Maintain - Residential Buildings</li> <li>15. Training - In Service</li> <li>16. IT Supplies</li> <li>17. Entertainment</li> </ol>
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- The reduction exercise applies to the above budget items only with budgets of more than \$100,000. Those below were not reduced but remain as their 2021 baseline. The exercise thus, can only afford to secure a total savings of \$2.9m across the above discretionary line items and could not go further down, as this could mean a 50 percent reduction or more on the above line items already applied in the 2021 baseline.

Priorities with legal implications will be brought forward into the 2022 Budget. This will increase the government's liability and is a risk should the government do not honor its contractual commitments because it could attract legal suit which will only add onto the existing arears. Given the limited budget resources secured, the government will accommodate outstanding arears from accumulating further. As

such, Ministries Budget Committees (MBCs) are strongly advised to ring-fence and prioritize fix costs and subscription fees to international bodies to avoid delay that could cost the government. It is very important to note that a delay in transaction would cost the government's budget resources that should be used for priority areas for recovery and delivery of essential services. Hence, MBCs are to factor these commitments into respective ministry's 2022 Baseline.

**Unbudgeted arrears, fixed costs and utilities for supplementary during the year will not be considered thus must prioritize within budget during the budget preparation for 2022.**

The 2022 Other Charges baseline embraces the top down approach, hence Ministry Budget Committees must allocate funds toward priorities set by the DCGA. In situations where the level of funding cannot cater to fund all priorities set by the government, ministries are advised to inform the Cabinet that only a minimal number of priorities will be implemented. Therefore, reprioritize resources toward programs that can realistically be implemented with the allocated level of funding. It is very important that the scope of priorities be narrowed to reflect on the fiscal envelope. It is time ministries must realize the impact of the COVID-19 on revenue and allocate resources toward key areas of growth, recovery and delivery of essential services.

Note that as with previous budgets, the budget for new vehicles is centralized to Ministry of Infrastructure, thus any application for new vehicles should be tendered through the ministry. New vehicles must be for activities that will generate revenue and also for national security and health, which fall under the essential services.

It is important that continuous monitoring and review of programs and activities is performed by MBCs in the 2022 budget year. This is to ensure that implementing ministries keep track of performance and the use of available resources, to help the government make timely decisions especially in relation to funding implications of unbudgeted pressures or pressures relating to the Covid-19 pandemic.

### **Other Charges Submission Rules - Formulating and Preparing the Other Charges Baseline Budget**

#### **Improving expenditure efficiencies and creating fiscal space internally to do more with less!**

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

Baseline submissions must be firstly done through the Ministry Budget Committee (MBC) where thorough planning and formulation through a PAC kind of environment in which divisional heads will make presentation to defend their budget based on previous performance on tangible outputs that have been achieved. Justification to be made if necessary of why results/outputs have not been achieved. The Chairman (Permanent Secretary) of the Committee, the Human Resources Manager and the Financial Controller will take note of the presentation and scrutinize applications to increase or decrease and reprioritize where required. All planning/procurement officers to support head of divisions and where necessary, answer questions made from the Chairman, HRM and Financial Controller. Decisions and

discussion to provide clear understanding on key priorities ministries can focus on in 2022, with the limited resources allocated to each ministries. If resources are thoroughly scrutinized at divisional level and allocated efficiently to priority areas, the government can achieve much with limited resources.

It is very crucial that committee members are on the same page on decisions for reallocations and reprioritization. Moreover, the level of revenue that the government can collect for 2022 cannot fully meet all priorities and would therefore affect ministries mandated functional activities, hence, it comes down to decisions made at the MBC level to ensure priorities of the government to recover and protect Solomon Islands from the impact of the pandemic are reflected in resource allocations for the 2022 financial year. Committee members must agree and understand how decisions for prioritizing is made. It must also be made clear that the allocation for each ministry must be allocated towards activities that are prioritized in this Budget Strategy Paper. Successful implementation of this requires thorough scrutiny in making strategic decisions and continuous monitoring and providing update at the ministry level.

## **ii. Budgeting for fixed costs and contractual commitments:**

Fixed costs and contractual commitments must be prioritized first and foremost within the baseline for Other Charges because fixed costs and contractual commitments are legal in nature and carry penalties should the government fail to honour its commitments with service providers. More so, service providers that have entered contract with the government may have mortgages (or Loans) with the commercial banks which will cause a build-up in the non-performing loans which could potentially destabilize the domestic economy's financial system. Therefore MBCs must ensure all fixed costs and contractual commitments are sufficiently allocated with funds for the rest of 2022. These include; all rentals, education and service delivery grants, mission grants, utilities, subscriptions to overseas bodies/organizations and contractual commitments.

