



SOLOMON ISLANDS BUDGET 2006

BUDGET STRATEGY AND OUTLOOK

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**FOR THE INFORMATION OF HONORABLE MEMBERS
ON THE OCCASION OF THE BUDGET 2006**

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1 2006 Budget Overview

1.1 Overview

The 2006 Budget is fully funded from available resourcing, continuing and building upon the Budget stabilisation of the past few years. Continued steady economic growth, together with some compliance gains, has led to an increase in Government revenue over and above that expected at the 2005 Budget.

In this Budget the Government has looked both to 2006 and beyond. The Baseline Budget framework has been further developed — providing an environment in which Ministries can implement programs and plan expenditure. In this Budget, for the first time, the Government is publishing Forward Estimates of revenue and expenditure to help people understand the resources that might be available and the consequences of new decisions.

The challenge for Solomon Islands is to rebuild public sector capacity to deliver Government services and rebuild the quality of spending. This Budget puts in place a series of strategic new spending initiatives designed to support key public sector functions and services and rebuild public infrastructure.

1.2 Economic situation

Steady, moderate growth was recorded in 2005, reflecting both underlying trends and a continued rebound following the years of civil unrest. As in 2004, growth in 2005 was strongly influenced by donor inflows, rebound in the agricultural sector and high rates of export of round logs. Growth in 2006 is expected to continue to reflect these trends, with forecasts pointing to a real growth rate of up to 5 per cent. The reopening of significant projects such as the Gold Ridge Mine and Guadalcanal Plains Oil Palm Plantation should provide further impetus for the economy over the coming year.

1.3 The 2006 Budget

2006 Budget expenditure is fully financed by forecast domestic revenue (\$688.1 million), the use of estimated accumulated cash reserves (\$80.0 million) and New Zealand budget support provided to Education (\$61.3 million). 2006 total estimated finance of \$829.4 million is \$56.8 million, or 7.4 per cent higher than the total finance available in 2005. This takes into account the latest revenue forecasts for 2005. Total domestically sourced finance (excluding New Zealand Budget support) available for 2006 is \$688

million – \$88 million or 14.7 per cent higher than domestically sourced finance in 2005.

The starting point for the 2006 Budget process was to derive a Baseline Budget for each Ministry. The Baseline Budgets identified the cost of current Government activities. They were based on the resourcing available to each Ministry in 2005, less any one-off (discontinued) funding items, increased by 3 per cent. Once the cost of current activities had been established, the Government could make strategic decisions about additional expenditure within the funding envelope. After meeting the cost of Baseline Budgets there is \$159.5 million available for strategic additional expenditure.

1.4 Revenue issues

Domestic revenue continued to grow above expectations in 2005. The revised estimate for 2005 domestic revenue is \$599.8 million. This is \$49.8 million, or around 9 per cent, higher than the \$550 million estimated in the 2005 Budget.

2006 growth in domestic revenue collections is expected to be around 14.6 per cent – broadly consistent with nominal growth in the economy. After taking into account some isolated one-off payments received during 2005 and factoring in large payments expected to be brought to account in the coming year, 2006 domestic revenue is forecast to be around \$688 million.

In contrast with the approach taken in the 2005, estimates of compliance gains have not been factored into the 2006 forecast. The large compliance gains experienced between 2003 and 2005 are unlikely to be repeated – particularly as many of these comprised back-payments or taxpayers returning to the system.

Inland revenue collections remain the single largest source of domestic revenue. In 2006, inland revenue collections are expected to be \$386.1 million – around 56 per cent of the total domestic revenue. Customs and excise collections are expected to be \$227.5 million – around 33 per cent of domestic revenue. The remaining \$74.5 million – around 11 per cent – is collected by various other Ministries, in the form of fees, fines and other payments.

1.5 New spending decisions

The Government has distributed additional funds of \$159.5 million in 2006 over the Budget Baseline through nine packages of new spending which are designed to benefit all Solomon Islanders.

The Government has allocated an additional \$34.1 million to *Increase Basic Service Delivery* in the health and education sectors. This funding will significantly improve services at all levels of education and enhance essential medical services. The increased expenditure on services will be complemented by an increased share of revenue being provided to the provinces through the \$6.8 million *Support for the Provinces* package.

The Government has committed an additional \$45.7 million to improve public infrastructure through the *Maintaining Critical Infrastructure* package. The major component of this package is the establishment of a Strategic Capital Investment Fund for which \$44.8 million has been transferred to the Development Budget. Resources from the Strategic Capital Investment Fund will be primarily allocated to infrastructure projects which generate economic growth including joint projects with donors, based on competitive investment selection criteria. Funds will also be available for investment in both major and minor capital works.

Detailed arrangements for administration of the Strategic Capital Investment Fund will be developed by the Government in consultation with private and public sector stakeholders within Solomon Islands. Details on the operation of the Fund will then be announced at a later date. A major proportion of the investment generated by the Strategic Capital Investment Fund is expected to benefit the Provinces.

The Government has demonstrated its commitment to strengthening the productive sector through the allocation of an additional \$26.4 million in the *Revitalising the Productive Sector* package. Funding will support the growth of local commercial enterprises and trade and also includes \$20 million to further reduce trade creditor arrears.

The Government has also allocated \$4.5 million to the *Safeguarding our Communities* package to support the police and prison services and bolster the justice sector.

An additional \$21.7 million is being provided to *Support the Public Sector*. This funding includes provision to meet increased utilities costs which could not be absorbed by public sector agencies without significant impact on their capacity to deliver services. Funding is also provided to implement an information technology strategy which will lead to a more efficient public sector.

The need to support key public sector accountability and governance functions, particularly the national election, has also been recognised in this

Budget through the \$16.6 million *Strengthening Responsible Government* package.

