Finance Circular Number: 02/2022

2023 BUDGET STRATEGY and OPERATIONAL RULES

To: **National Parliament**
Ministers

Date: 1st September 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 2023 National Budget is: **"*Together, Moving Solomon Islands Forward*".** The theme calls for empowering our people and investing in transformational investments to support government's economic recovery efforts and become a nation one that is united, sustainable and prosperous, our Solomon Islands.

2. The Budget 2023 is a "Recovery and transformational Budget" of the government after going through difficulties primarily due to the adverse impacts of the COVID 19 Pandemic experienced since 2020 and the recent Civil Unrest in November 2021.

3. This Budget Strategy Framework is developed to achieve 2 policy outcomes; (1) Transformational investments to boost our economic recovery and build our resilience to achieve sustainable economic growth, (2) Empowering our people, and promote National Unity and Prosperity

4. The DCGA's key policy priorities in 2023 are the hosting of the 17th Pacific Games 2023 and the preparation of the National General Election. These two important regional and national events are prioritised in the 2023 budget. In addition to the 2023 Pacific Games, the government is fully committed to its other legacy investments including major roads and airport infrastructures, seaport, telecommunication, the new national referral hospital comprehensive health care centre, that will have a long term benefits to the people of Solomon Islands.

5. The Productive and Resources sectors remain the key drivers and enablers of economic growth. The government plans to narrow down projects and will only support transformative and innovative projects

that are expected to be completed within a financial year and will yield higher economic returns in the short to medium term.

6. The government is planning to have a planned deficit of $697.7 million. The deficit is attributed to the development budget and the government will work within the debt management strategy and PFM Act requirements to ensure funding is secured through external and domestic borrowing to fully fund the funding shortfall.

7. To guide the preparation of the budget, the government is fully committed to refocus resources by streamlining government operations and support essential services, fixed costs such as utilities, rentals and mandatory obligations and contractual commitments of the government through managing critical costs pressures through cost sharing arrangements and removing wastages.

8. The workforce [or human resource] requirement for 2023 still remains the same as in 2022 Budget. MPS will freeze all vacancies and ministries will have to provide evidences that they are ready to fill their vacancies.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. In support of the Pacific Games 2023, around 150 public servants will be deloyed to assist in the Pacific Games in the second quarter of 2023 until the completion of the games.

9. The Government calls all ministries to comply and adhere to this Budget Strategy and Operational Rules. 2023 Budget will be as good as it is planned, therefore, ministries are asked to coordinate when conducting budget planning and work in partnership when implementatiing the budget. Ensure sectors establish working relationships to address cross-cutting needs through cost sharing arrangements to effectively deliver government priorities to the people of Solomon Islands.

10. Ministries are therefore required to strengthen their internal budget coordination and preparation to ensure adequate resources are allocated towards Government's priorities in the 2023 Budget. As such, all ministries' corporate and annual workplans for 2023 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.

11. Given the tight fiscal position the government expected in 2023, 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.

12. 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.

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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 2023 Budget Strategy and Operational Rules.

This Budget Strategy lays Government's 2023 fiscal Plan. The 2023 Budget Strategy Framework demonstrates government's ongoing efforts to recover our economy from the negative imapcts of the COVID 19 pandemic since 2020 and the Civil Unrest in November 2021. This document provides guide to the formulation and implementation of the 2023 Budget. Also, further details will be provided in the 2023 Financial Policy Objectives and Strategies, Volume 1 as according to section 47(a) of the *PFM Act 2013*.

Solomon Islands economy is expected to return to positive growth of around 2.8 per cent in 2023 from -4.5 percent in 2022. This reflects the increase in key sectors such as agriculture and fishing, mining, wholesale and trade, construction, manufacturers, financial intermediation, public Administration and other business services as a result of border reopening and easing covid-19 restrictions on mobility and domestic transportation this year. This growth projection expects SIG to collect around $3,075.9 billion for budget year 2023.

The Budget 2023 is a "Recovery Budget" of the DCGA after going through recession over the past two years. The government is fully committed to build and recover our economy to a positive standing and ensure economic growth is sustainable in order for the government to be able to meet its developmental aspirations in the near future.

The Government is preparing to host around 24 countries to participate in the Pacific Games 2023 and also the preparation of the National General Election. It is envisaged that the Budget 2023 is focused on investing in transformational infrastructures and investments to empower people in the rural areas through health, education, sports, justice, law and order, national security and other social services.

The government plans to operate a deficit budget of $697.7 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 2023 Budget fund only key priorities and mandated functions for recovery and delivery of essential services.

MINISTRY OF FINANCE AND TREASURY ★ SOLOMON ISLANDS ★

Hon. Harry D Kuma, MP
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,* 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 a financial year and such information relating to its fiscal and debt management strategies three months before start of financial year.

The strategy is developed within the parameters of the overall macroeconomic performance and projections of the economy in 2023. The government strives to ensure the revenue estimates are realistic and based on conservative modelling and assumptions. Ensure the expenditure ceilings for 2023 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 for Solomon Islands and the basis for which the revenue estimates for 2023 has been developed and followed by a summary of key economic indicators and assumptions. This section provides key DCGA policy direction and priorities which the government plans to implement in the 2023 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 is prepared by Ministry of Finance and Treasury in consultation with the Ministry for Public Service, the Ministry for National Planning and Development Coordination, and the Office of the Prime Minister and Cabinet. These four key Central Ministries and Office are members of the Budget Coordination (BCC) and Budget Strategic (BSC) Committees.

3. GUIDING PRINCIPLES OF THE 2023 BUDGET

The 2023 Budget Theme is **"Iumi Tugeda buildim Resilience By Empowering People and Enhancing Transformational Investments For Sustainability"**. The theme calls for empowering our people and investing in transformational investments to support government's economic recovery efforts and become a nation one that is united, sustainable and prosperous, our Solomon Islands.

The 2023 Budget represents DCGA's ongoing commitments to build a resilient economy and the livelihood of the people of Solomon Islands through building major key infrastructures to support governmment's developmental initiatives in the short to medium term. To guide budget preparation, Budget 2023 is grounded in the following principles;

a) **Strengthen our economy through transformational Investments.** Ongoing efforts of the government to build a strong and resilient economy through transformational investments to promote growth ensuring developmental barriers are minismised in the short to medium term.

b) **Invest to empower people and promote national unity.** Solomon Islanders are empowered through investments in health, education, sports, communications, renewableable energy, business, law and order, national security, creation of economic opportunities and involvement in national general election process.

c) **Streamline government operations by addressing cros-cutting needs through cost sharing arrangements to effectively deliver government spending priorities.** Encourage ministries to coordinate during budget planning and implementation of the budget. Focus resources to key legacy infrastrucutres and national events such as Pacific Games and preparation of the national general elections.

d) **Responsible financial management.** Government is fully commitment to maintain a affordable budget by prioritizing key spending priorities and managing critical pressures and ensure fiscal buffers are built overtime to manage cash when required.

4. POLICY DIRECTION AND BUDGET PRIORITIES 2023

Solomon Islands has come through a difficult and challenging years from 2020 to 2022 due primarily to the negative impacts of the COVID-19 pandemic in the global and domestic fronts and futher worsened by the November 2021 civil unrest. This is the third budget of the DCGA after the outbreak of the COVID-19 pandemic, and the second after the November 2021 Civil unrest.

Budget 2023 is the third budget handed by DCGA since elected to power but more importantly, the government had implemented series of policy measures to mitigate adverse impacts of the COVID 19 through the annual budgets and supplementary budgets since 2020 to 2022.

In 2020 to 2021, government adapted two key policy outcomes (i) to prevent the entry of COVID-19 into the country and protect our population from COVID-19, in the event it enters, and (ii) to maintain our economy afloat and accelerate economic recovery.

In 2022 the focus of our budget was expanded to achieve three policy outcomes, (i) Living with and Overcoming COVID19 (C19) through containing and managing the COVID 19 community outbreak, (ii) Responding to the economic impact of the destruction in the capital city caused by the November 2021 civil unrest, and (iii) accelerating economic recovery.

The 2023 National Budget is a critical budget after the country has been hit by the four Cs', Covid 19 Pandemic, Civil Unrest in November 2021, Community Covid 19 transmission and China Geopolitics. This is why Budget 2023 is Recovery Budget, that focuses resources to strengthen the economy, empower people but also transformational to invest in key important developmental infrastructures to drive economic activities and support government's recovery efforts in the short to medium terms.

The 2023 budget underpins two important policy pillars that are critical in Government's efforts to sustaining economic recovery, as follows;

A. **Transformational investments to boost our economic recovery and build our resilience to achieve sustainable economic growth**
B. **Empowering our people, and promote National Unity and Prosperity**

A. TRANSFORMATIONAL INVESTMENTS TO BOOST OUR ECONOMIC RECOVERY AND BUILD OUR RESILIENCE TO ACHIEVE SUSTAINABLE ECONOMIC GROWTH

The DCGA believes that enhancing and driving transformational investments will boost our economic recovery and build our resilience to achieve sustainable economic growth.

The 2023 Budget is "NOT a business-as-usual or a 'more of the same' budget". It is a budget that (i) consolidates the foundations for growth established and strengthened over the past year, (ii) upgrades or modernises our guiding policies, systems, and infrastructure, and (iii) transforms our investments into high-impact, resilient, sustainable, economically viable, environmentally friendly, revenue generating initiatives, and opening of new economic opportunities in our provinces and rural areas.

Investments that consolidate the foundations for growth will include support and value to our larger productive industries such as KFPL, GPPOL, Gold Ridge, RIPEL, Eagon, Telecommunications sector, Petroleum and fuel sector, the Energy and Renewable sector, Ports facilities, and enhancing the capacity of the productive and resource sectors to increase value-adding, downstream processing and export of products.

Investments that upgrades or modernizes our guiding policies, systems and infrastructure will include:

- support to key policies or legislations such as the National Building Code, Road Transport Authority, Electricity Act,
- upgrade of bridges in provinces and rural areas from wooden planks to metal and concrete,
- upgrade of dirt roads to tar-sealed roads with proper drainage,
- upgrade and weatherproofing of key critical infrastructure in provinces including airstrips, wharves, jetties ,and shelter at all passenger wharves,
- Compliance with overseas phytosanitary requirements to export our agricultural produce to overseas markets

Transformative Investments (projects) will include projects such as:

- expanding the reach of our telecommunication sector to rural and remote areas with fast, accessible, reliable and affordable internet connectivity;
- implementation of a nation-wide renewable energy strategy roadmap based initially on hydropower and photovoltaic energy;
- develop an overarching national energy roadmap that balances petroleum driven energy and renewable energy;
- lengthening and widening of the international airport to allow for long-haul wide-body aircrafts to operate non-stop to Honiara to enhance the tourism and business market;
- initiate consultations to develop a new and larger international seaport terminal outside of Honiara city to cater for future growth;
- fast-track tourism development including targeting an expansion of cruise tourism and attracting investors to invest in four and five star hotels to benefit from the fast increasing global tourism market;
- explore and implement innovative revenue-generating programs such as 'citizenship by investment program that has potential to introduce new financing streams';
- establish a national development / infrastructure authority to prioritise funding and implementation of key critical national infrastructure throughout the country,
- further develop and implement components of the national Transport Core initiative, and
- explore a second submarine cable link to provide a redundancy to our current cable and expand out communication capacity.
- other transformative projects and activities will be explored in the productive and resources sectors

Under Legislative Reforms:

- . The Ministry of Finance and Treasury (MoFT):
    - has tabled the tax administration bill before Parliament. Once approved by Parliament and enacted, full implementation will follow. Improved tax administration will enhance increased tax collection resulting in higher revenue levels for government.
    - will expedite efforts to pursue urgent tax reforms in 2023 to spurt economic growth
    - will complete its policy consultation on the Value Added Tax (VAT) Bill in 2022 with plans to table the bill in 2023. Once approved by Parliament and enacted, the Bill will provide a fairer, efficient, and a more level playing field
    - Complete the work on the National payment system Bill, which will address the challenges posed by the digital economy. The National Payment Bill will allow interoperability and promote real time transactions to occur

- The Ministry of Mines Energy and Rural Electrification has completed the review of the Electricity Act which will address current constraints relating to regulatory authority and electricity pricing. The Ministry anticipates tabling the new Bill in in late 2021 or early 2023. Once approved by

Parliament and enacted implementation will follow in 2023 with the regulatory authority separated from the provider.

Institutional and Policy Reforms

- The Commodity Export Marketing Authority (CEMA) will further expand its presence throughout the country and bring services closer to our rural farmers and producers. The revitalisation of CEMA provides economic opportunities for the 80 percent of our rural population that depend on the agricultural and forestry commodities for their livelihoods.

- The DBSI restablished in 2020 is delivering sustainable financing to small to medium businesses. This transformative initiative is already making economic impacts in SMEs accessing assistance from DBSI. 2023 Budget will continue to inbvest in DBSI to ensure iut reaches more SMEs.

- The government will continue to pursue the establishment of special economic zones in the country to take advantage of the diverse opportunities and strengths for each separate zones or provinces

- The 2023 Budget will provide incentives to encourage and promote private sector investment in the productive and resource sectors

B. EMPOWERING OUR PEOPLE, AND PROMOTE NATIONAL UNITY AND PROSPERITY

Investing in our people and empowering them is the key tenet of the 2023 Budget. To achieve this goal, we must first understand our current and future population dynamics.

Solomon Islands has a very young population. About 40% of our total population is below 15 years of age. About 60 percent of our total population is below 25 years of age. 5.5% of our population is above 60 years of age. Only 35 % of our population are in the 25 years to 59 years age group which is the most economically active age group. However, of this 35% we can assume than less than 60,000 [about 8.4% of the total population] are gainfully employed.