Budget Unit strongly discourages virement applications in 2022 for fixed costs and contracts just because of failure to properly plan at the ministry level, through the MBCs. The following are some of the key fixed costs that should be properly budgeted for during the budget preparation.

- **Utilities:** paramount basic running costs of all Government Ministries, Offices and Agencies must be captured in the 2022 estimates. This include budgets for electricity, water and telephone bills. Utilities bills must be carefully capped, managed and continuously review based on per capita spend in each Ministry and across divisions.
- **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.
- **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.

## **iii. Budgeting for discretionary areas of spend**

Ministry Budget Committees to scrutinize these expenditures and make strategic decisions to best utilize discretionary funds to areas of priority where there is assurance to recover and grow the economy, so continuous delivery of essential services is made unimpeded. The level of this expenditure has been on an upward trend in every budget without much tangible results. It is time that Ministry Budget Committee decide on to prioritize funds under this level of spending toward key priority areas for growth as determined by the DCGA. The objectives of the 2022 budget and beyond is economic recovery and growth through improved public expenditures and streamlined investment. Excessive and potential to be wasteful expenditures on consumables, travel, conferences, seminars and training will be reduced or stopped, to prevent Ministries from allocating funds to spending that does not contribute to improvement in revenue collections and increased economic opportunities for all Solomon Islanders.

- a) **Motor Vehicles should not be funded annually:** The whole of government is littered with vehicles that cost a significant sum of resources to maintain and provide fuel on a daily basis, yet ministries request for new ones is continuing. Vehicles should be put to productive use especially where revenue and service delivery are needed most and given revenue becomes critical for the continuous delivery of services. New vehicles to be tendered through the Ministry of Infrastructure and only when the request for the new vehicle is to generate revenue/income and effective delivery of services should the proposal be considered. Ministries can either liaise with Ministry of Infrastructure Development or allocate funding from within the Other Charges Baseline and provide justification on the need to purchase vehicle.
- b) **Travel (both domestic and international):** International travel is restricted but only for government purposes and work related, provided that what is pursued cannot be done domestically and or there is no other mode to conduct within the country. Hence, ministries to develop travel plan and indicate the plan in the costing of other charges baseline template. For domestic travel for government purposes and mandated activities, sending a whole lot of officers may impact on the activities we may want to implement later because cash has been inefficiently used to officers travel that supposed not to travel given that the same work could be carried out by a few. International travel is restricted and to be approved only by the Oversight Committee because of the Covid-19 pandemic.
- c) **Training and skills service development:** Ministry Budget Committee must be vigilant and prudent with the type of training and skills development required by the country for the short and long-term. It would be a waste of money if the type of skills would become obsolete in a few years' time. Videoconference to conduct short training would be cost effective and recommended during this pandemic crisis instead of sending officers overseas. Ministries must ask themselves the following before putting together their training plans for 2022:
  - a. Is the training of value and will add to the skills gap within the ministry?
  - 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?
- e. Is the type of training not offered in-country?

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 held 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 to be held overseas. These are not recommended when the country is facing a crisis.**

#### iv. 2022 Budget templates and DGCA Priorities

Given the need for greater fiscal discipline, budget estimates must be aligned to the economic and fiscal outlook for 2022. **All Divisions in Government Ministries** must prepare 2022 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 2022. The annual 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 in 2022.

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

#### ii. Recurrent Budget – (Payroll)

<b>Head of Expenditure</b>		<b>2022 Budget Estimates \$m</b>
01	Solomon Islands Electoral Office	1,334,243.00
02	Office Of The Ombudsman	2,195,624.00
03	Ministry of Agriculture and Livestock Development	16,951,582.00
04	Office of the Auditor General	3,914,368.00
05	Ministry of Education and Human Resources Development	565,175,669.00
06	Ministry of Finance and Treasury	41,428,322.00
07	Ministry of Foreign Affairs and External Trade	6,571,736.00
08	Office of the Governor General	2,333,505.00
09	Ministry of Health and Medical Services	278,812,550.00
10	Ministry of Infrastructure Development	8,570,412.00
12	National Parliament	47,563,704.00
13	Ministry of Forestry and Research	11,386,740.00
14	Office of the Prime Minister and Cabinet	38,014,659.00
15	Pensions and Gratuities	16,063,442.00
16	Ministry of Police National Security & Correctional Services	144,185,735.00
17	Ministry of Provincial Government & Institutional Strengthening	28,457,374.00
18	Ministry of Lands, Housing and Survey	7,900,026.00
19	Ministry of Development Planning and Aid Coordination	3,355,497.00
20	Ministry of Culture and Tourism	3,463,700.00
21	Ministry of Commerce, Industry and Employment	12,991,125.00
22	Ministry of Communications and Aviation	13,396,212.00
23	Ministry of Fisheries and Marine Resources	10,821,717.00
24	Ministry of Public Service	17,694,649.00
25	Ministry of Justice	19,059,700.00
26	Ministry of Home Affairs	2,707,898.00
27	Ministry of National Unity, Reconciliation and Peace	4,006,857.00
28	Ministry of Mines and Energy	6,791,846.00
29	National Judiciary	18,364,499.00
30	Ministry of Women, Youth and Children's Affairs	2,984,327.00
31	Ministry of Rural Development	15,921,521.00
32	Ministry of Environment, Conservation and Meteorology	10,694,940.00
<b>Total</b>		<b>1,363,114,179.00</b>