To enhance revenue collection in Solomon Islands, an additional \$1.5 million has been allocated to support the Department of Finance and Treasury in its Customs and Excise and Inland Revenue function. This measure is part of the *Building National Wealth* package.

The Solomon Islands economy should also benefit from the international promotion afforded by the \$2.1 million allocated to the *Promoting Solomon Islands* package.

Details of all 2006 Budget measures can be found in Chapter 4: 2006 Budget – New Spending Measures. A list of 2006 additional strategic funding allocations can be found in Table 4.1.

1.6 Budget reform

Budget reform commenced with the 2004 Budget process. These reforms look to put in place a consultative and sustainable Budget framework. A key feature of the new framework has been establishing a Baseline Budget for each Ministry which allows the Government to make strategic decisions about new spending. The Baseline Budget framework has also assisted Departments with financial planning, drawing an explicit link between allocated resourcing and service delivery. This will improve accountability in management of public funds.

In the 2006 Budget, the Government is building on these reforms with the publication of the Forward Budget Estimates.

The Forward Budget Estimates are an important planning tool that assists the Government to further develop a medium-term fiscal strategy for meeting ongoing national policy objectives. Across Government, publication of the Forward Budget Estimates will enhance the capacity of Ministries to undertake better informed planning of expenditure and activities. Better planning will deliver better services and policy advice.

However, it is important to note that while the Forward Budget Estimates provide a good guide on the direction of the Government's likely forward year expenditure and Budget flexibility, the estimates should not be regarded as guaranteeing that forecast funding will be available. Forward Budget Estimates are by their nature dynamic and subject to change from year to year in the light of experience and events. The Forward Budget Estimates will be reviewed and revised as necessary in each future Budget.

2 Economic outlook

2.1 Overview

The economic performance of Solomon Islands for the first nine months of 2005 reported generally positive outcomes; however, associated risks are still slanted to the downside. The forecast is for rates of real growth of up to 5 per cent during 2006, with inflation remaining broadly at current levels.

Particular risk is posed by the global oil market. Developments in the oil market throughout 2005 have underlined structural weaknesses in the Solomon Islands economy. The global price rise experienced early in the second quarter of 2005 had a considerable impact on the domestic economy, through increased prices associated with transportation and utilities.

The high dependence on the forestry sector for rural incomes, government revenues and foreign exchange indicates a major weakness in the economy.

While the return of law and order has given rise to improved government finances and re-engagement of development partners, other impediments to the business environment such as investment procedures, infrastructure and utilities need to be improved and strengthened. In this regard, the reform programs that started in late 2003 need to be vigorously implemented, including by the new Government after the 2006 Elections. There is no room for complacency.

Available data shows that after rebounding from recession from late 2002, economic growth peaked in 2004 and began to ease in mid-2005. Performance so far through 2005 indicates that the recovery remains broadly on track with growth, reflecting both underlying growth and some continuing economic rebound.

While this growth rate will take some time to deliver the levels of GDP experienced in the late 1990s, the recovery is slowly regaining lost ground. Assuming that the economy grows annually at the rate of 4.5 per cent, and taking into account rapid population growth of around 2.8 per cent, it will be around two decades before Solomon Islanders again enjoy the levels of income experienced in the 1990s. Successful implementation of the Government's reform program is therefore crucial to the future of the Solomon Islands economy.

Production outcomes up to September were mixed (see Chart 2.1). Copra and cocoa production increased, while fish and log production was lower than at the same time last year. Despite this, other sectors appear to be performing

positively. In the urban centres in particular, there is evidence of a pick up in retailing, construction, hotel accommodation and property rentals.

Economic performance throughout 2005 has been particularly driven by increased private sector activities, continued donor support and stable law and order. Stabilisation in government finances has complemented this growth, which was made possible by improved financial compliance and good budget discipline.

Assuming that the new government continues to implement the current reform programs, it is expected that economic expansion will continue the upward trend in 2006 as the improved law and order situation consolidates and better management of government finances becomes more entrenched. Reactivation of major projects is also expected to contribute to growth over 2006, including the Guadalcanal Plains Palm Oil Limited, which recommenced in 2005, and the Gold Ridge mine.

**Chart 2.1: Production
(3 month moving average, quantity index)**



Source: Central Bank of Solomon Islands

2.2 The external sector

Global economic performance remains broadly on track, although risks are still pointing to the downside. However, the 4.3 per cent forecast for 2005 world growth remains unchanged. Consensus forecasts are for the world economy to grow at 4.3 per cent during 2006. The average rate of growth masks the distribution of expected growth rates in major economies – for

example, 1.7 per cent in Japan compared with expectations of 8.1 per cent in China.

Growth in the United States continues to dominate the expected world growth rate for 2006. China's continuing high growth with liquidity overhang again poses risks of overheating. Japan's economy is regaining momentum with GDP growth rising sharply in the first quarter of 2005 and recent data pointing to continued expansion thereafter.

Global GDP growth picked up in the first quarter of 2005 following temporary slowdown in mid 2004. This growth stemmed from robust services sector output more than offsetting slowing global growth in manufacturing and latterly, trade. In the second quarter, however, coupled with the impact of high oil prices, signs of dampening re-emerged – in most major world economies, major indicators are pointing downward and business confidence weakened.

Leading into the fourth quarter of 2005, global manufacturing and trade are now strengthening, with leading indicators picking up; however, downside pressures include high oil prices and delivering productivity and indications of price pressures.