These statistics are of serious concern. Based on age alone, about 65% of our total population are dependent on the economically active age group for their sustenance.

However, considering that the majority of those in the 25 – 59 age group are not gainfully employed it is likely that between 90% to 92% of our total population is dependent on 8 – 10 percent of the employed population for their sustenance.

The key facts that our 2023 Budget needed to consider are simply:

- 40% of our population are in the primary school age-group and younger
- 20% of our population are youths between 15 and 24 years of age
- Solomon Islands produces about 20,000 births each year,

- About 18,000 students drop out of the education system each year. Most of these dropouts are unemployed, leading to an exponential increase in unemployed young people in our communities.

We must start addressing these challenges now to ensure our people are empowered and unified before 2025 when our population is projected to reach 1.35 million people.

The 2023 Budget sets the foundation for long-term empowerment, nation building, and prosperity for our nation.

Investment in and empowerment of our people is channelled through all government ministries including in education, in health, in children, youths, women and men. It also invests in national security, and programs to promote national unity and long-term peace and security of the country. It invests in the productive and resource sectors. It also supports the work of provincial governments across these areas to ensure 'no one is left behind'.

Pacific Games 2023

The 2023 Pacific Games is the single largest unifying undertaking by the DCGA. It is also the single largest driver of the country's robust economic recovery. The government will execute a 'whole-of-government' strategy under the 2023 Budget to support the successful implementation of the 2023 Pacific Games. Each government ministry has created a budget head called 2023 PG Support under which all the activities to be undertaken by the ministry for the 2023 Pacific Games will be budgeted. The funding that goes through the National Hosting Authority will support the actual delivery of the games through the Games Organising Committee.

The new infrastructure built for the 2023 Pacific Games has changed to skyline of Honiara city. It has introduced modern buildings, facilities, the likes of which this country has not seen before. The Pacific Games 2023 venues comprise our sports City.

The 2023 Pacific will leave a legacy for the young population of this country to enjoy for years to come. The legacy will enable our young athletes to excel and compete in many other events, regionally and internationally.

By investing in the 2023 Pacific Games, the DCGA is investing in, and empowering our people while at the same time unifying our nation to host the games in 2023.

Education

Government will continue to invest in the education sector in 2023, and the goal is to expand access, decrease the dropout rate, and improve facilities and equipping our schools.

Our goals for education is to expand access and improve quality of education especially in the provinces and rural areas. In 2023, the government will continue with ongoing initiatives to improve access to technology (computers and internet connectivity) in schools.

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Government will continue to support schools through grant assistance to help them meet the cost of school operations and the provision of quality teaching and learning resources. Government assistance will be all encompassing from early childhood to secondary and to tertiary level.

Government is looking at improving commitment to Early Childhood Education.

To address the issue of school drop outs and access to education, the government will continue its support towards existing initiatives upgrading of school infrastructure such new classrooms, science labs, dormitories and ablution blocks.

Our assistance to SINU through budgetary and infrastructure and capital development support to improve SINU's status as University will continue.

Education is crucial for Solomon Islands and whether you live in the islands or in remote rural areas, we must access to educational and vocational opportunities. Only through education training will we can become competitive with our regional peers and the outside world.

Health

As we strive to provide our citizens with better education, we also strive to ensure our citizens maintain sound and healthy bodies. Employing preventative health measures and adequate treatment is the foundation of a happy, productive life and healthy life.

Solomon Islands experiences a **'double disease burden'**. We have high prevalence of communicable diseases such malaraia, respiratory infections and COVID-19. At the same time non-communicable diseases has reached epidemic levels and is now responsible for about seven deaths from every ten deaths in the country.

In addition our health system is weak, and must be strengthend to provide effective and efficient health services to our population.

The 2023 Budget will focus on three primary objectives for health namely (i) continue to invest in the control and hopefully elimination of COVID-19 and other highly transmissible diseases to protect our people and our country. Our funded COVID-19 strategy will continue to be determined by the COVID-19 situation globally and in the region, (ii) invest to tackle non-communicable diseases, the single largest killer of Solomon Islands people, and (iii) transform and strengthen our health system including modernisation of health policies, strategies, financial and information systems, transform distribution systems for medicnes and drugs to all health facilities so that we no loner experience stockouts, and improve human resources throughout the heath system.

In 2023, the Ministry of Health and Medical Services will continue to provide budget support to address our health system. Our goal is to dramatically improve the delivery of health services, while encouraging prevention at all levels of society.

The Government support on health will be channelled toward areas directly related to service delivery, such as the purchase of drugs and medicines, consumables, dental prosthetics, oxygen supplies, and vaccines, as well as supporting operations of our health services.

Improvement of our medical infrastructure will continue with funds being provided for the construction and upgrading of health institutions as it is imperative to reach all parts of our country.

Work will begin on the new PRC funded four-storey modern comprehensive health facility at the eastern end of the national referral hospital early in 2023. This facility will transform the type and level of care we can provide to people in Solomon Islands. We are also encouraged by investors from the private sector on private health facilities to complement government institutions.

As alluded to above, NCDs is the single largest killer of people in Solomon Islands. 70% of deaths in the country are due to NCDs such as diabetes, heart disease, heart attack, high blood pressure, stroke and cancers.. The sad fact is that Solomon Islands do not need to die from NCDs because we can control the risk factors. The seven most important risk factors in NCDs are: (i) consumption of sugar / sugary foods and beverages. (i) consumption of too much salt; (iii) consumption of too much fat and low quality oil; (iv) tobacco and cigarette smoking, (v) alcohol, (vi) lack of exercise, (vii) obesity.

All seven of the risk factors are within the control of each individual Solomon Islander, not the health system. Eacg individual must adjust their way of life to reduce the current NCD epidemic in the country.

The health system is overwhelmed by the high levels of NCDs threatens that over-stretches the capacity of the country to contain.

With our limited resources, we must work smarter. The simplest and most important strategy to reduce NCDs is for each individual to modify their life habits and avoid the risk factors that drive NCDs. Primary prevention is critical, and the responsibility of all. We have also doubled the allocation for NCD awareness and prevention for NCDs in 2023.

The government will continue to advocate on a policy for healthy diet and exercise regularly. Be cautious of the saturated fats and salt in your diet. Eat more fruit and vegetables. To support this, the government will promote home grown vegetables and fruits and will be working with Ministry of Health and Medical Services and Ministry of Finance and Treasury to double our effort in the implementation of tax on sugary foods.

The government will also looking at a strategy to increase the tariffs on the importation of fat and sugary foods, which negatively affect health.

The same will apply for cigarettes and alcohol, which will see in the future an increased excise duty.

We want all Solomon Islanders to live long and healthy lives

National Security

The 2023 Budget will invest in the safety and security of our people through continued investments to the Ministry of Police, National Security and Correctional Services.

We plan to increase the number of posts in the Ministry incrementally to reach 2,500 officers over the next five years, an increase of 200 new officers per year. The police officer to population ratio in Solomon Islands has increased now to the point we must change, to maintain law and order.

In partnership with our partners, the police radio-communication network is being enhanced throughout the country. This will also transform communication capability for othert users such as health and disaster offices in rural areas where they co-locate with RSIPF.

Work on the western border outpost will commence early in and the assessment work on the Eastern Border outpost will be completed in 2023, with construction likely to commence later in 2023.

Security for the 2023 Pacific games will be one of the main priorities for the RSIPF in 2023.

Women and Youth Empowerment

The 2023 Budget will ensure continued priority accorded to our women and youth through the Ministry of Women, Youth, Children and Family Affairs. Support will also be provided through other minsitries whose work also benefits women and youth for instance ministries of health and education.

The government will step up efforts to further strengthen the labour mobility program so that more of our youths and adults can access employment opportuinties in Australia and New Zealand and other countries offering similar opportunities.

Our engagement in labour mobility programs is a short to medium term strategy while we focus on creating more employment opportunities locally in the country.

5. OVERALL 2023 BUDGET STRATEGY

(i) Macroeconomic Outlook

World Economic Outlook

An uncertain recovery in 2021 has been followed by increasingly gloomy developments in 2022 as risks began to materialize. Global output contracted in the second quarter of this year, owing to downturns in China and Russia, while US consumer spending undershot expectations. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation worldwide—especially in the United States and major European economies—triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID- 19 outbreaks and lockdowns; and further negative spill overs from the war in Ukraine.

The global growth is forecast to slow from 6.1 percent in 2021 to 3.2 percent in 2022, 0.4 percentage point lower than in the April 2022 World Economic Outlook. Lower real GDP growth earlier this year, reduced household purchasing power, and tighter monetary policy drove a downward revision of 1.4 percentage points in the United States. In China, further lockdowns and the deepening real estate crisis have led growth to be revised down by 1.1 percentage points, with major global spill overs.

Global inflation has been revised up due to food and energy prices as well as lingering supply-demand imbalances, and is anticipated to reach 6.6 percent in advanced economies and 9.5 percent in emerging market and developing economies this year—upward revisions of 0.9 and 0.8 percentage point, respectively. In 2023, disinflationary monetary policy is expected to bite, with global output growing by just 2.9 percent.

The risks to the outlook are overwhelmingly tilted to the downside. The war in Ukraine could lead to a sudden stop of European gas imports from Russia; inflation could be harder to bring down than anticipated either if labour markets are tighter than expected or inflation expectations unanchor; tighter global financial conditions could induce debt distress in emerging market and developing economies; renewed COVID-19 outbreaks and lockdowns, as well as a further escalation of the property sector crisis might further suppress Chinese growth; and geopolitical fragmentation could impede global trade and cooperation. A plausible alternative scenario in which risks materialize, inflation rises further, and global growth declines to about 2.6 percent and 2.0 percent in 2022 and 2023, respectively, would put growth in the bottom 10 percent of outcomes since 1970.

With increasing prices continuing to squeeze living standards worldwide, taming inflation should be the priority for policymakers. Tighter monetary policy will inevitably have real economic costs, but the delay will only exacerbate them. Targeted fiscal support can help cushion the impact on the most vulnerable, but with government budgets stretched by the pandemic and the need for a disinflationary overall macroeconomic policy stance, such policies will need to be offset by increased taxes or lower government spending. Tighter monetary conditions will also affect financial stability, requiring judicious use of macro-prudential tools and making reforms to debt resolution frameworks all the more necessary.

Figure 1: World Economic Outlook

Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	Year over Year				Difference from April 2022 WEO Projections 1/		Q4 over Q4 2/		
			Projections					Projections	
	2020	2021	2022	2023	2022	2023	2021	2022	2023
World Output	**–3.1**	**6.1**	**3.2**	**2.9**	**–0.4**	**–0.7**	**4.4**	**1.7**	**3.2**
Advanced Economies	**–4.5**	**5.2**	**2.5**	**1.4**	**–0.8**	**–1.0**	**4.7**	**1.3**	**1.5**
United States	–3.4	5.7	2.3	1.0	–1.4	–1.3	5.5	1.0	0.6
Euro Area	–6.3	5.4	2.6	1.2	–0.2	–1.1	4.7	0.7	2.1
Germany	–4.6	2.9	1.2	0.8	–0.9	–1.9	1.8	0.5	1.5
France	–7.9	6.8	2.3	1.0	–0.6	–0.4	4.9	0.4	1.1
Italy	–9.0	6.6	3.0	0.7	0.7	–1.0	6.4	0.6	1.6
Spain	–10.8	5.1	4.0	2.0	–0.8	–1.3	5.5	1.3	2.3
Japan	–4.5	1.7	1.7	1.7	–0.7	–0.6	0.4	2.4	0.6
United Kingdom	–9.3	7.4	3.2	0.5	–0.5	–0.7	6.6	0.1	1.3
Canada	–5.2	4.5	3.4	1.8	–0.5	–1.0	3.2	2.5	1.7
Other Advanced Economies 3/	–1.8	5.1	2.9	2.7	–0.2	–0.3	4.6	2.0	2.8
Emerging Market and Developing Economies	**–2.0**	**6.8**	**3.6**	**3.9**	**–0.2**	**–0.5**	**4.2**	**2.1**	**4.7**
Emerging and Developing Asia	–0.8	7.3	4.6	5.0	–0.8	–0.6	3.8	4.0	4.7
China	2.2	8.1	3.3	4.6	–1.1	–0.5	3.5	4.1	3.2
India 4/	–6.6	8.7	7.4	6.1	–0.8	–0.8	3.9	4.1	7.2
ASEAN-5 5/	–3.4	3.4	5.3	5.1	0.0	–0.8	4.7	3.4	6.1
Emerging and Developing Europe	–1.8	6.7	–1.4	0.9	1.5	–0.4	6.1	–7.0	7.7
Russia	–2.7	4.7	–6.0	–3.5	2.5	–1.2	4.8	–13.9	4.8
Latin America and the Caribbean	–6.9	6.9	3.0	2.0	0.5	–0.5	3.9	1.8	2.1
Brazil	–3.9	4.6	1.7	1.1	0.9	–0.3	1.6	1.5	1.5
Mexico	–8.1	4.8	2.4	1.2	0.4	–1.3	1.2	2.9	1.0
Middle East and Central Asia	–2.9	5.8	4.8	3.5	0.2	–0.2	. . .	. . .	. . .
Saudi Arabia	–4.1	3.2	7.6	3.7	0.0	0.1	6.7	6.9	3.7
Sub-Saharan Africa	–1.6	4.6	3.8	4.0	0.0	0.0	. . .	. . .	. . .
Nigeria	–1.8	3.6	3.4	3.2	0.0	0.1	2.4	2.1	2.3
South Africa	–6.3	4.9	2.3	1.4	0.4	0.0	1.8	2.2	1.7
Memorandum									
World Growth Based on Market Exchange Rates	–3.4	5.8	2.9	2.4	–0.6	–0.7	4.4	1.6	2.5
European Union	–5.8	5.4	2.8	1.6	–0.1	–0.9	4.9	0.9	2.8
Middle East and North Africa	–3.4	5.8	4.9	3.4	–0.1	–0.2	. . .	. . .	. . .
Emerging Market and Middle-Income Economies	–2.2	7.0	3.5	3.8	–0.3	–0.5	4.3	2.0	4.7
Low-Income Developing Countries	0.1	4.5	5.0	5.2	0.4	–0.2	. . .	. . .	. . .
World Trade Volume (goods and services) 6/	**–7.9**	**10.1**	**4.1**	**3.2**	**–0.9**	**–1.2**	**. . .**	**. . .**	**. . .**
Advanced Economies	–8.8	9.1	5.3	3.2	–0.3	–1.4	. . .	. . .	. . .
Emerging Market and Developing Economies	–6.2	11.7	2.2	3.3	–1.8	–0.9	. . .	. . .	. . .
Commodity Prices (US dollars)									
Oil 7/	–32.7	67.3	50.4	–12.3	–4.3	1.0	79.2	28.6	–13.4
Nonfuel (average based on world commodity import weights)	6.7	26.1	10.1	–3.5	–1.3	–1.0	16.4	5.7	–0.6
World Consumer Prices 8/	**3.2**	**4.7**	**8.3**	**5.7**	**0.9**	**0.9**	**5.6**	**8.3**	**4.1**
Advanced Economies 9/	0.7	3.1	6.6	3.3	0.9	0.8	4.9	6.3	2.3
Emerging Market and Developing Economies 8/	5.2	5.9	9.5	7.3	0.8	0.8	6.1	10.0	5.7