As we progress, the DCGA Government believes that the country will continue to face unprecedented social and economic situation that requires some painful decision in the short term for long term gains. For the Public Service, attention was directed to ensuring the public service organisations is in its optimum size, and becoming efficient and effective in responding to implementation of government policies. Besides, the government decision to redirect its resources to productive and resource sectors. The Ministry of Public Service together with the Budget Coordination Committee will continue strive to Support the Human Resource capacity of fundamental and Social Sectors to achieve their DCGA redirection policy initiatives while recognising the economic challenges of the country with regard to its fiscal capacity in the midst of economic contraction and declining revenue of the Government due to the covid-19 pandemic.



The 2022 payroll budget will still focus on the productive and resource sector primarily as a means to ensure that activities are geared towards ensuring economic stability, while also having in mind the significance of other sectors. Ministry of Public Service have to make some painful yet worthy decisions in the short and medium term in order to achieve long term prosperity for our people. Therefore, the recruitment freeze will still effective across the Public Service.

The key rationales to impose recruitment freeze across the public service remains effective subjected to any new Cabinet Conclusion. In light of the recruitment freeze to support the DCGA redirection policy, the strategic actions going forward shall be as follows:

- (a) **Resource and productive sector and essential services exceptional** – vacant positions in the resource, productive and essential services ministries and agencies shall be given exceptional consideration on the proposed recruitment freeze.
- (b) **Reserve and deactivate vacant position** - all vacant and budgeted positions from non-essential services ministries and agencies shall be reserved and inactivated until further instruction by the Government. Furthermore, all inactivated positions are unbudgeted and prior approval from the Cabinet is required for their reactivation.
- (c) **Utilisation of existing workforce** – where there are human resource capacity need in the service for general administrative roles, this will be sourced within existing workforce and redeployed to areas of capacity need which is directly in accordance to the DCGA refocused policy thinking. Due to COVID 19 community transmission, human resource capacity surge will be redirected to the urgent health needs of Ministry of Health and Medical Services.
- (d) **Promotion from within** – for whatever reason a higher position is vacant, consideration should be accorded to serving officers who have been there for quite some time provided that he or she meet the requirements of the post. Thus, to avoid gap in the service. Likewise, Ministries with Graduate Trainee Program should consider their graduates as their initial entry level.
- (e) **Graduates seeking employment** – Ministries are encouraged to embark on graduate trainee programs especially in critical areas where there are not enough staff to meet the demands of the service for period not exceeding two years. Furthermore, graduates in the field of nursing can be utilised for short term employment in the health sector to surge human resource capacity need as we battle with Covid19 in the country.
- (f) **Unilaterally request to Transfer Officer** - Unilateral request by Ministries to transfer officer will not be entertained by Ministry of Public Service. If the officer is not performing, Ministries and Departments concerned are expected to initiate appropriate action either to penalise or reform. Ministry of Public Service will consider request on merits to transfer or not.

- (g) **Officers on fixed term appointment** – Ministry of Public Service is very concern that some officers on fixed term appointment are not contribute usefully in their Ministries. These officers held against active positions. In light of the recruitment freeze, Ministry of Public Service will consider request on merits to approve FTA or not.
- (h) **Public officers on supernumerary positions** – public officers who are granted full time scholarship on study leave shall no longer be paid 100% salary. Their salaries shall be reduced by 50% for the duration of their studies.

It is of paramount importance that Ministries execute human resources planning in a more strategic approach. Henceforth, it is recommended that all Human Resource Managers to liaise with Ministry of Public Service if need be for reactivate or reprioritized freeze vacant positions to meet DCGA redirection policy. If these vacant positions are not filled within three months period, the vacant position will reverted as freeze vacant positions.