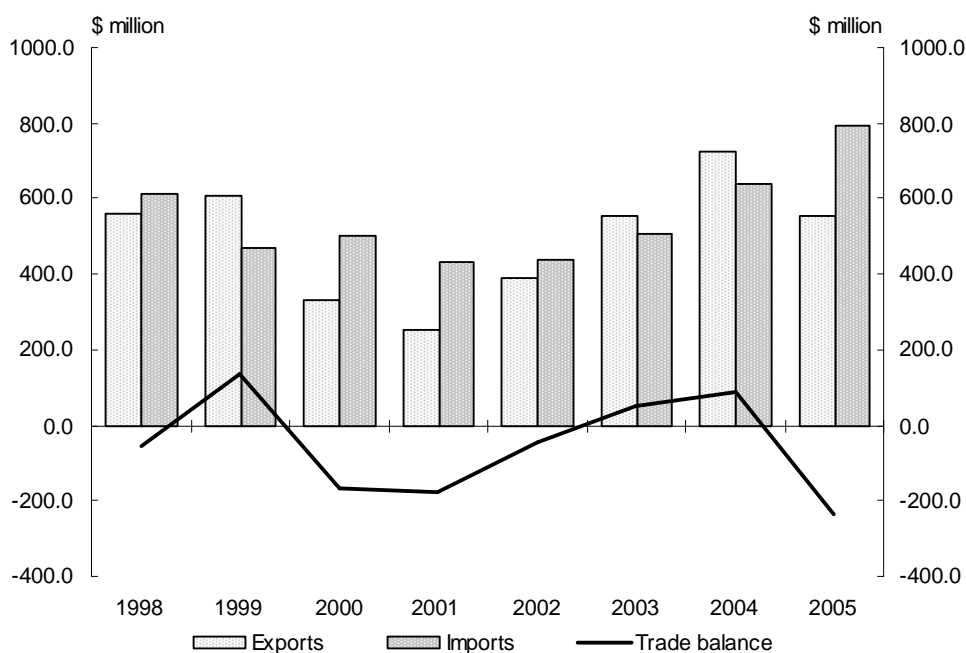
Against this background, the balance of payments data up to September indicated a \$106.2 million surplus. This favourable outcome stems from inflows from donors, export receipts and spending on house rentals, hotel rooms and living expenses sourced from overseas funds. However, the continuing increase of oil prices poses greater risk for the economy given that it is narrowly based and susceptible to external shocks.

2.3 Balance of trade

High prices for oil imports (which also affected other imported components) meant that the value of imports more than offset the increased value of exports through 2005 (see Chart 2.2). Consequently, net merchandise exports in 2005 have so far been negative – Solomon Islands has recorded a trade deficit of \$238.1 million.

Both imports and exports are continuing to grow throughout the remaining part of the year. However, owing to the high oil price, import growth is expected to increase faster than export growth. A deficit balance of trade is expected for 2005.

Chart 2.2: Balance of Trade



Source: Central Bank of Solomon Islands

2.4 Exports

Performance in the export sector for the first nine months of 2005 was driven largely by logs, cocoa, and other exports. Log exports, which accounted for 68 per cent of the total receipts rose by 3.2 per cent to \$374.5 million compared with the same period of last year. The increase was due to favourable prices in the international market, triggered largely by strong demand in the Asian markets. However, over dependence on log exports has serious implications for foreign exchange earning and government revenue, particularly given the expected fall in logging in the next three to five years. Broadening the export base is very important in the medium term.

Other export receipts rose by 91 per cent to \$59.3 million during the first nine months. The Central Bank is asking the commercial banks to supply more detail when reporting export proceeds for its Foreign Exchange Transactions (FET) database so that the “other” receipts category can be properly identified and allocated to the appropriate commodity.

Receipts from cocoa went up by 60 per cent to \$53.0 million owing mainly to increases in export volumes as well as favourable prices. Copra receipts on the other hand, dropped by 35 per cent to \$11.9 million during the first nine months, stemming mainly from the unfavourable price in the international market. This is despite increased production volumes.

Fish exports for the first nine months totalled \$54.7 million compared to \$107.8 million in the same period of 2004. The significant drop is due mainly

to decline in fish catch due to the seasonal nature of fishing and the ageing fishing fleet.

2.5 Imports

Over the first nine months of 2005, the value of imports was \$791.6 million. This is an 87 per cent increase over the same period of 2004. This mainly reflects the impact of high oil prices – there has been a 94 per cent rise in the value of oil imports over the first nine months of 2005 reflecting both increasing costs and volumes of oil imports.

The value of imports of plant, vehicles and machineries, and building construction materials rose by 84 per cent and 40 per cent respectively. Strong growth in these imports reflects increased investment activities in the country, which is made possible by the improved law and order situation. Finally, food imports increased significantly by 70 per cent to \$118.5 million.

2.6 International reserves and the exchange rate

Significant donor inflows, high export receipts and some investment inflows over recent months increased gross international reserves to \$705.1 million (US\$93 million) in late October. This level of reserves represents approximately 6 months worth of imports of goods and non-factor services. Given the high level of reserves, there was further relaxation in the exchange controls for import payments.

The Solomon Islands dollar exchange rate has remained relatively stable against the United States dollar since 2003. In September 2005, the local currency depreciated by a margin of ½ per cent against the US dollar compared to the same period last year. It lost ground in all other major trading currencies with the exception of the Japanese yen which appreciated slightly by 0.3 per cent. The local currency depreciated by 9.7 per cent against the Australian dollar; 1.5 per cent against the pound sterling; 6.9 per cent against the New Zealand dollar; and 1 per cent against the Euro.

2.7 Inflation

As of October 2005, inflation, based on a three month moving average, was 9.8 per cent, down slightly from the 10 per cent recorded in the previous month (see Chart 2.3). This is significantly higher than the 7.1 per cent recorded at the same time last year.