Domestic Outlook

Overview 2021

Recent development & Impact of Ukraine War in Solomon Islands

Solomon Islands economy was already subdued in 2021 and declined sharply as result of the November riots in Honiara. The COVID-19 community transmission was detected in January 2022, with the virus later spreading rapidly in Honiara and to other provinces. Economic activity temporarily came to a halt with the implementation of mobility restrictions, some of which have been subsequently eased. COVID-19 vaccination rollout accelerated, and as of July 2022 vaccination rates are now reached 51 per cent of the vaccination target.

With the reopening of borders in July in 2022 incoming travel have started for experts and personnel for infrastructure projects and tourism towards the end of the year. However, the impact of the riots and domestic transmission of COVID-19 are expected to result in a decline in real GDP in 2021 and 2022 putting significant pressure on the already precarious fiscal position. Adding to these challenges, the Ukraine war is likely to have a further negative impact on the economy.

Impact of the war in Ukraine.

The war is expected to have a negative impact for Solomon Islands through higher global oil and commodities prices and lower external demand:

Higher oil and commodity prices.

Global oil and commodity price have risen significantly and are expected to remain at the high levels in the near-term. As a result, Solomon Islands faces a negative terms-of-trade shock with the increase in energy and food imports prices only partially offset by higher prices for commodities exports (such as copra, fish and palm oil). The overall impact will depend on the magnitude and persistence of the oil price shock, which remains highly uncertain.

The war will negatively impact external demand for Solomon Islands' exports. Although, Solomon Islands has limited direct trade linkages to Russia or Ukraine, impact on trade will be channelled primarily through reduced external demand from its main trading partners—the European Union and China. Global growth is expected to decline, creating negative spill overs for Solomon Islands.

Other channels for potential spill overs effects, for example through negative financial sector and confidence effects due to higher uncertainty and supply disruptions for specific goods are expected to play a smaller role.

Real GDP growth

Real GDP growth for Solomon Islands is projected to be -4.5 per cent in 2022, down from -0.2 per cent growth estimated in 2021. A large part of the downwards revision of growth in 2022 was due to the negative impact of riots and domestic covid-19 community transmission. The higher fuel and commodities prices and lower external demand due to the Ukraine war are expected to lower GDP further down in 2022. With regard to the sectoral impact, output in the primary sector is expected to be impacted by weaker external demand for logs and fish exports, and the increase in the price of fuel and farm inputs such as fertilizers will negatively impact the domestic production of copra, cocoa, fruits and vegetables.

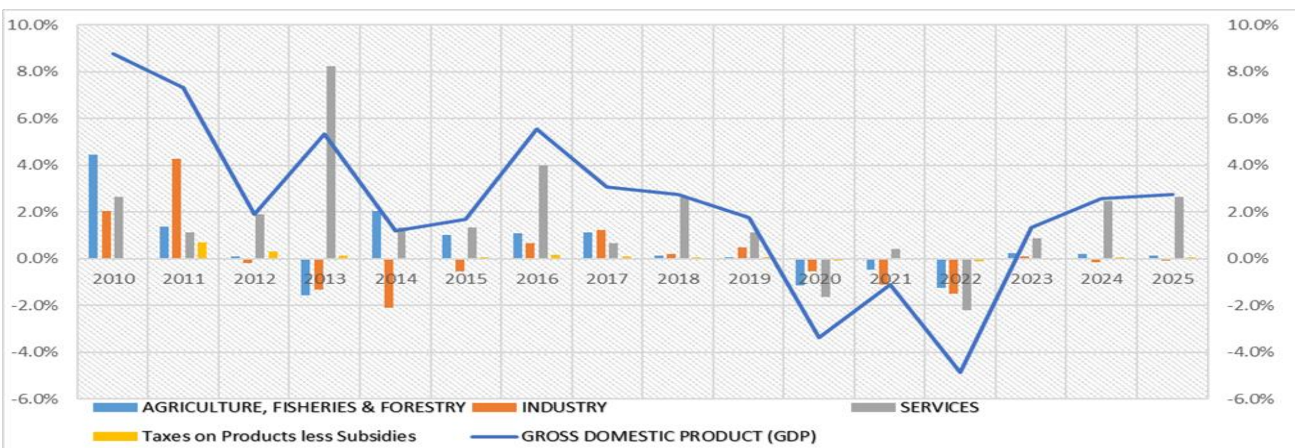
Industrial activity is expected to weaken further as mining, manufacturing and electricity industries face a higher cost of production amidst rising fuel prices. Lower domestic demand is expected to contribute to declines in wholesale and retail trade, hotel and restaurants, business services and finance related activities. As regards expenditure components, higher oil prices are expected to adversely impact both domestic consumption and investment, with weaker external demand weighing on exports.

Figure 2: Solomon Islands Real Economic Growth 2010-2025

Given that Solomon Islands economy has experienced number of shocks, both from domestic and external, most all of the sectors are expected to subtract to growth in 2022. Agriculture sector is forecast to subtract by around 0.8 percentage point to growth in 2022, while fishing is expected to subtract by around 0.2 percentage point. Forestry and Mining sector are forecast to subtract from growth by 0.8 percent and 0.03 per cent in growth for 2022.

Construction and wholesale & trade are also projected to subtract by around 0.1 percentage and 0.4 percentage point to growth in 2022, however the reopening of border and the national infrastructure development including the upcoming South Pacific Games and other donor projects will help to support the economy not to further deteriorate.

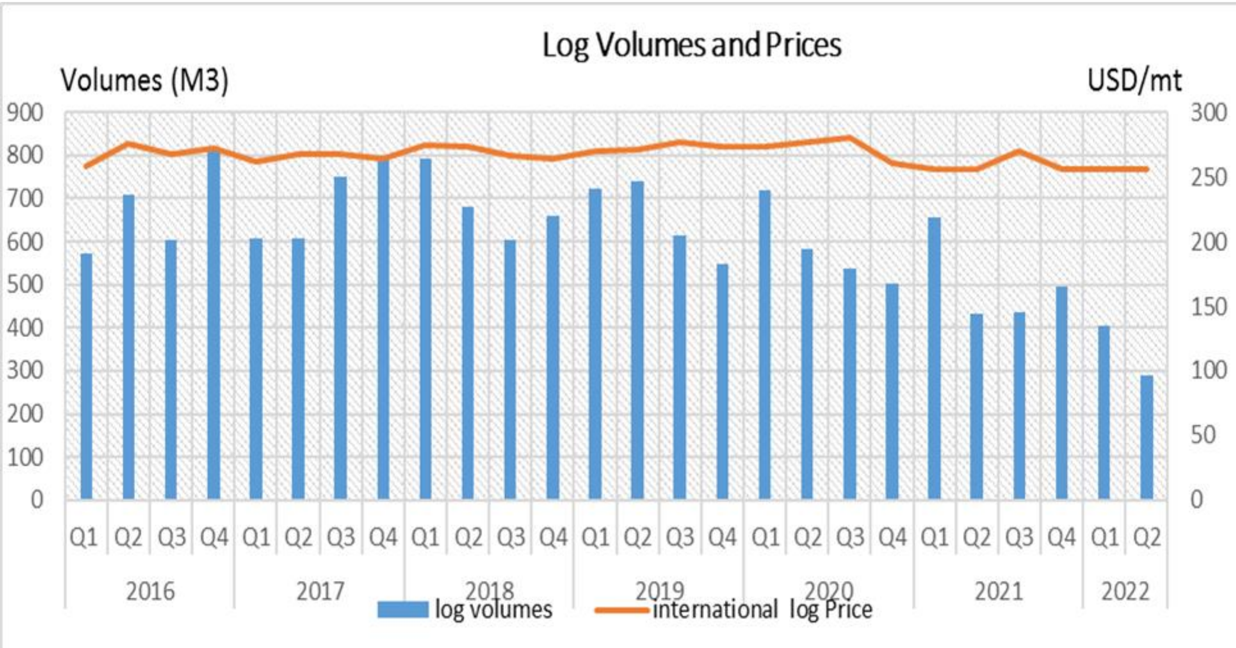
Figure 3: Contribution to Growth 2010-2025



Logging activities have been disrupted by the border closure and general lockdowns and this has contributed to the overall decline in export in Solomon Islands. Export of logs in terms of volume dropped by 31 per cent to 0.81 million cubic in the first half of 2022 compared to the same period last year of around 1.2 million cubic, and there continues to heighten uncertainty about impacts on trade for the second half of 2022.

The total volume of log exports for 2022 is expected to be contained to around 1.7-1.8 million cubic meters, as the covid-19 had affected and slowed down log shipments, and low demand from the world market.

Figure 4: Log volumes

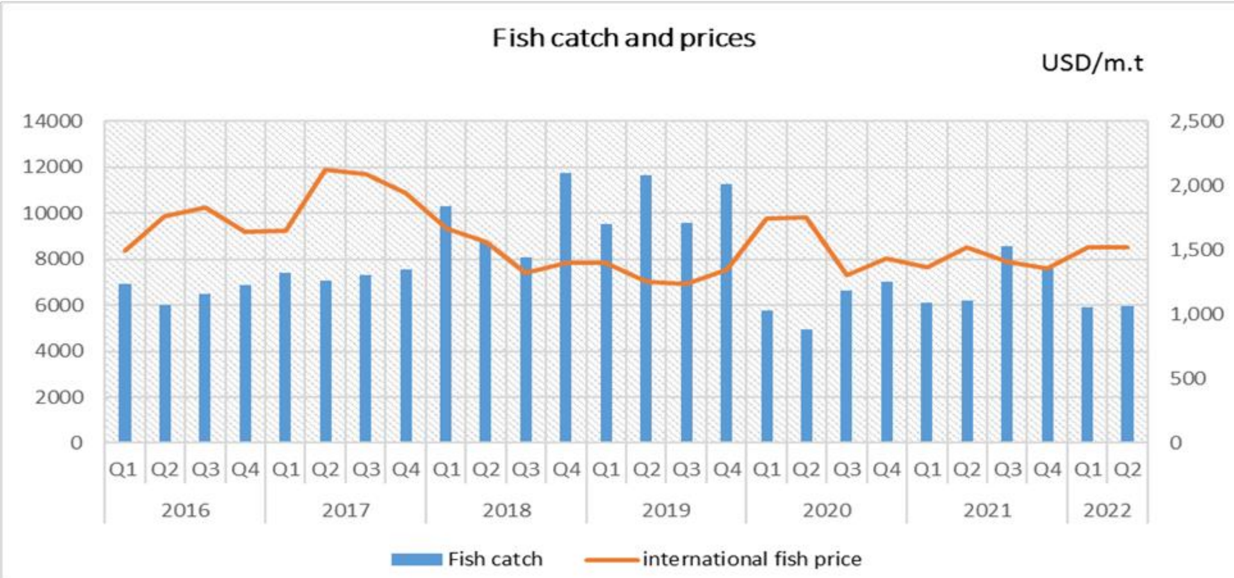


It is essential that the period of COVID-19 has proven difficult for every sector and this has been the case with certain tuna activities in the economy: the longline activity has decreased and the placement of observers on purse seine vessels has remained suspended throughout 2022.

The changing dynamics of the tuna fishery and tuna trade on the back of the COVID-19 impacts and brand dominance in the trade, now complicated with the Ukraine conflict compounding the rising fuel prices, and emerging logistical issues both at sea and in the distribution chain which is expected to affect the fishing activities in 2022.

According to the Solomon Islands commodity production data from CBSI, fish catch for Solomon Islands has declined by -3.4 per cent as of the end of June 2022. Due to catch performance to date, the fisheries sector has revised down to -5.4 per cent in 2022 from the initial forecast of 4.3 percent.

Figure 5: Fish catch and price



After successfully keeping COVID-19 at bay for almost 2 years, community transmission of the virus broke out in Solomon Islands in the first few months of the year. On a more positive note, the reopening of the country's border in July 2022 has seen the tourism sector slowly bouncing back.

However, the recovery is still very uncertain given the heightened uncertainty in the global outlook. Tourism is unlike to return to pre-COVID-19 levels until beyond 2022 and this will be highly dependent on the COVID 19 outlook, as tourists will not feel safe to travel and lifting travel restrictions may not be enough to induce an appetite for tourism in the heightened risk environment.