### **iii. Development Budget**

Government's commitment and support towards delivering its policy redirection overarching objectives that is to keep the domestic economy afloat and maintain service delivery for the country remain an ongoing significant strategy for 2022 financial year. With the current fiscal position and challenges faced due to recent riot disturbances and covid 19 pandemic global impacts and outbreak in the country, the 2022 development budget will focus on priority policies and development programmes supporting critical sectors that need urgent attention and improvement. Funding allocation will be prioritised towards programmes and projects that support revitalization of businesses, improve aggregate demand and strengthening of revenue collection. This include financing of projects with clear scope towards addressing and improving delivery of essential services whilst ensuring adequate resources are allocated to support policies that drive implementation of fundamental reforms and promote peace and national security across the country.

#### **Budget Baseline Assumption**

2022 Development Budget mainly carry-on from 2021 priorities including funding allocations and expenditures by programme and projects. This implies the 2022 development budget priority focus will be on the economic productive and resources sectors to support the mitigation of the covid19 community transmission and the post-riot recovery and reconstruction efforts using available resources. In addition, Projects with existing contractual commitment and obligation that are prioritised by the DCGA government will also be prioritized. Hence the 2021 approved budget estimates and 2022 revenue projection become the baseline for 2022 Development Budget as stipulated in this budget strategy.

Given the current challenging fiscal position projected due to effects of covid19 pandemic, ministries are advised that 2022 Development Budget will not fund any new development programme unless directives are received from the DCGA government. Therefore, only programs and projects captured in the 2022-2026 MTDP which details are fully scoped, designed and costed will required ministries to reprioritize.

The 2022 development budget will continue to support programmes and projects across strategic sectors to ensure the government priority, commitment and obligation is delivered but at the same time lessen the burden of increasing unnecessary arrears to government contractors and suppliers.

### **Number of Projects by Development Programme**

As part of government's ongoing commitment to ensure resources are more focussed towards addressing emerging development issues and impacts of covid-19 on the country's economy, ministries and sectors are encouraged to undertake a collaborative approach in reviewing the 2021 development programmes and projects. This is an important process for ministries to determine which critical projects would remain priority for funding under the 2022 development budget. Determination of number of projects per development programme is crucial noting unprecedented times faced by the country in terms of cash flow and project implementation. Ministries must consider other factors such as the like hood of covid19 affecting existing capacity to implement programs and projects and funding constraints thus the need to focus on activities that can be realistically delivered. Hence submission of development projects will be on phases noting SIG annual budgeting cycle and 2021-2025 MTDP workplan versions be the base year of the government's policy redirection priorities.

### **Obligation and Contractual Projects**

Ministries through its Ministry Budget Committee (MBC) must properly deliberate and prepare 2022 budget submission prioritising its contractual and obligation projects. The 2022 budget baseline would be allocated to most pressing contractual obligations that government must settle hence ministries are urged to defer any new contractual agreements anticipated for 2023. Ministries must ensure all contractual obligations both to be due in 2022 and outstanding ones from 2021 are factored in the submission before considering allocating funds to other ongoing programmes that are not tied to any contracts or financing agreements.

### **Ongoing Programmes and Projects**

For ongoing programmes and projects, assessment will be based on its implementation rate in 2021 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 programme logical framework. Allocation of funding to ongoing programmes will also consider major investment projects affected due to effect of covid19. Thus, frontline ministries to consider ongoing pressures and activities require urgent attention following measures taken in 2020 and 2021 in response to effect of covid19 pandemic on the economy. Also the need for ministries having allocation under the 2021 development budget to provide full progress report of development programmes approved and implemented in 2021.

### **New Programmes and Projects**

The 2022 Development Budget will not consider any new programme or project bid unless clearly approved by government policy directives with justification documents and a clear cabinet decision. Given the current fiscal challenges, it is viable to maintain and commit funds to incomplete projects already started implementation using 2020 and 2021 estimates as the baseline for 2022. Furthermore, 2022 revenue projection and development budget envelope would provide guidance regarding possibility of including any

new development programme. As such, ministries therefore asked to thoroughly review ongoing programme activities and decide on where new projects can be factored using current budget ceilings.

### **Non- Appropriated Funding**

The 2022 Development Budget seek to show a more credible data on the non-appropriated donor funding, donors were consulted to provide data and received cooperative response and this was cross checked with relevant SIG sector line ministries and agencies. However, there are challenges such as timing, specific data needs of stakeholders and project management reporting that require more collaboration to improve credibility of data. Going forward, it is the goal to make compulsory reporting for all non-appropriated funding which will provide a complete picture of the on budget and off budget components. This is important and has to be improved in order to provide a complete report on both SIG and Donor support in implementing the NDS 2016 – 2035 and government priority policies.