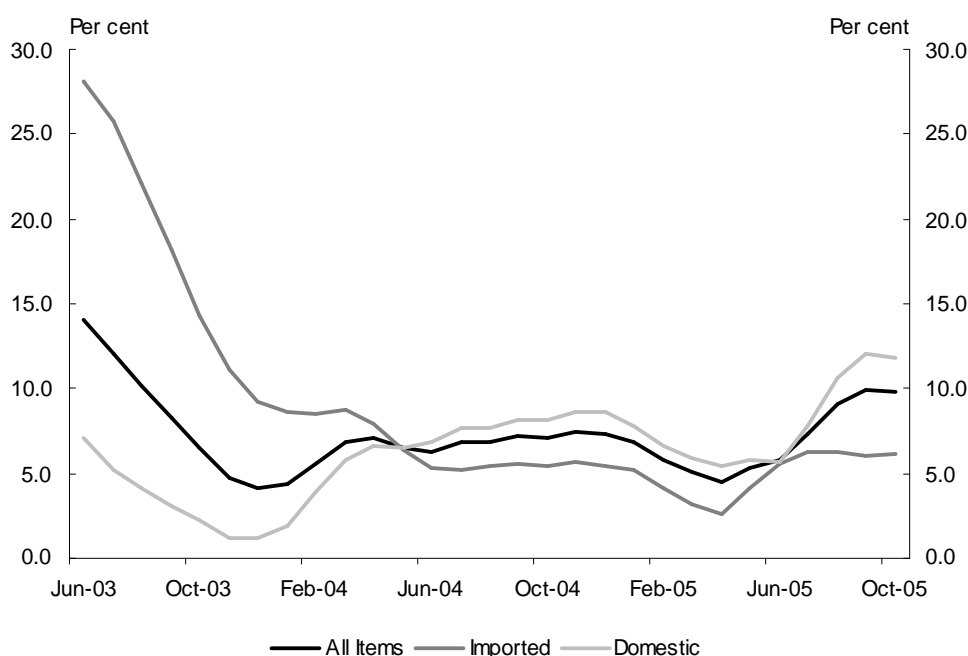
Inflation had been trending downwards through the early part of 2005 (with 5.8 per cent recorded in May). However, the high oil price triggered inflation both directly (through the price of fuel) and indirectly (through higher transportation and utility costs). Rental prices have also risen, attributed

largely to the combined effect of demand for accommodation from donor agencies and supply shortages.

As the main driver of inflation, the second round effect of high fuel prices has led the domestic component of the Honiara RPI to exert a significant influence on the overall inflation rate. However, the imported component of the index was relatively low, reflecting the relative stability in the exchange rate.

It is of increasing concern that unrestrained inflation would prejudice the reform effort and have a negative effect on the Budget and inward investment. Inflation is sensitive to exchange rate movements, the fuel price, fiscal operation and monetary growth.

**Chart 2.3: Honiara Retail Price Index
(per cent change – three months on the same period a year earlier)**



Source: Central Bank of Solomon Islands

2.8 The monetary sector

Monetary developments in the first nine months saw broad money increase by 24 per cent to \$769.7 million. This outcome was triggered mainly by favourable results in the balance of payments, which saw net foreign assets rising from \$575.9 million in 2004 to \$716.4 million in September 2005.

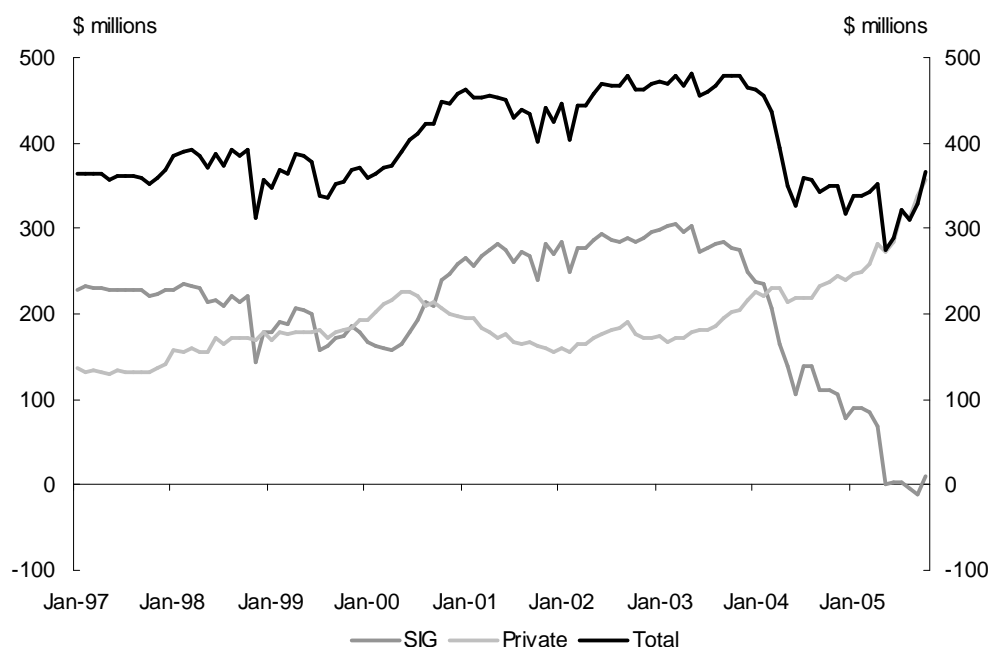
Domestic credit rose by 3.6 per cent to \$327.8 million in September (see Chart 2.4). Increases in private sector lending more than offset the decline in net credit to government as its deposits in the banking system continued to grow. Private sector lending rose by 41.4 per cent to \$337.5 million. The commercial banks have reported increasing levels of loan approvals, and high

levels of undrawn credit and unutilized overdrafts. This excess liquidity is a potential threat to price stability.