The agriculture sector has projected a growth of around -4.1 per cent in 2022. This is primarily due to the impact covid-19 community transmission in the first half of 2022 and now compounding with an increase in fuel price.

Year to June 2022, agricultural commodities decline by -17 per cent, except Palm Kernel oil production which slightly increased from the same period last year, by around 0.7 per cent. Given the uncertainty in the outlook, the strength in their half-year production numbers is not guaranteed. The impact of COVID-19 and community transmission this year has caused difficulties in logistics and transportation, marketing and sale of agricultural produce in the market given most of the agricultural products are in the provinces.

Business activities and service output is expected to contract by -3.2 percent in 2022 citing both domestic and external factors such as domestic transportation, health impacts of the pandemic and the higher imported fuel price due to the Russia – Ukraine war.

After the reopening of the national border, the construction sector is expected to slightly improve to -1.5 per cent in 2022 from -2.5 per cent in the initial projection. This is in line with the ongoing construction activities and national infrastructure projects and donor-funded projects that are currently underway in the second half of 2022.

The new trading environment created by COVID-19 has left many manufacturers with several concerns. So far, effects have largely been felt by businesses with very lean supply chains, but deeper systemic disruption may emerge. According to the SICCA survey, most manufacturers have had a worse performance in 2022 and the outlook is uncertain, as business conditions and operation have declined by around 25-50 per cent as of March 2022.

Manufacturing is expected to be negative by around 6.3 per cent in 2022, with key manufacturers facing depressed demand or supply-side issues. With the impact of the increase in oil fuel prices due to Ukraine – Russia war the growth could further decline.

Outlook for 2023 and 2024

After more than 2 years of recession caused by the covid-19 pandemic, Solomon Islands economy is expected to return to positive growth of 2.8 percent in 2023 and 3.1 percent in 2024**.** This reflects the increase in key sectors such as agriculture and fishing, mining, wholesale and trade, construction, manufacturers, financial intermediation, public Administration and other business services as a result of border reopening and easing covid-19 restrictions on mobility and domestic transportation this year. These projections may likely change due to the uncertainty of Ukraine- Russian war, the Covid-19 outlook and government policy to keep the economy afloat.

The Agriculture and Hunting sector is expected to rise by 3.3 percent, while the fishing sector is projected to slightly increase by around 0.1 per cent, this is mainly driven by the informal sector due as domestic economic activities are expected to be stronger in 2023 in line with the 2023 pacific games.

Forestry and logging activities, however, is projected to further decline by 4.5 per cent in 2023 deriving largely from the expected downturn of log exports to around 1.7 million cubic meter associate with a decline in the number of licenses and general depletion of our Forests resources. Solomon Islands logging accessed areas below 400 ASL altitude have already been logged since 1960's until to date.

While logging activities are expected to decline in 2023, the expected easing of COVID-19 restrictions will increase construction, and mining, leading to an economic recovery of 2.8% of Growth.

Business and service activities are expected to increase by 2.4 per cent of growth in 2023 as Covid-19 pandemic virus is expected to be at the low levels associated with more 50 percent vaccination rate and expected boost from 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 contribute by 2.4 per cent and 0.9 per cent, respectively, in 2023. As a result of projected decline of logging, primary sector is projected to contribute by around 0.4 per cent in 2023, this is supported by the expected increase of business activities, agriculture and fishing outputs in the near term.

After the rebound in 2023, Solomon Islands growth is expected to grow at around 3per cent in average into the medium term.

Inflation

The inflation rate for 2022 is expected to increase to around 4 per cent from 2.7 per cent recorded in 2021. High global fuel prices due to the Russian invasion of Ukraine are compounding inflationary pressures in the Pacific through elevated transportation costs and rising prices of imports. High inflation poses a risk to recovery by potentially constraining economic growth through reduced purchasing power and consumption spending.

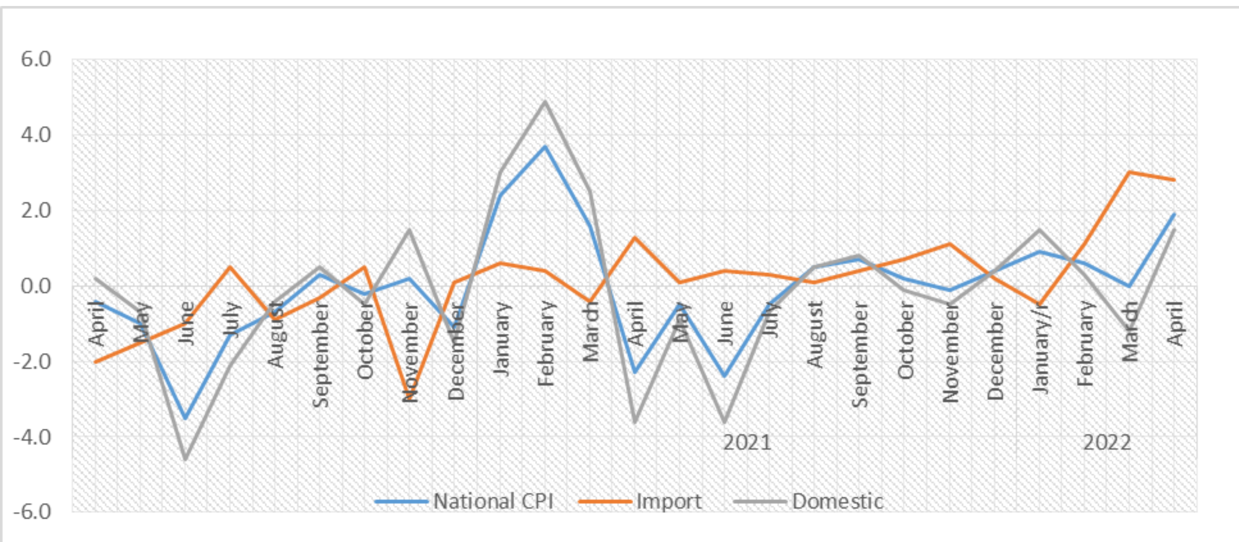
The National Consumer Price Index (CPI) rose 1.9 percent to 111.5 in April 2022. Through the year, compared to the same month in 2021, the National CPI rose by 1.5 percent.

The most significant changes by major expenditure groups from the previous month include:

- Food and Non-Alcoholic Beverages: (+3.9%),
- Alcoholic beverages, tobacco and narcotics: (-1.6%),
- Clothing & Footwear: (-0.7%)
- Housing, water, electricity, gas & other fuels: (+1.4%)
- Furnishings, household equipment & routine household maintenance: (+0.4%)
- Transport: (+3.7%) Miscellaneous good & services: (+0.1)

The Solomon Islands inflation rate for the month of April 2022 calculated on a 3-months moving average basis was -0.8%. The corresponding inflation rates for imported items was +8.0%, while other (domestic) items inflation rate was -4.2%.

Figure 6: National CPI rate – Month on Month



The inflation rate is expected to increase between 4-5 percent in 2023. This inflation rate has been driven by high global fuel prices due to the Russian invasion of Ukraine are compounding inflationary pressures in the economic through elevated transportation costs and rising prices of imports.

On average, inflation in the Pacific is projected to rise sharply to 4.7 % in 2023, before easing to 3-4 % in 2024. High inflation poses a risk to recovery by potentially constraining economic growth through reduced purchasing power and consumption spending.

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 2022.

However, with the border reopened in July this year and eased restriction and measures on the transportation, Solomon Islands current account deficit is forecast to increase to 13per cent of GDP in 2022 and 17 percent of GDP in 2023. The Trade balance as a percent of GDP is also projected to drop by 12.7 per cent due to COVID-19 as demand for commodity exports decline, including logging exports, and tourism and 16.6 per cent of GDP in 2023. 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 13months.

Figure 7: Solomon Islands Balance of Payment

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								A		F			
			in million Solomon Island dollars										
Current account balance	-367	-280	-421	-495	-389	-1,262	-204	-627	-1,257	-1,751	-1,593	-1,257	-1,469
Trade balance for goods	-35	-135	98	45	45	-298	-210	-781	-1,252	-1,671	-1,404	-1,158	-1,303
Exports	3,358	3,330	3,430	3,689	4,261	3,765	3,113	2,982	2,540	2,707	2,870	2,904	2,840
of which: Logs & timber	*2,017*	*2,344*	*2,476*	*2,500*	*3,053*	*2,706*	*2,144*	*1,771*	*1,455*	*1,452*	*1,449*	*1,442*	*1,432*
of which: Fish	*459*	*387*	*332*	*383*	*448*	*405*	*357*	*475*	*365*	*377*	*377*	*377*	*378*
of which: Minerals	*210*	*44*	*18*	*133*	*150*	*162*	*150*	*136*	*145*	*305*	*463*	*502*	*448*
of which: Agricultural exports	*439*	*396*	*487*	*487*	*405*	*345*	*385*	*478*	*462*	*461*	*469*	*467*	*464*
Imports	-3,393	-3,465	-3,332	-3,644	-4,216	-4,063	-3,323	-3,763	-3,792	-4,378	-4,275	-4,062	-4,142
of which: Food	*-831*	*-786*	*-959*	*-865*	*-984*	*-979*	*-1,027*	*-774*	*-761*	*-780*	*-790*	*-802*	*-807*
of which: Fuel	*-778*	*-678*	*-532*	*-711*	*-843*	*-926*	*-742*	*-724*	*-806*	*-822*	*-824*	*-724*	*-806*
of which: Machinery & transport equip	*-993*	*-1,178*	*-971*	*-1,158*	*-1,535*	*-1,042*	*-747*	*-1,222*	*-1,041*	*-1,486*	*-1,246*	*-989*	*-931*
Trade balance for services	-818	-605	-692	-718	-590	-1,025	-838	-872	-914	-914	-996	-888	-941
Exports	830	842	955	993	1,151	1,066	412	341	339	440	367	394	436
Imports	-1,648	-1,447	-1,647	-1,711	-1,742	-2,091	-1,250	-1,213	-1,253	-1,353	-1,363	-1,282	-1,377
Income balance	-113	-192	-341	-234	-164	-136	295	144	126	17	4	16	-2
of which; Fishing rent	205	286	189	184	162	192	298	200	188	206	208	210	212
Current transfers balance	599	651	514	412	320	197	549	882	783	817	804	774	776
of which: Official transfers, net	644	618	642	483	402	444	589	794	647	679	663	631	631
Capital and Financial Account	453	688	809	790	614	686	572	1,058	1,279	1,550	1,649	962	1,142
Capital account balance	515	434	423	477	478	521	512	528	791	865	791	700	583
Direct investment balance	155	212	296	282	126	235	47	183	129	259	343	437	462
Outwards	-5	-38	-11	-56	-72	-33	-28	-40	-41	-36	-32	-29	-26
Inwards	160	250	307	338	198	268	75	223	170	296	375	466	489
Portfolio balance	1	-5	-13	-16	1	-32	-12	-50	-51	-53	-54	-54	-54
Other investment balance	-217	48	103	46	9	-38	25	396	410	478	569	-121	150
Errors and omissions	-77	-3	-312	-76	301	302	-168	-20	0	0	0	0	0
Overall balance	9	406	77	218	527	-274	200	411	22	-202	56	-295	-327
Financing	-9	-406	-77	-218	-527	274	-200	-411	-22	202	-56	295	327
Changes in gross reserves (-ve = increase)	-1	-384	-49	-217	-527	290	-437	-409	-22	202	-56	295	327
IMF Prog (-ve = decrease)	-8	-21	-27	-1	1	-17	238	-2	-	-	-	-	-

Export

Total exports are projected to contract by 15percent in 2022, led by lower exports of logs, fish and agriculture export. However, commodities such as minerals, still projected to grow slightly due to combination of base related effects, higher price and steady demand.

In 2023, total exports are anticipated to improve by 6.8 per cent in line with the projected recovery in the international and domestic activity. External demand for all categories of exports except for round logs are forecast to decline. Total exports are projected to expand by 6 per cent in 2023, due to positive contribution from agricultural exports, minerals and fish exports.

Imports

Total imports are expected a slightly increase by 0.8 percent in 2022 compared to 2021.The slightly increase in growth is mainly driven by imports of fuel. Import for food, machinery & Transport equipment are expected to decline in 2022.

In 2023 total imports are estimates to grow by 15 per cent, led by growth in the machinery and Transportations equipment.

Risks

Domestic risks to the economic outlook reflect low fiscal and external buffers and subdued investment due to impact of the pandemic and the recent social unrest. Over the recent years, lower economic growth relies disproportionately more on expansionary fiscal policy and resource industries, such as logging. The impact of COVID-19, compounding with the recent riot have has heightened the risk on the sources of revenue that may be more rapid and disruptive on the economy than anticipated. Thus, over the medium-term, the declining 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 and Ukraine – Russia war, cyber-attacks 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

COVID-19 has caused a major decline in tax revenue in most economies since 2020 when it is first declared a global pandemic by the World Health Organisation. Solomon Islands which experienced the pandemic impact in 2020, was toppled by the domestic riot in late 2021 and buoyant by the impact of the Russian/Ukraine war in early 2022. In the lead-up to 2023, these have caused a general economic slowdown in most domestic economies. However, in mid-2022, the reopening of international borders become effective in almost all economies. This has proven that the fight against the pandemic has slowed down giving business communities confidence to propel operations and activities back on track towards the 2023 fiscal year.

Domestic Revenue Outlook 2023

The economic growth outlook in 2023 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. Furthermore, the likely impact of the 2021 domestic riot and the Russian/ Ukraine war will adverse impact on the overall revenue. Despite these challenges, the re-opening of international borders is expected to move the economy forward once more. Normal government operations and private business activities are expected to be back on track.