### **Monitoring & Evaluation**

As part of the NDS implementation MNPDC is obliged to report on the implementation of development budget and the progress. In terms of the development budget programmes implementation there are two (2) reporting templates that respective Line Ministries and Agencies programmes need to fill and submit to MNPDC by end of June and December. The physical status of report should inform the progress made and what sort of activities that is outstanding for consideration purposes and preparation for next financial year. Appraisal of ongoing programmes and allocation of funding should be well informed for the budget preparation. On the other hand, MNPDC continue to monitor fiscal expenditure of Development Budget programmes on monthly basis to keep track of funds expended and report to LM's on the status. Ongoing reporting of the NDS performance indicators is important for the purpose, as MNPDC is obliged to report on implementation of the development budget as well as our international commitment towards implementation of the Sustainable Development Goals (SDG's), Small Islands Developing States (S.I.D.S) and Istanbul Programme of Action (IPoA).

The NDS Monitoring and Evaluation Framework provide some key performance indicators of monitoring the performance of the NDS where this is revised accordingly. The need to update ongoing programme of activities and indicators is important as this will assist and support accurate and credible reporting of the status of implementing the NDS objectives, which is long term.

MNPDC is now working closely with OPMC policy unit through CMCC in terms of development budget programmes implementation where policy priorities and activities need to be captured in line with the policy redirection. Line Ministries are monitored closely on their implementation of programmes and only priorities are to be considered by respective ministries, agencies and sectors.

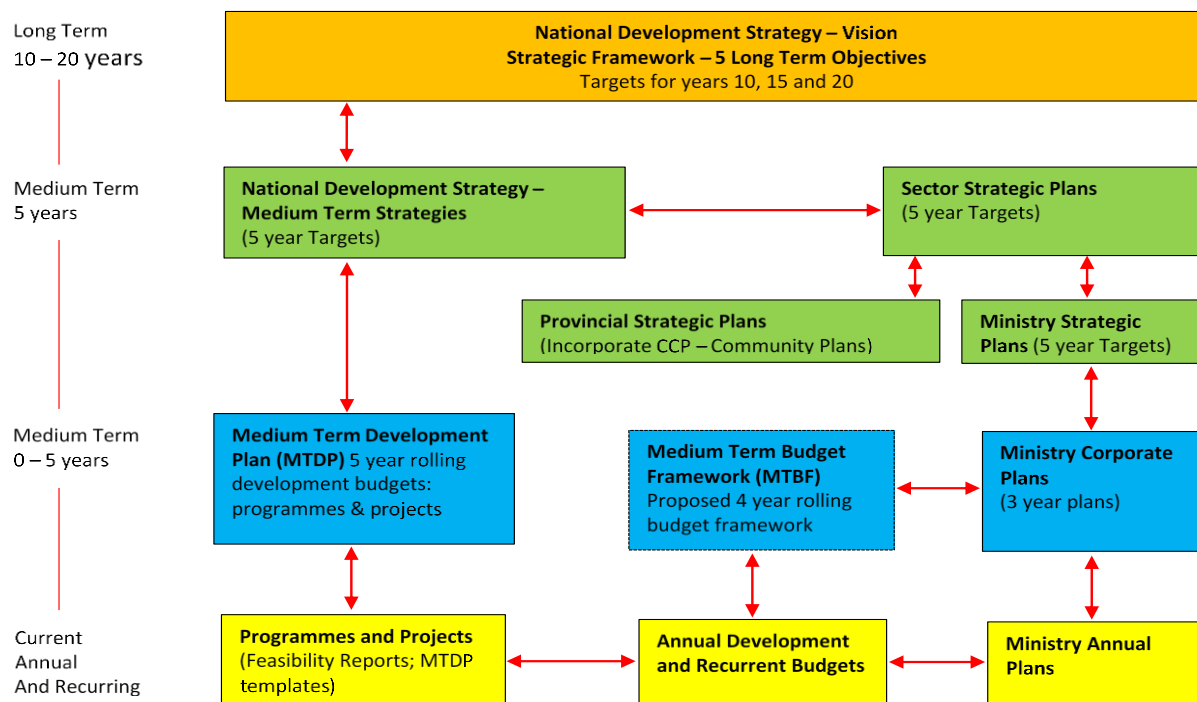
### **National Development Strategy (2016-35) and Medium Term Development Plan (MTDP)**

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, Istanbul Programme of Action and other regional and international commitments that Solomon Islands signed up to.

Diagram below 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.

**Structure of the NDS and Planning Process**



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 2022 becomes the first year and hence will be considered as the budget brick for 2022 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.

### **Preparation of 2022-2026 Medium Term Development Plans (MTDP)**

Preparation of the Medium Term Development Plans document is a requirement under the Public Financial Management Act 2013 Part 6 stated that, “*at least three (3) months before start of the financial year the Minister for Development Planning shall table in the National Parliament and officially publish the prescribed details with respect to the Government’s Medium Term Development Plans*”.