Liquidity showed a downward trend until around August. However, by September liquidity had risen by 0.7 per cent to \$262.3 million (and would have been higher, had the government not maintained its deposits in the banking system).

Solomon Islands interest rates have been historically high, reflecting cautious lending policies among the commercial banks. This is mainly the result of the fragile business environment. The indicative weighted average interest rates on deposits and lending were 0.71 per cent and 14.39 per cent respectively in September thus resulting in the interest rate margin of 13.68 per cent.

Chart 2.4: Domestic credit (three month moving average)



Source: Central Bank of Solomon Islands

2.9 The economy and revenue forecasts

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

The 2006 revenue estimates are based on expectations of continued improvement in the economy, building on the achievements of 2005. Nominal economic growth is forecast to be around 13 per cent in 2006, made up of inflation remaining broadly at around current levels economic growth

in the range forecast by the Asian Development Bank (ADB) and International Monetary Fund (IMF). This is expected to flow through to revenue growth in broadly similar proportions, particularly given the decline over 2005 in exemptions for export duty on log timber exports.

A number of major projects are expected to come on stream during 2006 (see section 2.10, below). Once these commence, economic growth could be higher than expected. However, as a number of projects have been granted tax concessions as part of their re-establishment, the flow-on to Government revenue is likely to be limited.

2.10 Economic reform

Solomon Islands is recovering from the effects of conflict. Between 1998 and 2002 the economy contracted by about a quarter.

By the end of 2004 some progress had been made, but real Gross Domestic Product (GDP) is still around 15 per cent smaller than it was in the mid-1990s.

When put in real GDP per capita terms this decline is even starker. In 1995, real GDP per capita – that is, the share of all the output of the Solomon Islands economy for each Solomon Islander – was around \$6,200 (in 2005 values). By 2002, that had fallen by one third to around \$4,160. By last year, real GDP per capita had increased to around \$4,390. While encouraging, this is still around 30 per cent below the 1995 peak.

Overall GDP remains well below pre-conflict levels and Solomon Islanders' incomes significantly lag comparable Pacific economies.

Further economic recovery should occur over 2006 as a number of major businesses closed during the tensions come back on line. Reactivation facilitated by Government include the Guadalcanal Plains Palm Oil Plantation, the Gold Ridge Mine and the Pacific Timbers Mill. The first two industries together previously accounted for around 45 per cent of GDP.

Increasing growth is not, however, guaranteed. The current recovery faces challenges including aid dependence and the imminent decline of Solomon Islands' timber industries, which have long been subject to unsustainable harvesting. Even with increasing plantation forestry, there is expected to be a significant decline in income from logging.

Low, or lower than potential, growth means the Solomon Islands economy will continue to lag behind comparable Pacific economies. This will continue to prevent Solomon Islanders from affording better health care, better education and a higher standard of living. Unless growth rates improve the

government will be unable to provide the services that Solomon Islanders demand. The current high population growth further stretches incomes and the provision of services. The status quo is neither desirable nor sustainable.

Economic reform – progress in 2005

To encourage growth, the government is undertaking a range of economic reforms. The Government's reform action list is shown at Table 2.1. Reforms to date include new foreign investment legislation that will considerably ease restrictions on foreign investors. This in turn will help attract much needed capital investment and is part of a strategy to improve business conditions in Solomon Islands.

Agreement has also been struck to introduce management contracts in the power and water utilities. These contracts will assist local managers produce the reliable water and power services that are essential for large scale economic activity and provide a basis for improved water and electricity supply to provincial areas.

In aviation, the Government has signed the Pacific Islands Air Services Agreement and the Pacific Islands Civil Aviation Safety and Security Treaty as well as appointing a new Comptroller of Civil Aviation. On marine transportation, the government has removed customs duties on the importation of ships and marine equipment, reducing the tax burden on many of these items from a prohibitive 43 percent to under 20 per cent.

While important, these reforms will not improve Solomon Islanders' living standards if barriers to investment or administrative bottlenecks persist in other sectors. As a result, the Government's reform agenda is focused on three broad areas – supporting private sector growth; improving government services; and increasing economic opportunities for Provincial areas.

Improving the business environment

A number of new regulatory reforms are being pursued to create an environment in which private business can flourish. These include:

- Reform of taxation. This will simplify tax legislation, replace damaging taxes and broaden the tax base by removing tax incentives and exemptions;
- Reducing administrative barriers to business and reforming business law. This includes the review of the labour and immigration acts and business regulation to make it easier to start and operate businesses; and

- Improving access to capital. This will be achieved by removing impediments to expansion of financial services throughout Solomon Islands and also by improving applicants' financial literacy, and hence the ability of Solomon Islanders to access capital and financial services more generally.

Improved State Owned Enterprise performance

The Solomon Islands Government controls a significant stake of the national economy through State Owned Enterprises. It is important that this sector operates efficiently. The Solomon Islands SOE sector is very large, and it operates in key industries like water and power. To encourage and support private sector led economic growth the Government is taking steps to improve SOE performance. This includes examining the continued need for Government ownership of smaller SOEs.

The overall SOE framework is also being examined to clarify SOEs objectives, legislation and to strengthen SOE incentives to perform as commercial enterprises.

Opportunities for Provincial economic growth

A measure of success of economic reform will be the extent to which the benefits are enjoyed across the entire nation, including rural areas. Specific reform programs targeting infrastructure to spread the benefits are therefore underway. Infrastructure remains vital to the economic expansion throughout Solomon Islands. Without effective shipping, telecommunications and aviation, Solomon Islanders will not be able to share in the country's economic growth. The focus of infrastructure reform is:

- Shipping reform, which seeks to remove undue barriers to operators plying all economic routes. This in turn will allow all regions to benefit from regular and reliable transport services;
- Telecommunications reform, in which the Government is examining options to improve the quality of existing services and to extend services to rural areas; and
- Aviation reform, in which the Government is examining options to increase the reliability of domestic and international services, a key requirement for encouraging tourism.