Total tax revenue from Inland Revenue Division (IRD) and Customs and Excise Division (CED) is projected at around SBD 2,654.4 million in 2023. This is $5.5 million (or 0.2 percent) lower than the 2021 actual collection of $2,648.9 million and $102 million (or 4 percent) above the 2022 original budget. The total revenue from other ministries is forecasted at $421.5 million dollar, around $35.9 million (or 9 percent) above the 2021 actual collections and $1.5 million above the 2022 original estimates.

Figure 8. 2023 Domestic Revenue Estimates

REVENUE (SI $million)	2019 revised	2020 Actual	2021 Actual	2022 original Budget	2022 revised budget	2023 Budget Estimates	2024 Budget Estimates	2025 Budget Estimates	2026 Budget Estimates
Inland Revenue Division	1,969	1,742.34	1,782.80	1,694.7	1,727.8	1,783.7	1,787.3	1,842.7	1,899.8
Company tax	301.6	317.7	283.9	269.2	286.3	303.8	305.0	314.5	324.2
Personal tax	509.5	406.4	408.1	400.5	411.7	415.9	423.8	436.9	450.5
Withholding tax	294.2	284.0	301.6	272.8	257.8	279.7	268.7	277.1	285.7
Goods tax	755.7	630.5	685.1	657.0	679.3	682.0	682.0	703.2	725.0
Sales tax	77.7	72.8	74.3	67.7	62.5	71.5	77.0	79.4	81.9
Stamp duty	13.0	11.8	11.1	10.9	12.5	12.6	12.9	13.3	13.7
Licence revenue	17.4	19.2	18.6	16.7	17.7	18.1	17.8	18.3	18.9
Customs and Excise revenue	997.5	962.73	866.1	857.7	836.6	870.7	883.6	911.0	930.1
Import duty	246.2	256.2	272.6	272.0	274.9	280.4	294.4	303.5	318.7
Export duty	562.2	480.7	383.9	380.4	329.1	352.2	348.6	359.4	355.8
of which: export duty on logs	541.4	477.0	375.3	375.6	324.9	347.7	344.2	354.9	351.3
export duty of non-log related	19.8	3.7	8.6	4.8	4.2	4.5	4.4	4.6	4.5
Excise duty	188.0	220.5	202.1	197.7	225.0	230.2	232.5	239.7	247.1
Fees, Charges and others	1.1	5.4	7.5	7.5	7.7	8.0	8.1	8.4	8.5
Total CED/IRD	2,966.6	2,705.1	2,648.9	2,552.4	2,564.4	2,654.4	2,670.9	2,753.7	2,829.9
other revenue	482.1	432.5	385.6	420.5	420.5	421.5	422.5	423.5	424.5
Total Estimated revenue	3,448.7	3,137.6	3,034.5	2,972.9	2,984.9	3,075.9	3,093.4	3,177.2	3,254.4

Source: MOFT estimates

Estimates for the Inlands Revenue Division for 2023

The total IRD revenue forecast for 2023 is projected at SBD $1.783 billion. This is around $89 million (or 5 percent) higher than the original 2022 Budget estimate of $1.694 billion and around $1 million above the 2021 actual collections. The increase was projected due to all IRD tax heads expected to increase collections as business activities slowly recover from the Covid-19 period.

Sales tax is forecast at around $71.5 million; this is an increase of around 5.7 percent from the 2022 original forecasts of $67.7 million. The re-opening of international borders and the lifting of restrictions will boost confidence in the businesses and activities – thus increasing transactions.

Company tax is estimated at $303.8 million in 2023; an increase of $34.6 million from the 2022 original budget and an increase of $19.9 million when compared to the 2021 actual collections. The Government's policy response in providing relief and promoting recovery from the Covid-19 pandemic through financial support for businesses would prevent further decline in income and output.

Goods tax was estimated at $682.0 million in 2023. This was $25 million above the 2022 original budget but $3.1 million below 2021 actual collections. Businesses were expected to easily recover from the pandemic and the riot in 2021. Business activities and transactions were expected to increase as reopening of the international borders would increase confidence in the business operations.

Personal tax (PAYE) was estimated to be around $415.9 million in 2023. This was $15.4 million above the 2022 original estimates and $7.8 million above the 2021 actual collections. PAYE is expected to rebound after the pandemic as lifting of restrictions and re-opening of international borders will boost business confidence – thus employment is expected to remain at the current level or recruitment to be increased to cater for the increased demand ahead. There will be no more shifting of working hours or forced relieving of employees as in the peak covid-19 period.

Stamp duty was estimated at $12.6 million in 2023. This was $1.7 million above the 2022 original budget and $1.5 million above the 2021 actual collections. Likewise, **Licenses revenue** is also expected to increase from 2022 original budget; $2.4 million more but is half a million less than 2021 actual collections.

Estimates for Customs and Excise Division (CED) for 2023

Total CED revenue is estimated at $870.7 million in 2023. This was $13 million (or 2 percent) above the 2022 original budget and $4.6 million (0.5 percent) above the 2021 actual collections. The increased estimation was triggered by better collection in 2021 from the import duties and excise duties in which both collected surplus when compared to original estimates and this was in amid the pandemic.
Import duties are estimated at $280.4 million in 2023; around $8.4 million higher than the 2022 original estimates of around SBD 272.0 million and $7.8 million higher than the 2021 actual collection of SBD 272.6 million. It is expected that the reopening of international borders will increase importing of goods that attract high duties including foods, manufacturing goods by material, manufacturing, transport and equipment, Manufacturing Miscellaneous, diesel and other fuel. Added that the 2023 SPG event will boost importing of goods by the business houses – thus positive import duties revenue collection.

Export duties were estimated at $352.2 million in 2023. This was around $28.2 million lower than the 2022 original budget and $31.7 million below 2021 actual collections. Log output is expected between 1.7 to 1.8 million meters 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 impact of covid-19 on commodity prices, as well as contraction in trade volumes, are likely to result in a net loss of receipts for export in 2023.

Excise duties were estimated at $230.2 million in 2023. This was around $32.5 million above the 2022 original budget and $28.1 million higher than the 2021 actual collections. The increased collection is expected as businesses slowly recover from the pandemic in early 2022 could deliver favourable operations in 2023. And even though manufacturing companies had their products looted during the 2021 riot, government financial assistance to the affected companies and businesses believed would offset the loss and provide for production and sales operations to be back on track.

Fees, Charges and Penalties are estimated at $8 million in 2023; around half a million increase from the 2022 original budget and 2021 actual collections respectively.

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 is also a source of significant uncertainty which can undermine a reasonably positive outlook on nominal GDP over the medium term.

Non-tax revenue estimates for 2023

Other Ministries revenue are forecasted at SBD 421.5 million for 2023. This was around $35.9 million higher than the 2021 actual collections. This source of revenue primarily depends on each ministries ability to collect revenue and re-opening of international borders is believed could fuelled positive collection in 2023.

Additonal measures to support the government in its recovery process

The government has outlined the key 2023 Budget Objectives and has stemmed from three priority areas, which include strengthening our economy, investing in the welfare of our people and transformative and innovative projects.

Despite the economic shocks that have challenged the economy over the past year, it is important that the 2023 priorities are being targeted to ensure economic recovery and contribute to the economic and social development of this country.

Increase Investment in Growth sectors

The key focus of 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.

Agriculture

Agriculture is one of the key sectors of this economy supporting almost 80 percent of the people in the rural areas and accounts for almost 16 percent of the Gross Domestic Product, yet compared to other sectors accounts only for 1.5 percent of the Government Budget. The government will continue to provide support to key productive sectors such as agriculture, fisheries, forestry and tourism through the government budget. Over the medium term, the government is expected to promote value-added for domestic consumption and export in key sectors, including agriculture, forestry, fisheries and minerals.

The Ministry of Agriculture and Livestock (MAL) together with the World Bank has recently approved a US$15 million project to increase agricultural production and improve market access for rural communities in the country. The Solomon Islands Agriculture and Rural Transformation Project (SIART) will support 85,000 Solomon Islanders with training, farming and livestock support. This is expected to create opportunities for our rural communities, supporting local farmers and growers to increase production. Increased production could have positive impacts through the accumulation of capital and the export of our commodities. This project is also part of the government's recovery and response to ensure the country bounces back from the economic shocks. Apart from Agriculture's role in supporting the recovery of the economy, it is essential to our country's good to ensure food security and improve nutrition within the country.

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 is 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, support for 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 meet quality standards.

Much of the value chain for nutrient-rich products lies in the rural communities that 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.

Improve Access to Finance

For the Solomon Islands improving access to Finance could potentially encourage growth in key sectors of Solomon Islands. However, Solomon Islands is faced with challenges and issues in the finance sector such as weakness in the collateral framework and difficulties in assessing risks.

The Government is currently assessing and working on addressing the weakness in the collateral challenges. On-going discussions between government ministries and commercial banks have found that banks encounter difficulties in the court systems of the country when faced with loan defaults. This gives rise to high liquidity within the economy. Addressing these challenges could improve the access to finance and increase private sector growth.

Tax Reform

The current Tax system of the Solomon Islands has not supported growth over the past years as it remains a major constraint on business. It is complex and costly to administer. However, government taxation is the only practical means of raising revenue that would support service delivery throughout the country.

Tax reform 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.

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 in its July/August 2022 parliament sitting has recently passed the Tax Administration Bill TAB. The Tax Administration Act will create a unified tax administration law that strengthens our revenue collecting agencies to better administer and collect revenue and contribute to the overall reform of the country. It is a major step for the government in promoting and creating a fair and efficient tax environment. Another key milestone of both the Government and Central Bank is the passing of the Payment Systems Act, this will provide the financial infrastructure comprising of institutions, instruments, rules, procedures, standards and technical means to transfer and mover money safely, efficiency and swiftly.

Over the next year, phase two of the tax reform will commence by reforming the income tax act and progressing the Value Added Tax (VAT). Such initiatives are part of the Government’s 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.

(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 14.72 percent (July 2022 debt report) 40.68% on Domestic Loans and 59.32%% 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 2023 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 2023 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 2023 is set at SBD$350 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 SBD1.84 billion (June 2022 Report), this represented disbursed loan amount to date. Undisbursed loans were not counted as debt until they were actually drawn down.

The Government has increased the Treasury Bill market to $200 million issue throughout the year.

(iii) Loan and Financing

1.1 Recent Projects assessed and negotiated in 2021 & 2022.

All direct loan to SIG by World Bank through IDA WB awaiting Board Approval.

1. SIART – MAL (Grant – US$9million, Loan – UD$6million)

SIG progress consultation 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.

2. IEDCR Project – MPGIS (Grant – US$17.56million, Loan – US$6million)

The IEDCR project has a total funding of USD23.56 million (SBD 195.55 million) with the main component include the upscale of our provinces key Social and Economic Infrastructure Investments and other support to our sub-national entities or Provinces. IEDCR will cover investments in all the provinces across the country and priority of investments will be determined by the Provincial Government structure in consultation with the Central Government. Provinces have so far identified about 112 health and COVID-19 investments projects and 61 resilient economic infrastructure projects from the next three years. The Permanent also revealed that IEDCR will complement to the Government's commitments in PCDR, and a fulfillment of the current's Government's support to all the Provinces as accounced by the Prime Minister during his visit to the Provinces in the recent years.

3. PROPER (Grant – US$8.5million, Loan – US$5.0 million)

At regional level, this Project will be the first in the PROP's second phase - building on the lessons learned from the first seven years of PROP implementation for improved, sustainable impacts. PROPER projects will be aligned with the overarching regional objectives of the original SOP and contribute to the regional goals of strengthening sustainable oceanic and coastal fisheries management.

The Project will be designed as an Investment Project Financing (IPF) operation and implemented over a five-year period from 2022-2027. The Ministry of Finance and Treasury (MOFT) will serve as the Executing Agency and MFMR as the Implementing Agency.

Main components of PROPER (USD8.5million Grant & USD5.0 million Loan)

Component	Description	US$ million
1	Strengthening Regional Collaboration and National Capacity for Oceanic Fisheries	6.7
2	Strengthening Regional Collaboration and National Capacity for Coastal Fisheries	4.5
3	Project Management	2.3
Total		**13.5**

4. SIRAP II

The estimated cost of the Project is around US$89.21 million (SBD714.83). This will be funded through a combination of grant funding valued at US $21.52 million (SBD 172.44 million) and a loan amount of US $67.69 million (SBD 542.39).

Project Concept Description

- **Component 1:** Munda and Honiara Airports Infrastructure Investments (Estimated US$65.96 million – national IDA US$25.96 million, regional IDA US$40 million)

- **Component 2:** Climate Resilience and Safety Investments in the Road Sector (estimated cost US$14.50 million from National IDA).
- **Component 3:** Institutional Strengthening and Project Management (estimated cost US$11.04 million from National IDA).
- **Component D**: Contingent Emergency Response (US$0 million)
- Contingent Emergency Response (US$0 million).

5. Supplemental DPO (Grant – US$11.5million, Loan – US$3.5million)

The estimated cost of the Project is around US$15million. This will be funded through a combination of grant funding valued at US $11.5 million and a loan amount of US $3.5million.

The objectives of Second Solomon Islands Transition to Sustainable Growth Development Policy Operation are:

1. to strengthen fiscal management in the areas of debt management, cash management and procurement;
2. to strengthen the business environment through simplifying tax processes, fighting corruption and supporting more efficient payments systems; and
3. to improve environmental sustainability by strengthening national planning for climate change and reducing plastic pollution.

6. Pipeline Loans

I. 2022 Domestic Development Bond

The government is planning to issue domestic bond to a total of SBD200 million this year. Proceeds from the issuance will be used to financial the government investment plans under the development budget during the year.