Year 2022 will be the second year for DCGA government to implement its redirection policy focussing on two overarching objectives mainly to keep the economy remain afloat and maintain service delivery during effect of COVID-19 pandemic. To assist government towards achieving its target, the MTDP provides a framework for recommended key projects with value for money, projects that are properly designed, projects with clear execution timeline, realistic costings and, complete procurement plan for an annual financial year and also future budget projection for a complete project implementation timeframe.

The process of preparing the five year rolling MTDP mainly driven by each project implementation ministry upon fulfilling MTDP requirement which include the project initiation documents such as pre-feasibility and feasibility assessment, architectural design, bill of quantity (BOQ), signed Memorandum of Understanding (MOU) and Financing Agreement for SIG obligation support. For 2022-2026 MTDP preparation, the MTDP requirement will remain however, more emphasis will be on a sectoral approach, which require ministries to work collaboratively in reviewing the 2021-2025 MTDP work plan versions before determine, confirm and submit next MTDP proposal for funding under the annual development budget. This approach re-emphasizes the need to improve and strengthen collaboration, internal and external coordination, proper project management, maximization of existing technical capacities, minimize duplication and thinly spreading of government scarce resources, manage inclusion of project proposals with incomplete documentation and, reduce number of ongoing development programs and projects with poor implementation progress. Hence the need to focus on major priority projects only.

The sectoral approach further encourages each sector to collaboratively determine level of technical input, cost-sharing and execution strategy to deliver key outputs and milestones indicated in the implementation schedule. This include how the responsible sector would conduct evaluation, monitoring and prepare biannual reports on project implementation status to government central agencies.

The 2021 Development Budget focuses on funding the Government's prioritised programmes and projects under the priority economic and productive sectors identified in the DCGA government policy redirection statement as well as to fund responses that contribute to addressing the socio economic impacts of the COVID 19 pandemic. The impact of COVID-19 has led to a serious decline in projected revenue for 2020 and it was necessary to reprioritise funding allocations. While investments in the economic and productive sector were ring-fenced and protected from funding cuts, there were funding reallocations from other social sectors to enable the government to finance the immediate priorities of COVID 19 Preparedness and Response Plan. The 2021 development budget continue to focus on stimulating economic activity, support ongoing projects with existing contractual commitments and funding SIG obligations to donor funded projects and programmes those that are being implemented effectively and that are prioritised by the DCGA government policy redirection.

## **8. STATEMENT OF RISKS**

There are significant risks to the smooth implementation of the 2022 National Budget hence the government must pay special attention to prevent unwanted circumstances that could be avoided should proper and strategic planning and management is done. Outlined below are some crucial ones.

- i. **The COVID 19 pandemic-The New Variant.** The impact of the COVID-19 is still causing devastating economic and health chaos worldwide. On the domestic economy, the impact ranges from cash flow issues, digression from the focus towards achieving the long term NDS objectives by year 2035, spike in other health related sicknesses and diseases which also have budgetary and socio-economic implications, because focus has been heavy on ensuring Solomon Islanders are protected from the COVID-19 virus. According to World Health Organisation (WHO), the Delta Variant is mutating and is forming a new variant which might be devastating compared to the current variant. This requires the government to be vigilant in managing the secured level of revenue estimates for the 2022 Budget, whilst focusing on the overarching policy objectives, to protect the health of all Solomon Islanders and sustaining the economy. Some of the budget pressures may directly impact the 2022 budget, whilst others that are off-budget may increase government debt. Effective monitoring and review is of significant to ensure smooth implementation of the budget in 2022 and to maintain government debt within sustainable level.
- ii. **Wider Scope of Approved Projects under Development Programs in Comparison to Available Budget Resources and Cash Flow Issues.** Wider scope of projects would squeeze available budget and may thinly spread across all projects. This may result to unsuccessful completion of all approved projects or completion of the expected phase planned to be implemented in the 2022 budget year. Project outcomes or tangible outputs of key projects that could contribute to economic growth as intended, may not be realised. Therefore, government needs to focus on few priority projects to ensure that the available funding may fully fund projects that could contribute to economic growth or protecting the livelihood of all Solomon Islanders during this Covid-19 pandemic.
- iii. **Non adherence to the DCGA Policy Redirection Priorities and Operational Rules** as Outlined in this Document. Deviation from the government's policy redirection and the operational rules outline in this document would cause implementation issues for the 2022 budget. Focus of the redirection policy priorities and the operational rules serve the same purpose that is to sustain the domestic economy and protect transmission of the COVID-19 into communities until vaccination is complete. Non-adherence may pose risk to the management of cash flow and smooth implementation of planned priorities against the secured level of revenue estimates for 2022.
- iv. **Supplementary Budgets:** Proposals for supplementary budgets will only add pressure to the 2022 Budget if additional revenue is not anticipated. This may also add to the cash flow issue being made worse by the COVID-19 pandemic. Requests for supplementary budget must be made on grounds that it is urgent AND unforeseen in accordance with section 51 of the PFM Act. The request for supplementary budgets as a way to correct or increase ministry budgets to include spending proposals not recommended during the budget proper and mistakes or oversight during the formulation stage brings into question the validity and credibility of annual Appropriations approved in Parliament. Therefore, supplementary budgets should be allowed where additional revenue is secured or where reprioritisation is required to fund additional pressures to maintain stability or fiscal discipline. If the government is unable to collect additional revenue, a mid- year