In addition to the above reforms the Government is working with donor partners to progress a number of reforms. This will lead to improvements

with economic benefits in the areas of rural roads, land reform, agriculture, health and education among others.

Table 2.1: Solomon Islands Government reform action list

Reform	Progress to date/ Completion Date
Achieving Macroeconomic Stability	
Return Budget to surplus	Completed
Introduce forward budgeting	2006 budget (November 2005)
Introduce a medium term fiscal strategy	To be completed 2006
Synchronise Recurrent and Development Budgets	To be completed 2006
Strengthen performance budgeting and expenditure controls	Ongoing
Comprehensive tax reform	To be completed 2007/2008
Sustainable Debt	
Comprehensive debt management plan	Completed
Restructure domestic debt	Majority Completed (including debts to commercial banks and NPF)
Arrears payments to domestic trade creditors	Over 90 per cent have been paid in full
Negotiate sustainable terms on remaining domestic and international debts	Ongoing
No new borrowings or government guarantees until it is sustainable for it to do so	Ongoing
Pay down of debts in accordance with debt restructuring agreements	Ongoing
Pursue grant financing and other ODA for its financing requirements	Ongoing
Improving SOE performance	
Reform Governance of SOEs	To be completed 2007
Update financial accounts for SOEs	To be completed mid 2006
Sol Air - improving air services	To be completed mid 2006
Management Contract for SIEA/SIWA	Implemented early 2006
Sell SI Printers and Sasape Marina	To be completed mid 2006

Table 2.2: Solomon Islands Government reform action list (continued)

Reform	Progress to date/ Completion Date
Improving Infrastructure	
Pacific Islands Air Services Agreement (PIASA) and Pacific Islands Civil Aviation Safety and Security Treaty	Ratification by end 2005
Pass legislation to bring treaties into full effect	To be completed mid 2006
Removed customs duties on the importation of ships and marine equipment	Completed
Removing a range of barriers to efficient shipping	To be completed mid 2006
Review of the telecommunications monopoly	To be completed 2006
Improving land title management and survey database	
Streamlining Business Regulation	
New foreign investment bill	To be passed November 2005
Business Administration Reforms	To be completed mid 2006
Comprehensive tax reform	To be completed 2007/2008
PAYE legislation amendments	To be passed November 2005
Tax administration modernization	Underway. To be completed by end 2006
Improve Administration of Tax Exemptions Committee	To be introduced by end 2005
Customs legislation and administration modernisation	
Increasing Access to Financial Services	
Reform credit unions legislation and governance	To be completed 2006
Reform NPF legislation	To be completed 2006
Public sector reform	
Improve recruitment	Recruitment Task Force established March 2005 – ongoing.
Implement new Cabinet processes	Ongoing
Financial Management Improvement Strategy (including: SIGAS; update Financial instructions; amend key legislation)	Approved by Cabinet in October 2005; to be completed end 2006)
Public Service Improvement Strategy (including implementation of IPAM)	Ongoing; IPAM operational
Strengthening accountability institutions (Leadership Code Commission, Ombudsman's Office, Auditor General's Office)	Underway
Electoral Reforms	Preparation for 2006 Election
Improve public service asset management	Public housing survey completed
Establish service wide IT platform	To be completed by end 2006

3 Fiscal Outlook

3.1 Overview

The 2006 Budget is forecast to be fully financed without borrowing.

The 2006 Budget puts in place a series of strategic new spending initiatives designed to continue support for key public sector functions and services and to rebuild public infrastructure. Measures introduced in the 2006 Budget will improve service delivery for the people of Solomon Islands. Extra funding has been provided specifically for the Provinces. Funding for the important basic services of Education and Health will increase substantially. A range of measures will assist in revitalizing the private sector, including promoting trade and investment and promoting Solomon Islands overseas.

Together, the approach of funding the Budget from existing resources and implementing a sustainable Budget process, mean that the 2006 Budget continues the nation's progress along the long path to fiscal sustainability.

3.2 Revenue and expenses

The 2006 Budget will be fully financed, with expenditure being met from within the available finance (see Table 3.1). Maintaining at least a fully financed budget is part of the commitment the Government made with its creditors in the Honiara Club debt negotiations.

The total funding available for 2006 is estimated to be \$829.4 million, comprising forecast domestic revenue of \$688.1 million, estimated accumulated cash reserves of \$80.0 million and New Zealand budget support provided to Education of \$61.3 million. Funding for additional strategic spending above Ministry Budget Baseline allocations in this Budget amounts to \$159.5 million.

Should budgeted expenditure going forward exceed the available revenue estimate the Solomon Islands would risk running a Budget shortfall. With insufficient cash reserves to cover it, this deficit would return the Government to a position where it would have insufficient cash to pay its bills. This would destroy growing donor, business and public confidence in the improved fiscal management of Solomon Islands. Such an undesirable outcome would result in failing economic conditions and shrinking Budget allocations into the future, rather than the moderate but sustainable growth that will accompany fiscally responsible Budgeting.

In 2006 the Government has avoided the above situation by balancing expenditure with available revenue while delivering a series of targeted new spending proposals designed to benefit all Solomon Islanders.

Table 3.1 depicts the expected revenue and expenditure picture for 2006.