II. Solomon Islands National Broadband Infrastructure Project (SINBIP)

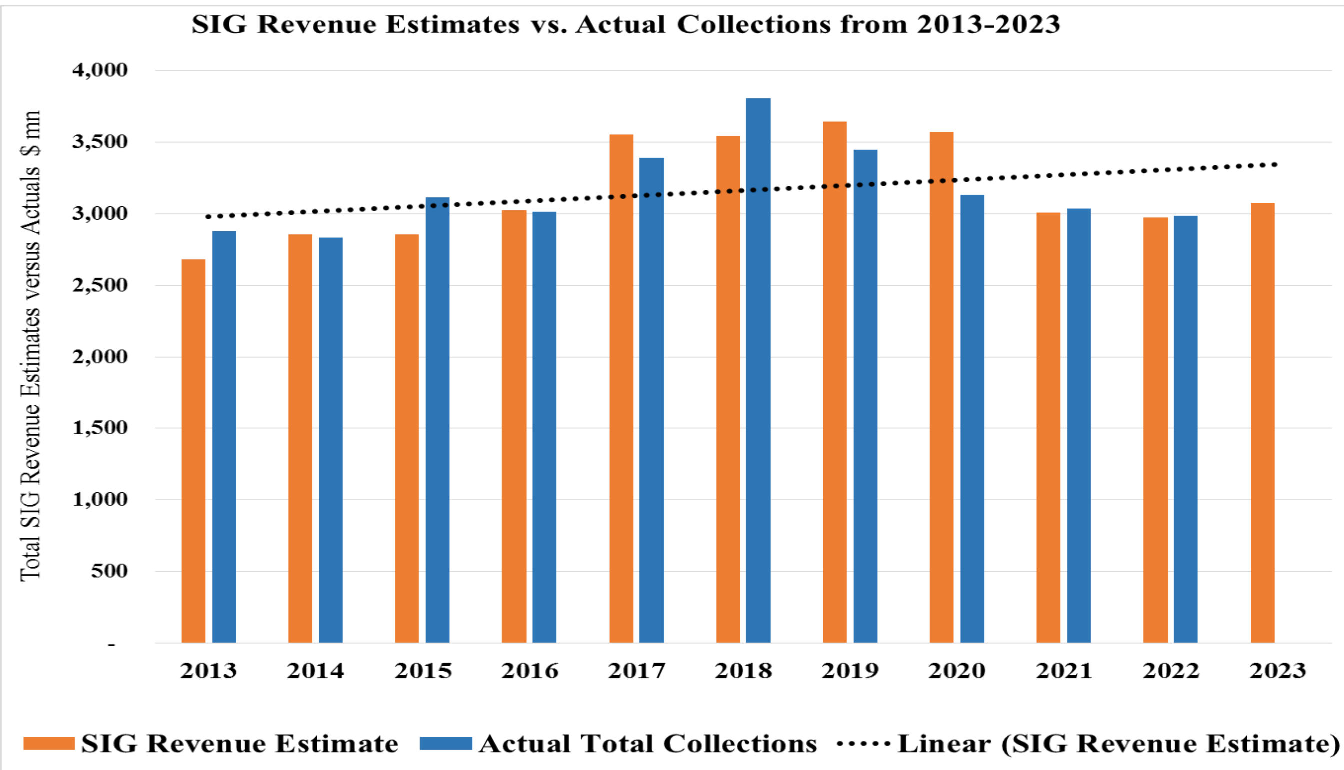
The Solomon Islands National Broadband Infrastructure Project (SINBIP) proposal has also been received and scheduled as a pipeline project. The total project amount is yet to be confirmed by the project technical working teams from MCA and independent experts.

The projects in in the pipeline will go through the DMAC approval process and approval of this loan will certainly expand the SIG debt portfolio. The 2022 annual borrowing limit will exhausted once the loans in the pipeline were approved. The uncommitted ABL balance stood at around SBD275million.

6. THE 2023 BUDGET PARAMETERS AND ESTIMATES

(i) Fiscal Strategy for 2023 Budget - Revenue

The overall total revenue estimates for 2023 is $3,102.1 million, comprised of SIG revenue estimates of $3,075.9 million, $26.2 million Donor Budget Support. SIG revenue estimates for both tax and non-tax revenue for 2023 has increased by $23.0 million or 1 per cent from the 2022 original budget estimates of $3,052.9 million. The slight growth is reflective of the recent re-opening of our international borders and businesses going back to normalcy after the decrease of COVID-19 cases in the country. Moreover, the significant reduction in logging receipts, a main source of revenue of the Government should also be observed. The non- tax revenue estimates for 2023 is $421.5 million, a decrease of $79 million or 16 per cent from the 2022 original budget of $500.5 million. It is prudent for the government's fiscal expenditure to stay within the overall parameters to achieve a balance and stable budget in 2023.



Graph illustration depicts trend of SIG revenue estimates against actual collections from 2013 to 2023. The total SIG revenue estimate for 2023 is forecasted at $3,075.9 million, a increase of 1% from the 2022 revenue estimate of $3,052.9 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 2023 Budget – Expenditure

The DCGA's top-down approach is guiding the budget expenditure for 2023. The 2023 budget will be funded by SIG revenue, including donor support, as well as other financial arrangements made by the government to maintain the required level of resources for priority activities and programs in 2023. The DCGA's fiscal expenditure remains focused on policy priorities such as economic recovery,

The fiscal table below displays the 2023 Budget total expenditure estimate of $4,040 million, which is 30 percent higher than the total revenue projection of $3,122.1 million, hence recording a overall budget deficit of $937.9 million. Total recurrent expenditure is capped at $3,102.9 million. Total SIG development expenditure is $910.9 million. Total budget support expenditure is $26.2 million inclusive of sector budget support.

The overall SIG expenditure for 2023 is $3,953.8 million a slight increase by 1 percent from the 2022 Original budget estimates of $4,013.8 million. The government is determine to support its priorities for 2023 by streamling key activities and improving the quality of expenditure across all Ministries. This means that eliminating unnescessary or inefficient spending and redirecting resources to government priorities that will support growth and economic recovery whilst maintaining to provide essential services to 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 budget will only be used for capital and development projects that will boost economic growth, and all recurrent costs should be transferred to the Recurrent Budget if they are legitimate and necessary for the Ministries' ongoing operations.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 2023 Fiscal Table

Budget Estimates ($ millions)	2022 Original Estimates	2022 Revised Budget Estimates	2023 Budget Estimates	% Change btwn 2022 Original and 2023 Estimates
Total SIG Revenue	**3,052.9**	**3,064.9**	**3,075.9**	1%
IRD	1,694.7	1,727.8	1,783.7	5%
Customs	857.7	836.6	870.7	2%
Non-Tax	500.5	500.5	421.5	-16%
Budget Support Revenue	**505.7**	**659.4**	**26.2**	-95%
Budget support	304.1	457.8	26.2	-91%
Donor funded Development	20.0	20.0		-100%
ESP Support	1.0	1.0	-	-100%
Covid 19 Support	180.6	180.6	-	-100%
Total Revenue	**3,558.6**	**3,724.3**	**3,102.1**	-13%
Total Expenditure	**4,531.2**	**4,687.7**	**4,040.0**	-11%
Total SIG Expenditure	**3,900.5**	**3,903.3**	**4,013.8**	3%
Total Recurrent Expenditure	**3,049.6**	**3,052.4**	**3,102.9**	2%
Payroll	1,363.1	1,321.1	1,367.7	0
Other Charges	1,666.5	1,716.8	1,715.2	3%
Contingency Warrant Provision	20.0	14.5	20.0	0%
Development Budget	**870.9**	**870.9**	**910.9**	5%
SIG Development Expenditure	850.9	850.9	910.9	7%
Donor Development Expenditure	20.0	20.0		-100%
Budget Support	**610.7**	**764.4**	**26.2**	-96%
Sector Budget	304.1	457.8	26.2	-91%
ESP Support/Reconst. and rehab. of business buildings	126.0	126.0	-	-100%
Covid 19 Support	180.6	180.6	-	-100%
Budget Balance	**-972.6**	**-963.4**	**- 937.9**	-4%
External Development Financing	**563.0**	**880.7**	**280.2**	-50%
Fiscal Balance	**-409.6**	**-82.7**	**- 657.7**	61%

The total expenditure estimate for 2023 will be $ 4,040 million. This is a decrease of 11 percent from 2022 original total expenditure of $4,531.2 million. Total expenditure ceiling for payroll will be $1,367.7 million, a slight increase from the 2022 original estimate. **This is based on existing filled positions, allowances and new teachers, judges, police payroll pressures excluding vacant positions across whole of Government ministries and offices.**

The total Other Charges ceiling is $1,715.2 million, a 3 percent increase from 2022 Original estimates. The Development Budget will have a total expenditure ceiling of $910.9 million, 7 percent increase from the 2022 original estimates.

Development Budget Financing

The government is intended to have an overall planned budget deficit budget of $937.9 million in 2023, of which $280.2 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 $697.7 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.

Additional Revenue Measures

To support the implementation of the 2023 Budget, the government will strengthen its major revenue collection agencies, specifically, the Customs and Excise Division and the Inland Revenue Division, in order to secure additional resources.

Customs and Excise Division

Under Customs and Excise Division, the following operations and policy commitments will be implemented in 2023:

- Continue building the strength of the Customs workforce with the implementation of the Graduate Recruitment Program targetting special skills requirements for use in revenue audit, trader accounting, legal reform, and investigations and prosecutions units,
- Continue the intensive advanced Tariff and Valuation internal training for auditors and invoice examiners,
- Strengthen the Intelligence and Investigation teams to detect and investigate revenue leakage and fraud,
- Strengthen the IT capability by implementing a major upgrade to Asycuda processing system which will make Customs paperless, introduce electronic payment, and automate cargo control,
- Double the size of both the audit and investigation units to detect, pursue and penalise revenue non-compliance,
- Strengthen revenue collection efforts through our task force program of High Value export and excise sectors, notably in Logging, Tobacco, Beer,
- Develop and implement a Compliance training program to build trader and community awareness and expertise in correctly classifying and rating goods for duty and goods tax assessment purpose.

Inland Revenue Division - IRD

While the effect of the riot will continue to have an impact on the revenue collections in 2023, The Inland Revenue Division feels optimistic the revenue collection will be improved in 2023. A number of initiatives will be put in place to mitigate the loss of revenue as a result of the internal disturbance (riot) in November 2021, especially the damage and burning down of Chinatown businesses as well as parts of Ranadi areas; with greater focus on specific areas that would have potential to increase revenue. This would include;

i) **Increase of compliance activities on business sector(s)** ;

These are normal activities such as calling taxpayers, and sending normal tax notices to business houses; aiming to increase lodgement of tax returns on time. This would expect to increase revenue by 1% of the total IRD revenue budget;

ii) **Increase more visibility in provincial centres**;

IRD will increase number of provincial visits to provincial centres to provide taxpayer services and education to improve tax compliance;

iii) **IRD will continue to work with third parties to recover tax debts**;
We will collaborate with third parties such as banks, and Ministry of Finance to recover tax debts; this will contribute toward more than $250M debt collections for the year;

iv) **Increase compliance efforts to bring more than 200 taxpayers into tax net**;
We will increase compliance efforts to bring in more than 200 taxpayers who have chosen not to come forward within the tax laws; These are mostly Small and Medium Businesses. This effort will bring in around $10M of expected revenue to be collected;

v) **IRD will work in collaboration with CBSI, Customs, and Banks to get timely data that will help in our efforts to minimize the revenue gap in respect of overseas remittances**; this will include issuing of tax clearances with WHT payments on certain types of payments remitted to overseas; This will bring in expected revenue to around $15M on withholding tax and thus improve the compliance in withholding tax collections;

vi) **Strengthening IRD Intelligent and Risk Management Unit to be able to identify risks for targeted audits.**
Audit activities are expected to increase in 2023 with specific targeted audits where fraud and tax underpayments are detected. When these are ascertained the result of tax payment may be allowed to go through payment instalment arrangement depending on the seriousness of the audit determination; This will increase revenue collection by $75 million. This would include the work of special investigator recruited in June this year.

vii) International shipping income tax/WHT;
We will continue to focus on international shipping agents to improve compliance. This will provide extra money around $15 million in tax revenue for 2023;

viii) **Recruitment of 32 new graduates under the MOFT graduate program, and filling up vacant positions**;
IRD is expecting to recruit new graduates and filling up of vacant positions by December 2022. The recruiting of these new recruits will provide capacity to improve compliance work in the third and fourth quarters 2023;

ix) Implementation of the new structure;
Inland Revenue is expected to operate in a new functional structure by 2023; This will provide more effective and efficient work of the division which will improve compliance and revenue collections.

x) Along with the short-term measures SIG needs to fast track the tax reform measures to mitigate the long-term impact caused by the pandemic;
The tax reforms are now well underway and the passing of Tax Administration Act in August 2022 will improve the management of Tax Administration and proper management of penalties that will have a positive impact on the revenue collection;

It is expected that, any gains from these revenue measures will only subsidize losses from the impact of the pandemic and the riot from November 2021. IRD will continue to manage taxpayer compliance and maintaining effective collection mechanism to improve revenue collections.

Other Revenue Measures

- **Tobacco Excise Increase**

The new Tobacco Excise Increase will be implemented on 1st January 2023. With this tobacco excise increase the government will have expected to collect additional revenue of $65m annually. The proposed Excise rate is set at 5% cigarettes and 10% for roll-your- products.

- **Increase Import Duty Rate on Plastic by $0.50**

Recently introduce plastic tax of 50 cents has not significantly achieved the objective of reducing plastic pollution. Therefore, the government intent to introduce additional 50 cents to effectively reduce the pollution from plastic. it is expected that increasing duty on plastic will raise additional $1.16m annually.