review should be conducted across all ministries and a reprioritisation exercise could be an option for reallocating resources from other budgeted items that could be delayed to fund the unbudgeted pressures.

- v. **Committing funds for the 2023 South Pacific Games:** The 2023 South Pacific Games is a huge and a first time national project undertaken by the DCGA that comes with greater commitment to ensure that the event progresses well according to time frame. Peoples Republic of China (PRC) and other development partners have shown great commitment in making sure work is progressing. However, the onus is on the government to make its commitment before, during and after the event. This commitment comes with budgetary implications especially the construction and the maintenance of sporting facilities. Therefore, government's commitment through on-budget should be well monitored and reflected in government's fiscal balance. Other commitments with financial implications that are off-budget should also be reflected well through government debt to ensure government's overall fiscal performance is maintained within the sustainable and discipline level.
- vi. **Payroll Budget – Uncontrolled Teachers recruitment:** Ongoing reinstatement of teachers' salary and backdating in every fortnight from January to December continues to pose a serious risk to overspending of payroll budget since most of these positions are not budgeted for. This requires effective coordination across the relevant agencies such as the Ministry of Education through the Teaching Service Division (TSD), Ministry of Public Service and MoFT, to ensure that all positions created must be tied to approve budget.
- vii. **Development Budget -** The 2022 Development Budget will be funding Government's commitment and support towards infrastructure and programs that encourage economic activities to keep the domestic economy afloat whilst maintaining service delivery. Thus, approving programs or projects that do not contribute to the overarching policy objectives for 2022 will pose risk to the overall ceiling for the development budget. This requires the productive and resource sector ministries to be specific and clearly allocate resources towards projects that could encourage economic activities and hence will sustain the economy over the short to medium term.

## 9. DONOR CONTRIBUTIONS

Contributions from development partners are a major component that assisted the government in maintaining the delivery of essential services and other infrastructure developments in the country. The government will continue to maintain the long standing relationship and strong commitment with the donors into the next financial year.

Head	Ministry	Development Partner	Description of Program/Project	2022 Budget Estimates
03	Agriculture and Livestock Development	NZAID Bilateral Covid 19 donor fund	Coconut Rhinoceros Beetle Response Covid 19 Livelihood support	24,258,500
05	Education & Human Resources Development	AusAID/NZAID Covid 19 donor fund	Education Sector Support Program 2019-2023	103,400,000



06	Finance and Treasury	ADB DFAT	Remaining ESP projects Buiding of Telekom tower De	190,387,445
07	Foreign Affairs and External Trade	UNOPS	Enhanced Integrated Framework (EIF)	4,500,000
09	Health and Medical Services	DFAT, UNFPA, WHO, UNICEF, SURF AID, FPNSW, UON, Covid 19 donor fund	1. INN631 - COVAX, 2. Transformative Agenda (DFAT Funded), 3. Child Protection System Strengthening, 4. Country in data and innovation	168,092,108
10	Infrastructure Development	Covid 19 Donor Funds	Covid 19 Infrasstruture	7,200,000
16	Police, National Security and Correctional Services	MFAT Covid 19 DonorFund	Prison services infrastructures Covid 19 operations	35,898,315
23	Fisheries and Marine Resources	NZAID Bilateral Covid 19 Donor Fund	Solomon Islands Fisheries Development - New phase 2020- 2024	32,000,000
24	Public Service	DFAT	Formulation and development of AWP	510,575
26	Home Affairs	UNICEF	Birth Registration	760,403
28	Mines, Energy and Rural Electrification	Covid 19 Donor Fund	Covid 19 – maintain of water services	50,000
30	Women, Youth, Children and Family Affairs	UNICEF	Child Protection Behaviour Change Communication	1,430,090
32	Environment, Clamate Change and Disaster Mnagement	Covid 19 Donor funds	Covid 19 operations	42,225,994
<b>TOTAL</b>				<b>610,713,430</b>

The COVID 19 donor funded support of \$180 million will provide support towards health infrastructures, quarantine site expenditures, logistic and roll out of vaccination and testing, allowances of frontline officers and other COVID 19 related expenditures in other line ministries.