Table 3.1: Summary of revenue and expenditure

	Actual	Estimates		Change %
	2004 \$m	2005 \$m	2006 \$m	
Revenue				
Inland revenue	299.1	341.1	386.1	13.2
Customs and excise	172.7	200.9	227.5	13.2
Other ministries	44.0	57.8	74.5	29.0
Domestically sourced revenue	515.8	599.8	688.1	14.7
Budget support (a)	0.0	40.0	61.3	53.2
Total revenue	515.8	639.8	749.4	17.1
Expenditure				
Payroll charges	171.3	228.4	225.0	-1.5
Other charges	232.7	369.4	457.9	24.0
Debt service charges	49.6	78.0	101.7	30.4
Funds transferred to development	0.0	15.0	44.8	
Total expenditure	453.6	690.8	829.4	20.1
Finance available from accumulated cash reserves		80.0	80.0	0.0
Anticipated underspends	0.0	51.0	0.0	
Total available finance	515.8	770.8	829.4	7.6
Accumulated cash surplus/deficit	62.2	80.0	0.0	-100.0

(a) The 2004 Budget included Solomon Islands Government funds only.

Revenue

Consistent with the last two years, in 2005 the Government has experienced strong revenue growth.

In 2005, domestic sourced revenue is estimated to be \$599.8 million. This estimate takes into account trends observed in the year to date, as well as expectations for the remainder of the year. Total domestic source revenue in the first eight months of 2005 was \$505 million, around 10 per cent higher than the expected year to date result. Stronger than expected collections in the year to date have been seen in personal tax (around 45 per cent higher than expected) and export duties on log timber (around 40 per cent higher than expected).

In addition to strong performance in a number of heads of revenue, collections can be expected to be higher in the second half of the year. This

reflects, among other things, balancing company tax payments as well as higher collections of consumption taxes through the Christmas period.

The revised 2005 revenue estimate is \$84 million, or 16.3 per cent higher than the result recorded in 2004 and \$49.8 million, or around 9 per cent, higher than the estimate contained in the 2005 Budget.

Domestic revenue for 2006 is estimated to be \$688.1 million. This represents an increase of 14.7 per cent over the revised 2005 estimate of \$599.8 million. For 2006, it has been decided to base revenue forecasts on expectations of nominal economic growth but with some additional allowance due to large increases in air navigation fees revenue being brought to account in 2006. The best currently available estimate of 2006 nominal growth is around 13 per cent, with inflation remaining broadly at current levels and the consensus real growth forecast of around 5 per cent.

The 2006 revenue forecast also reflects the assumption that the large compliance gains that characterised revenue collections between 2003 and 2005 are unlikely to be repeated. Compliance driven gains in these years reflected large back-payments as well as taxpayers returning to the system. The revenue base is now thought to have stabilised.

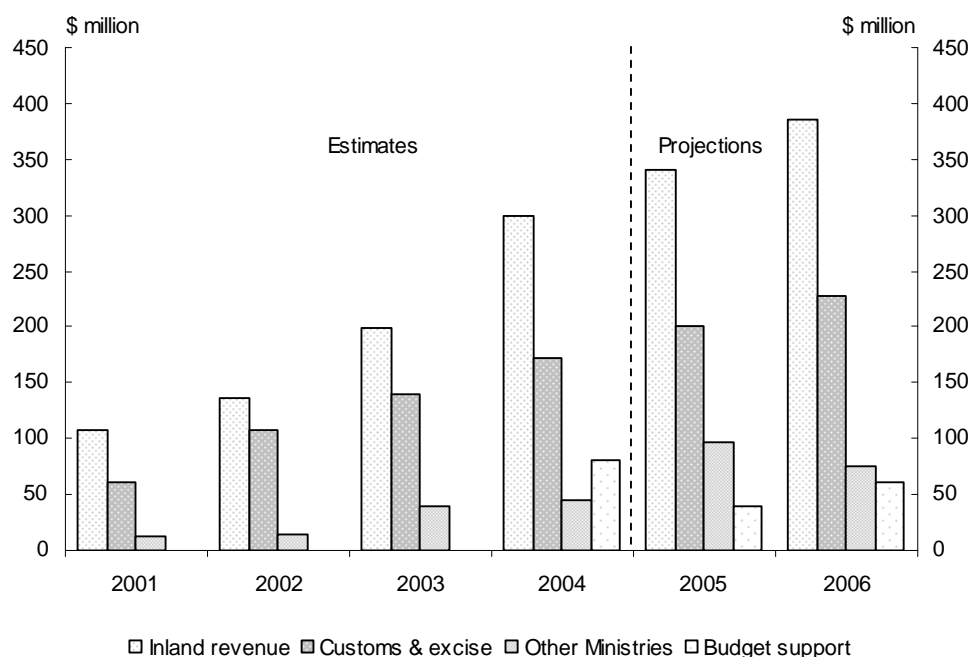
Sources of domestic revenue

The Solomon Islands Government has three principal sources of domestic revenue: inland revenue; customs and excise and other Ministries (ad hoc) revenues.

Inland revenue continues to be the largest source of domestic revenue, representing around 56 per cent of collections in 2006. Customs and excise collections will make up around 33 per cent, with the remainder – around 11 per cent – being collected by various other ministries.

2006 forecast revenue by source is shown in Chart 3.1. This shows that domestic revenue is expected to continue to increase across all collections. In 2006, New Zealand will also provide an increased level of Budget support for education of \$61.3 million.

Chart 3.1: Revenue by source, 2001 - 2006



Inland revenue

Inland revenue comprises personal taxes, company taxes, withholding tax, goods tax, sales tax, stamp duty and licence fees. Table 3.2 shows the breakdown of inland revenue by tax type.

Revised forecast collections for 2005 are expected to be \$341.1 million – \$34.2 million, or 11.1 per cent higher than forecast in the 2005 Budget. This is mainly the result of stronger personal tax collections which are expected to be \$27.5 million, or 45 per cent higher than forecast in the 2005 Budget.