- **Introducing Pollution fee of $50**

An annual Pollution fee of $50.00 per annum to be introduce and charge on pollution emitters. This will start with motor vehicles and to be followed by ocean going vessels and other engines. Applying the fee on vehicles alone would raise an estimated annual revenue of $1,86m.

Increase duty for plastics and introducing pollution fees are aim at reducing pollution which the government is embarking on as part of promoting 2023 SPG Green Game.

Revenue raised will be allocated to support ministry of environments programs in reducing of environment pollution.

- **Non-Tax Revenue Commitment**

Revenue task forces which will include the major non-tax revenue Ministries and the central revenue agencies of the Government will be formed and to pursue revenue collection operations.

7. OPERATING RULES AND GUIDELINES

i. Recurrent Budget (Other Charges)

Other Charges Baseline Estimate Assumptions

The Other Charges baseline is prepared within the fiscal envelope secured for the 2023 Budget to leverage resources in order to fufill the intent of the 2023 Budget Streatgy Framework. Other Charges budget component also consumes the largest share of the secured resources within the fiscal framework, compared to the payroll and development component of the consolidated Budget. The reason being that it caters for all general and operational costs to maintain government's ongoing services and operations including, Office and House Rents, utilities, Grants to schools and Health including Provincial grants, subscriptions, maintenance and office expense. In the 2022 baseline, there has been a 15 percent reduction on some discretionary budget lines especially under non-productive/resource sector ministries. This is to ensure that the overall level of expenditure is set within a more realistic and affordable level of resources secured for the 2022 Budget.

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For 2023 financial year, there will be no further reduction on the discretionary budget line items, however, the baseline for Other Charges is prepared using the following assumptions;

- The indicative ceilings for Other Charges is prepared using the 2022 revised Budget, less contingency warrants, and ESP support approved and processed in 2022.
- Additional funding through the 2022 supplementary Appropriation, are not included as the appropriation bill is yet to be approved in Parliament at the time the baseline is prepared.

- Other Charges baseline across all ministries remain as the 2021 revised baseline, taking into account virement of funds across budget lines within respective ministries.

- All fixed costs across all ministries are maintained in the 2023 baseline, unless ministries moved funding out to cater for other priorities. Ministries are expected to plan carefully and allocate sufficient funding towards all fixed costs before planning for other discretionary activities.

- Budget for purchase of new vehicles will still be centralized under Ministry of Infrastructure Development. If necessary and according to the key priorities for 2023, ministries may reallocate funding within given indicative baseline to purchase vehicle. However, this will be strictly assessed during budget submissions.

- Ministries to ensure that the other charges budget is clearly tagged against their work plans, and aligned to the sector budget priorities highlighted in this budget framework during budget preparation.

- With the reopening of the borders and international travel to ensure ongoing discussions on development initiatives and services are maintained, ministries must be able to allocate funding towards travel accounts within the given baselines to ensure that attendance to international meetings and dialogue are maintained in 2023 and avoid seeking additional funding during the year when the need arises.

The government will continue to ensure that existing contractual obligations are not breached to reduce liability and risk for the government. With the ongoing effort to recovery as the theme for 2023 Budget highlighted, ministries must continue to be vigilant and be prudent in spending and in accordance to the 2023 budget priorities that will be implemented under the Other Charges budget.

It is critical to note that a transaction delay will cost the government budget resources that should be used for priority areas of recovery and delivery of essential services. Therefore, MBCs must incorporate these commitments into their respective ministry's 2023 baseline.

During the year, unbudgeted arrears, fixed costs, utilities for the supplementary will not be considered, hence, must be prioritized during the 2023 budget preparation.

The DCGA establishes the priorities for the 2023 budget; therefore, MBCs are responsible for ensuring that funds are allocated accordingly. In cases where funding is insufficient to fund all of the government's priorities, ministries are advised to be critical and innovative in their planning. This mean priorities must be covered while other projects will have to be forgone. Consequently, reallocate your resources to programs that can be realistically implemented with the available funding. Narrowing the scope of priorities in light of the financial envelope is crucial. It is past time for ministries to recognize the impact of the COVID-19 on revenue and reallocate resources to key areas of growth, recovery, and essential service delivery.

The budget for new vehicles in 2023 will be centralized, as in previous budgets, to the Ministry of Infrastructure Development. As a result, applications for new vehicles should be made through the ministry. New vehicles must be used for revenue-generating activities as well as for national security and health, which fall under the category of essential services.

MBCs must conduct continuous monitoring and review of programs and activities in the fiscal year 2023. This is to ensure that implementing ministries keep track of performance and resource utilization in order to assist the government in making timely decisions.

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

<u>Improving expenditure efficiencies and creating fiscal space internally to do more with less!</u>

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

Prior to producing baseline reports, ministries must go through the Ministry Budget Committee (MBC) for comprehensive planning and formulation, in a PAC-style setting. Divisional heads will propose their budgets for defense based on previous performances and demonstrable results and, if necessary, to justify why desired outcomes/ results were not obtained. The Chairman (Permanent Secretary) of the Committee, the Human Resources Manager, and the Financial Controller will carefully review the budgets presented, with the assistance of all planning/procurement officers, if needed, as to ensure ministries understood and focused on the key priorities with the limited resources allotted to them in 2023. The government can accomplish a lot with limited resources if they are examined closely at the divisional level and allocated to priority areas.

Decisions made by the MBC are critical in ensuring that the government's priorities are met. This requires committee members to agree on the reallocation and reprioritization of their ministries' 2023 other charges baseline. Given the limit of the overall level of revenue that the government can collect in 2023, not all priorities can be funded, which will undoubtedly have an impact on ministries' mandated functional activities. Therefore, committee members must concur and comprehend how prioritization decisions are made in order to protect Solomon Islanders from the effects of the pandemic and strengthen our country's economy. Correspondingly, it should be made clear that the allocation for each ministry must be directed toward the activities prioritized in this Budget Strategy Paper. Successful implementation necessitates careful consideration when making strategic decisions, as well as ongoing monitoring and reporting at the ministry level.

ii. Budgeting for fixed expenses and contractual obligations:

Priority must be given to the fixed expenses and contractual obligations included in the baseline for Other Charges. This is because the government will be held accountable for its obligations should it fail to honour the fixed expenses and contractual commitments, which are authorized by law. The MBCs, therefore, must guarantee that sufficient funds are allotted to all fixed expenses and contractual obligations for the duration of 2023. All rental, education and service delivery grants, mission grants, utilities, subscriptions to international bodies/ organizations and contracts are included.

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.

Poor planning at the Ministry level through the MBCs should not be a reason for virement applications for fixed expenses and contracts in 2023. This a practice that the Budget Unit encourages Ministries to discontinue with. Here are a few examples of significant fixed costs that must be properly accounted for when developing the Other Charges budget.

- **Utilities:**
  The primary operating costs of all Government Ministries, Offices, and Agencies must be included in the 2023 budget. Budgets for electricity, water, and telephone bills are examples of this. Utilities bills must be carefully capped, managed, and reviewed on a regular basis based on per capita spend in each Ministry and division.

- **House rent:**
  while this is a fixed cost, it has risen to unsustainable levels in recent years and must be managed properly within each Ministry.

- **Subscriptions, licenses and fees**:
  All service agreements and prerequisites must be adequately met. International commitments should likewise be upheld where applicable.

iii. Budgeting for discretionary spending

In order to ensure uninterrupted provision of critical services, ministry budget committees must carefully examine these expenditures and make strategic decisions on how to allocate discretionary funds to high-priority areas where the recovery and expansion of the economy are guaranteed. Every budget has seen an increase in this expense level without producing many noticeable improvements. It's time for the Ministry Budget Committee to decide which important growth priorities, as determined by the DCGA, should receive funding under this level of spending. Economic recovery and growth through improved public expenditures and streamlined investment are the goals of the 2023 budget and beyond. To prohibit Ministries from devoting funds to spending that does not boost tax collection and expand economic possibilities for all Solomon Islanders, excessive and potentially unnecessary expenditures on consumables, travel, conferences, seminars, and training shall be decreased or stopped.

a) **Motor Vehicles should not be funded annually**: The government as a whole is littered with vehicles that require considerable amounts of resources to operate and fuel on a daily basis, yet ministries continue to request new ones. Motor vehicles shouldn't be subsidized annually. Vehicles should be put to good use, especially in areas where generating cash and providing services is crucial to maintaining service delivery. New vehicles must be requested through the Ministry of Infrastructure, and proposals should only be taken into consideration when they will effectively perform services and create revenue. Ministries can either designate money from the Other Charges Baseline or work with the Ministry of Infrastructure Development to coordinate the purchase of a vehicle.

b) **Travel (both domestic and international)**: A travel strategy must be created by ministries and incorporated into the costing of other charges baseline template. International travel is limited to government and work-related purposes only, unless the pursuit cannot be accomplished domestically and/or there are no other options within the country. When it comes to domestic travel for government purposes and mandated activities, sending a large number of officers may have an impact on future activities because cash has been inefficiently used to officers who should not have travelled given that the same work could be done by a few.

c) **Training and skills service development:** In terms of the type of training and skill development that the country requires in the short and long term, the Ministry Budget Committee must be vigilant and prudent. If the skillset became obsolete in a few years, it would be a waste of money. During the pandemic, ministries equipped themselves with high-quality videoconferencing equipment, so videoconference training is more cost effective and recommended instead of sending officers overseas for training.

a. Before developing their training plans for 2023, ministries should consider the following:Is the training of value and will it contribute to the ministry's skills gap?
b. Is it going to improve service potential to the Solomon Islands?
c. Is the training going to result in additional revenue or growth ?
d. Is the training/ workshops/ conferences and seminars part of a previously assumed ‘mandatory’ requirement of SIG, despite the fact that 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’, Ministries (along with their stakeholders) should reconsider organizing the same conferences, seminars and workshops year after year, with only minor service delivery improvements or service expansion. **Please do not include unnecessary training, events, workshops, conferences, seminars, or consultations in your budget submission to be held abroad unless Ministries submit a training plan for the year and appropriate supporting evidence of a skills gap analysis for the Ministry. These are not advised when the country is in crisis.**

iv. Budget templates for 2023 and DGCA Priorities

Budget projections must be aligned with the economic and fiscal outlook for 2023, due to the requirement for a greater fiscal discipline. Leading up to the formulation process, all Divisions in Government Ministries are required to prepare 2023 work plans/ procurement plans and properly cost out activities and key spending areas to ensure that allocated budget estimates against single and multiple account codes correspond to their actual needs for 2023. The annual work plans should clearly outline what activities could be accomplished in 2023 with the Ministry's capacity in terms of manpower, expertise, and other resources.

Ministry Budget Committees must be proactive in ensuring ministries submit the required plans and in sharing the necessary assistance with ministries to ensure the budget process is completed on time.

ii. Recurrent Budget – (Payroll)

As we progress into the post covid-19 period, 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 that, the government will redirect its resources towards Pacific Games 2023 and preparation for the National General Election. The Ministry of Public Service has anticipated that Business of Ministries will be slow as Government Ministries will deploy its human resources towards these two events. The 2023 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.

1. Freezing of vacancies

Filling up of vacancies is still a challenge being observed across the Public Service despite Ministry of Public Service has decentralised its Recruitment to line Ministries. Ministry of Public Service is concern at the rate of vacancies being idle since 2010.

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No. of Vacancy	6	0	0	2	4	1	4	12	35	64	134	322	684

From the table above, the duration of vacancies has accumulated over a 12-year period from 2010-2022. Simply put, Ministries are finding difficulties to recruit against these vacant positions. The delay of filling these vacancies would be a result of limited qualified personnel in the open market as well as the lack of enabling infrastructure such as office space, accommodations and equipment to work with. In 2020-2022, number of vacancies are still rise largely due to Ministries reactive to Cabinet Moratorium on freezing all vacancies without having right infrastructures in place. This is mostly explained by high number of vacancies in the Productive and Resource Sectors. It is our view that lack of funds and poor infrastructures in the rural areas is also a contribution factor. As a matter of urgency, to stabilise the payroll, Ministry of Public Service will freeze all vacancies and Ministries will have to provide evidences that they are ready to fill their vacancies.

2. 2023 Retirements and Fixed Term Appointments

For retirements, Ministry of Public Service has done 2022 and 2023 projections. The projections are highlighted in the table below.

Year	2022	2023
No. of retirement	134	147

The analysis of the projections shows that vacancies in the Public Service will continue to increase next year. This is a concern for MPS especially the backlog of vacancies across the service which are yet to be filled. In terms of Fixed Term Appointment, we do not have the up-date-statistics. However, there are 69 officers who are between the age of 56 and 57, which we assume that they are on fixed term appointments.

3. MPS Early Retirement Program

The government has taken measures to reduce the size and cost of its workforce. One initiative is the early retirement program. The Early Retirement Program will be implemented in phases for period of three years. It will involve 50 Public Officers per year between the age of 50 to 54 years. This is an important DCGA policy to reduce the size of the Public Service. To ensure the cost-effectiveness of the program, there will be a recruitment freeze to the early retirement positions counting from the date the positions are vacant. We wish to inform all Ministries to review their organizational structures and streamline their work processes to reduce unnecessary workloads.

4. Deployment of Public Officers to Pacific Games 2023 and National General Election

We anticipate slow of Business across the Service due to Deployment of 150 Public Officers to assist in the Pacific Games 2023. The deployment of Public Officers will commence in the second quarter of 2023 and it will be for the duration of the games. Besides that, MPS anticipate priorities of the Government will shift to preparation for the National General Election after the Pacific Games next year.