The support of \$125 million towards reconstruction of buildings and businesses will focus mainly on rehabilitation of buildings, support to restocking of businesses and support to rental losses. Support towards reconstruction of totally damaged building will also continue in 2023.

Government requires that all donor contributions towards implementing ministries such as Ministry of Health, Education, Fisheries, Agriculture and other essential services should be reflected in the fiscal balance for the 2022 Budget, or through the standard national budget procedures. Other forms of financial assistance that are off-budget or non-appropriated should also be made transparent and aligned with the National Aid Policy and Framework mandated through the Ministry of National Planning and Development Coordination (MNDPC).

The Ministry of Finance and Treasury (MoFT) and the Ministry of National Planning and Development Coordination (MNPDC) have been working collaboratively to obtain data from donors and liaise with the relevant ministries to provide funding at GL code level. The donor appropriation funding is required to be submitted at GL code level to be included in the 2022 Budget Papers as required by the PFM Act and to be

transparent and properly acknowledge donor partners of the great support to the government and the people of Solomon Islands.

## 10. CONCLUSION

This Budget Strategy Framework forms the basis for preparing the 2022 Budget in accordance with *section 45 (1) (a) (b) of the Public Financial Management Act 2013*. Given the overall macro-fiscal estimates and parameters, and to maintain effective implementation of the 2022 budget, all ministries **MUST** therefore adhere to the guiding principles and the operating rules laid out in this document when preparing the 2022 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 prioritized when preparing the 2022 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 Policy Direction for the 2022 Budget is built on from the policy redirection taken in 2021 in combating the effects of the COVID 19 pandemic. Hence the DCGA is still committed to focusing on the productive and resource sector where growth is ascertained. Ministries are therefore required to allocate resources to areas of growth and service delivery outputs only. It is important that Government is committed to funding all its priorities, essential services and fixed costs within the affordable level of revenue estimates for 2022 to maintain fiscal stability in Government finances and for a healthy and better Solomon Islands.

### 2022 Budget Timeline and Key Dates

Ministry Budget Committees are strongly reminded to adhere to the Key dates as outlined in the **2022 Budget Timetable as Attachment A**. This will allow the coordinating ministries to finalise ministries submissions and to submit to Cabinet within the expected time.

#### Attachment A: The 2022 Budget Timetable

Major milestones	Activities	Deliverables	Deadline
<b>Review and update economic and fiscal parameters</b>	Review of the economic parameters because of the COVID 19 transmission and its impact on the domestic economy.	GDP forecast and revenue estimates update	17 <sup>th</sup> Jan to 4 <sup>th</sup> Feb 2022
<b>Compiling and finalizing of the 2022 budget proper</b>	Update 2022 budget strategy Update fiscal table and ministry budgets Revise government redirection policy priorities	Revised 2022 Budget Strategy. Revised Fiscal table	8 <sup>th</sup> Feb to 17 <sup>th</sup> Feb 2022

<b>Caucus and Cabinet approval of the 2022 revised budget Strategy</b>	Approval of 2022 revised draft budget Strategy	Caucus and Cabinet papers Revised 2022 Budget Strategy	21 <sup>st</sup> Feb to 25 Feb 2022
<b>Feedback to ministries on the 2022 revised budget</b>	Provide feedback to ministries on the final budget estimates. Ministries review budget estimates	Draft ministry budget ceilings and ministry allocations	21 <sup>st</sup> Feb to 25 Feb 2022
<b>Budget Cabinet</b>	Cabinet approvals of the 2022 draft budget- 2022 Appropriation Bill	Cabinet paper Revised draft 2022 Budget estimates 2022 Appropriation bill 2022	3 <sup>rd</sup> March 2022
<b>Budget documents delivered to Parliament</b>	Budget documents printed and delivered to parliament	2022 Appropriation Bill 2022 2022 Budget documents	4 <sup>th</sup> March to 11 <sup>th</sup> March 2022
<b>PAC Hearing</b>	Ministries present to PAC Complete PAC generic template by ministries	Ministries' talking points Ministry budget information	14 <sup>th</sup> March to 1 <sup>st</sup> April 2022
<b>Parliament sitting</b>	Brief Ministers on ministry budget Prepare second reading winding up speech	Second reading speech Winding up speech	4 <sup>th</sup> April to 15 <sup>th</sup> April 2022
<b>Royal Assent</b>	2022 Appropriation Bill	Gazette and royal assent	18 <sup>th</sup> April to 28 <sup>th</sup> April 2022
Budget Upload and release of warrant	Prepare upload files Accounting warrants	2022 budget proper in operation Issue accounting warrants	29 <sup>th</sup> /30 <sup>th</sup> April 2022