5. Refocus of workforce to rural areas

While Productive and Resource Sectors are exceptional to the freeze of vacancies, MPS will ensure that there is improvement done to the enabling infrastructures in the Provinces and rural areas before commence to any recruitments or else it will defeat the DCGA Government policy refocus of workforce to rural areas. Thus, the onus is on Ministries to ensure that there is improvement done to their enabling Infrastructures in the rural areas before recruitment is done.

iii. Development Budget

The annual development budget continues to fund government key policies and development programmes and projects that are already progressing and commenced implementation in 2021 and 2022. The need for government to strategize and refocus its scarce resources is appropriate in response to economic shocks, address emerging development issues especially the rising cost of funding development, strengthen support towards drivers of economic growth and stability, improve and maintain delivery of essential service and ensure there is safe environment for innovation and further investment. Amongst priorities for 2023 fiscal year, the government is committed to fully support construction of modern infrastructure projects including the successful delivery of the 2023 Pacific Games. Interms of funding source for the development budget, the government will heavily rely on its domestic revenue projection for 2023 and budget support from development partners whilst ensuring the process of reprioritisation and resource allocation across programmes and sectors continue to be managed without duplication and thinly spreading of resources.

Hence, the 2023 development budget to fund sectors re-focussing on strengthening the economy, improving and expansion of investment opportunities as well as promotion of transformative and innovative projects. Moreover, government to ensure sufficient funding is allocated to support the fundamental sector which mainly implement programmes supporting legislative reforms and promote enabling environment, strengthen peace and national security across the country.
Budget Baseline Assumption

The 2023 Development Budget mainly carry-on from 2021 and 2022 priorities including funding allocations and expenditures by programmes. This implies, development programmes with existing contractual commitment and obligation that are prioritised by the DCGA government will remained priority

for 2023. As guide to preparation of budget bids, the 2022 approved budget estimates and 2023 revenue projection become the baseline for 2023 Development Budget as stipulated in this budget strategy.
Given the current fiscal challenges faced with government finances, ministries are advised that 2023 Development Budget will not fund any new development programme unless directives are received from the cabinet. Therefore, only programmes and projects captured in the 2023-2027 Medium Term Development Plans (MTDP) will be considered.

Number of Projects by Development Programme

As part of managing public finance and ensure resources are more focussed towards targeted projects that are ready for implementation, ministries and sectors are encouraged to undertake a collaborative approach in reviewing the 2022 development programmes and projects. This is an important process for ministries to determine which critical projects and activities would remain priority for funding under the 2023 development budget. Limiting of number of projects per development programme is crucial therefore ministries are encouraged to prepare development programme and project submission on phases noting SIG annual budgeting cycle and five (5) year rolling MTDP planning framework already provided for multi-year project planning.

Obligation and Contractual Projects

Ministries through its Ministry Budget Committee (MBC) must properly deliberate and prepare 2023 budget submission prioritising its contractual and obligation projects. The 2023 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 2024. Ministries must ensure all contractual obligations both to be due in 2023 and outstanding ones from 2022 are factored in the submission before considering allocating funds to other ongoing projects and activities that are not tied to any contracts or financing agreements.

Ongoing Programmes

For ongoing programmes, assessment will be based on its implementation rate in 2022 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 delay in appropriation of 2022 development budget and implementation of new finance system D365. This mean, ministries with budget allocation under the 2022 development budget to provide full progress report of development programmes approved and implemented in 2022.

New Programmes

The 2023 Development Budget will not consider any new development programme proposal unless clearly approved by government policy directives with justification documents of project readiness and a clear cabinet decision. Given the ongoing fiscal challenges, it is viable to maintain and commit funds to ongoing programmes which have already started implementation using funding allocation from 2021 and 2022 development budget. Furthermore, 2023 revenue projection, tight fiscal space and development budget envelope clearly indicate possibility of not including any new development programme. As such, ministries are urged to thoroughly review ongoing programme activities and decide on where new projects can be factored using current budget ceilings.

Non- Appropriated Funding

The 2023 Development Budget seek to provide a more credible and accurate data on the non-appropriated donor and development partner funding to complement the appropriated budget. This is an activity MNPDC is continuously striving to work on and improve the process of data collection. Donors and Development Partners had been consulted regularly in advance of this activity and had provided great assistance. MNPDC approached this activity by collecting non-appropriated data through line ministries and other sources and provided a summary of total non-appropriated data against total verified data. This provided the complete picture of total non-appropriated development assistance support that flows through the different sectors. The data collection challenges such as timing, specific data needs of stakeholders and project management reporting that require more collaboration to improve credibility of data. Accurate reflection of non-appropriate data is important as it provides complete report on both SIG and donor partner 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 its 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).

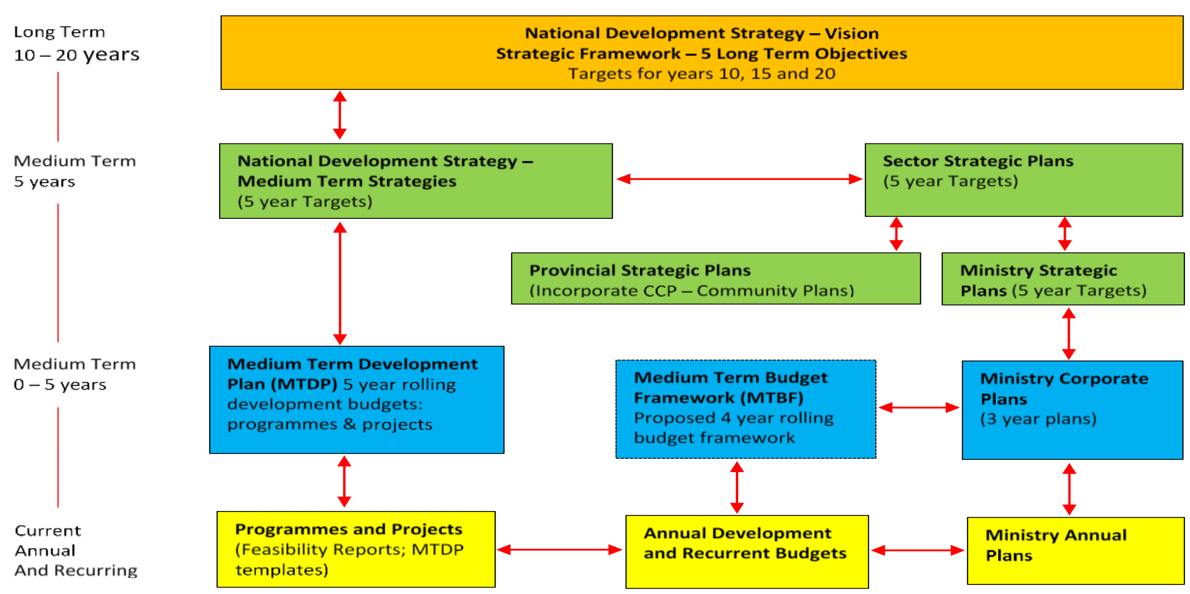
The NDS Monitoring and Evaluation Framework provide some key performance indicators of monitoring the performance of the NDS where this is revised accordingly. The need to update ongoing programme of activities and indicators is important as this will assist and support accurate and credible reporting 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 priorities. 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 2023 becomes the first year and hence will be considered as the budget brick for 2023 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 2023-2027 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 2023 will be the third year for DCGA government to implement its redirection policy priorities. 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 2023-2027MTDP preparation, the MTDP requirement will remain however, more emphasis will be on a sectoral approach, which require ministries to work collaboratively in reviewing the 2022-2026MTDP 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.

8. STATEMENT OF RISKS

The government also noted significant risks that may affect the smooth implementation of the National Budget, given the tight fiscal outlook for 2023. The government ensures to pay special attention to prevent unwanted situations that could be avoided should proper and strategic planning and management is done. Outlined below are some crucial areas of risk to the planned budget for 2023.

i. **Manage and contain the Outbreak of health related diseases or new Variants.** The impact of COVID-19 on the domestic economy is not over yet and 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 diseases or new variants which may also have budgetary and socio-economic implications to the fiscal envelope for 2023. Although the government is gradually recovering, some of the budget pressures that may arise in relation to managing the outbreak of health related diseases may directly impact the 2023 budget whilst others that are off-budget may add to the increasing government debt. Effective monitoring and review is of significant to ensure smooth implementation of the budget in 2023 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 2023 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 that align to the policy and budget priorities for 2023, to ensure that the available funding may fully fund projects that could contribute to economic growth whilst protecting the livelihood of all Solomon Islanders..

iii. **Non adherence to the DCGA Policy/BudgetPriorities and Operational Rules** as outlined in this Document. Deviation from the sector priorities and the operational rules outline in this document may cause implementation issues for the 2023 budget. 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 2023.

iv. **Supplementary Budgets**: Proposals for supplementary budgets continue to add pressure to the government's secured level of resources over the recent years and may affect the 2023 Budget if additional revenue is not anticipated. This may also add to the cash flow issues being made worse by the COVID-19 pandemic and the civil unrest towards end of 2021. 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 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 within ministry budgets can be done to fund additional pressures to maintain stability or fiscal discipline. If the government is unable to collect additional revenue, ministries should conduct a mid- year review to know the progress of their programs and where savings can be obtain from programs that could be delayed to ensure urgent pressures are funded.

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 2023 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 2023 will pose risk to the overall ceiling for the development budget. This requires all 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 continue to assist the government in maintaining the delivery of essential services and other infrastructure developments and programs in the country. The government will continue to maintain the long standing relationship and strong commitment with the donors into the next financial year. Below is a summary of budget support from donor partners that will be channelled through ministries as Budget support for 2023 financial year.

Head	Ministry	Development Partner	Description of Program/Project	2023 Budget Estimates
03	Agriculture and Livestock Development	NZAID Bilateral	Coconut Rhinoceros Beetle Response	3,258,500
05	Education & Human Resources Development	AusAID/NZAID	Education Sector Support Program 2019-2023	11,923,254
07	Foreign Affairs and External Trade	UNOPS	Enhanced Integrated Framework (EIF)	2,870,418
23	Fisheries and Marine Resources	NZAID Bilateral	Solomon Islands Fisheries Development - New phase 2020-2024 and Bina Regional Arrangement for Governance-(BRAG) 2023 to 2027.	8,160,064

TOTAL				**26,212,236**

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 2023 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 2023 Budget Papers as required by the PFM Act and to be transparent and to acknowledge donor partners on the continous support to the government and the people of Solomon Islands.

10. CONCLUSION

This Budget Strategy Framework forms the basis to preparing the 2023 Budget. It is prepared 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 2023 budget, all ministries MUST therefore adhere to the guiding principles and the operating rules laid out in this document when preparing the 2023 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 2023 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 Budget 2023 is a "Recovery Budget" considering the adverse impacts of the COVID 19 Pandemic experienced since 2020 and the recent Civil Unrest in November 2021, and hence ministries must be prudent in the implementation of the Budget to achieve the policy and budget priorities highlighted in the document. The budget focuses resources towards strengthening the economy, empowering our people and investing in key important developmental infrastructures to drive economic activities to support government's recovery efforts in the short to medium term.
Furthermore, there are two key policy priorities the government will ensure to support in 2023, these include hosting of the Pacific Games and the preparation of the National General Election. These two are important regional and national events and ministries are expected to support these key events. The government is fully committed to its legacy investments, the Pacific Games 2023 and other major road and airport infrastructures that will have long term benefits to the people of Solomon Islands.

2023 Budget Timeline and Key Dates

Ministry Budget Committees are strongly reminded to adhere to the Key dates as outlined in the **2023 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 2023 Budget Timetable

Major milestones	Activities	Deliverables	Deadline
Review and update economic and fiscal parameters	Review of the economic parameters because of the COVID 19 transmission and its impact on the domestic economy.	GDP forecast and revenue estimates update	July 2022
Compiling and finalizing of the 2023 budget Startegy and Operational Rules	Update 2023 budget strategy Update fiscal table and ministry budgets Revise government redirection policy priorities	Revised 2023 Budget Strategy. Revised Fiscal table	1st July – 26 August 2022
Caucus and Cabinet approval of the 2023 revised budget Strategy	Approval of 2023 revised draft budget Strategy	Caucus and Cabinet papers Revised 2023 Budget Strategy	30 to 2 August 2022
2023 Budget Launch	BCC present to ministries and Donor partner on the 2023 Budget Strategy and operational rules	Presentations, baselines budget templates and development budget tempaltes	10 September 2022
Post Budget Consultation	Provide feedback to ministries on the final budget estimates. Ministries review budget estimates	Draft ministry budget ceilings and ministry allocations	13th to 16th September 2022
Budget Submission Due	Ministry submit baselines and developmental proposals to MNPDC and MoFT	Ministry draft 2023 recurrent and development budget	30th September 2022
Collate and compile Budget Submissions	Review and assess ministry submissions – recurrent and development budget	Compiled draft recurrent and development budget	3 to 7 October 2022
Budget Cabinet	Cabinet approvals of the 2023 draft budget- 2022 Appropriation Bill	Cabinet paper Revised draft 2023 Budget estimates 2023 Appropriation bill 2022	10 to 14 October 2022

Feedback to ministries and Budget documents delivered to Parliament	Budget documents printed and delivered to parliament	2023 Appropriation Bill 2022 2023 Budget documents	14 October 2022
PAC Hearing	Ministries present to PAC Complete PAC generic template by ministries	Ministries' talking points Ministry budget information	24 to 4 October 2022
Parliament sitting	Brief Ministers on ministry budget Prepare second reading winding up speech	Second reading speech Winding up speech	7 to 25 November 2022
Royal Assent	2023 Appropriation Bill	Gazette and royal assent	2 December 2022
Budget Upload and release of warrant	Prepare upload files Accounting warrants	2023 budget in operation Issue of Accounting Warrants	26 December to 2 January 2023