In 2006, inland revenue is forecast to increase in line with nominal economic growth – that is, by around 13 per cent.

Table 3.2: Inland Revenue by tax type

	Actual	Estimates		2006 \$m
	2004 \$m	2005 Budget \$m	Revised 2005 Budget	
Company Tax	61.5	57.0	55.1	62.3
Personal Tax	60.7	61.1	88.6	100.2
Withholding tax	26.2	21.5	24.4	27.6
Goods Tax	126.4	141.5	143.2	162.2
Sales Tax	16.9	18.4	20.6	23.3
Stamp Duties	4.3	4.1	5.2	5.9
Vehicle/Driving Licences	3.2	3.4	4.0	4.5
Total	299.1	306.9	341.1	386.1
<i>Per cent change</i>	<i>49.6</i>	<i>2.6</i>	<i>11.1</i>	<i>13.2</i>

Customs and excise

Customs and excise collections arise as a consequence of border controls on exports from and imports to Solomon Islands and taxation (excise) on the production of beer and tobacco. Sources of revenue include import duty, export duty, license fees, acceptance fees, excise duties and levies. Table 3.3 shows the breakdown of these revenues by type.

Table 3.3: Customs and excise revenue by type

	Actual	Estimates		
	2004 \$m	2005 Budget \$m	Revised 2005 Budget	2006 \$m
Import duty	82.4	97.2	80.4	90.9
Export duty				
Timber	64.5	57.3	80.4	91.2
Fish	2.4	3.0	1.1	1.2
Minerals	0.3	0.4	0.4	0.4
Shells	0.3	0.4	0.6	0.7
Other	0.1	0.1	0.1	0.1
Excise				
Beer	13.4	15.0	16.3	18.4
Tobacco	7.3	4.6	20.9	23.7
Fees and charges	2.0	0.5	0.9	1.0
Total	172.7	178.5	200.9	227.5
<i>Per cent change</i>	<i>23.4</i>	<i>3.4</i>	<i>12.6</i>	<i>13.2</i>

Revised collections for 2005 are expected to be \$200.9 million - \$22.4 million, or 12.6 per cent higher than forecast at the 2005 Budget.

The revised forecast for customs and excise collections is driven mainly by collections of export duty on timber, which was \$23.1 million, or 40.3 per cent higher than expected at the 2005 Budget. This strong performance mainly reflects both the decision by the Minister of Finance to suspend exemptions for log timber export duty and a decline in the stock of extant exemption through the year.

However, strong performance in timber export duties is partly offset by lower than expected results in import duty. The 2005 Budget forecast has been revised down by \$16.8 million, or 17.3 per cent. This is mainly the result of reduced collections of duty on imported tobacco products, reflecting the switch to local production during 2005. The decrease in import duties on tobacco products is itself partly offset by increased collections of excise on the local product.

Customs and excise revenue for 2006 is expected to be \$227.5 million, 13.2 per cent higher than the revised forecast for 2005. This reflects both the assumption that most customs and excise revenues will increase in line with nominal economic growth and the effect of the cessation of exemptions from timber export duties and the reduction in the stock of extant exemptions as they are used by exporters.

Other Ministries

Most Ministries collect some revenue for the Government. This revenue comprises non-tax items such as fees and charges arising from the normal course of operations. 2006 revenue from other Ministries is forecast to be \$74.5 million – 11 per cent of total collections. Revenue collections under this category have increased significantly, principally due to increased revenue from air navigation fees collected by the Ministry of Infrastructure Development.

Distribution of revenue

Table 3.4 shows that the largest collections of revenue are seen in the Ministry of Finance - reflecting that Ministry's inland revenue and customs and excise functions.

Table 3.4: Revenue collections by Ministry

	Actual		Estimates	
	2004 \$m	2005 Budget \$m	Revised 2005 Budget	2006 \$m
Agriculture & Lands	3.8	2.9	5.1	5.7
Auditor General	0.0	0.0	0.0	0.0
Education & Human Resource Development (a)	0.9	41.1	41.4	62.9
Finance & National Reform and Planning	472.8	486.5	542.2	613.7
Foreign Affairs, Commerce & Tourism	4.3	4.2	4.7	5.3
Governor General	0.0	0.0	0.0	0.0
Health & Medical Services	0.0	0.0	0.0	0.0
Infrastructure Development	3.6	8.3	10.8	20.2
National Debt Servicing	1.3	1.1	0.0	0.0
National Parliament	0.0	0.0	0.0	0.0
Natural Resources	27.4	43.3	33.5	39.1
Prime Minister & Cabinet	0.0	0.8	0.1	0.1
Pensions & Gratuities	0.0	0.0	0.0	0.0
Police, National Security & Justice	0.5	0.4	0.9	1.0
Provincial Government, National Reconciliation & Peace & Home Affairs	1.3	1.4	1.1	1.3
Total	515.8	588.5	639.8	749.4
<i>Per cent change</i>	<i>36.6</i>	<i>14.1</i>	<i>8.7</i>	<i>17.1</i>

(a) Includes New Zealand Budget Support.

Table 3.4 shows that the Ministries of Natural Resources and of Infrastructure Development have the largest domestic source revenue collections after the

Ministry of Finance. In the Ministry of Natural Resources, these collections are mainly from fisheries licence fees and fish export permits, with a smaller amount collected from royalties on plantation timber. Collections in the Ministry of Infrastructure are mainly from air navigation fees, Telekom traffic fees and radio license fees.

Higher growth is expected in non-tax revenues than the rate of nominal economic growth. This mainly reflects the inclusion of a large one-off increase in air navigation fees being brought to account in 2006.

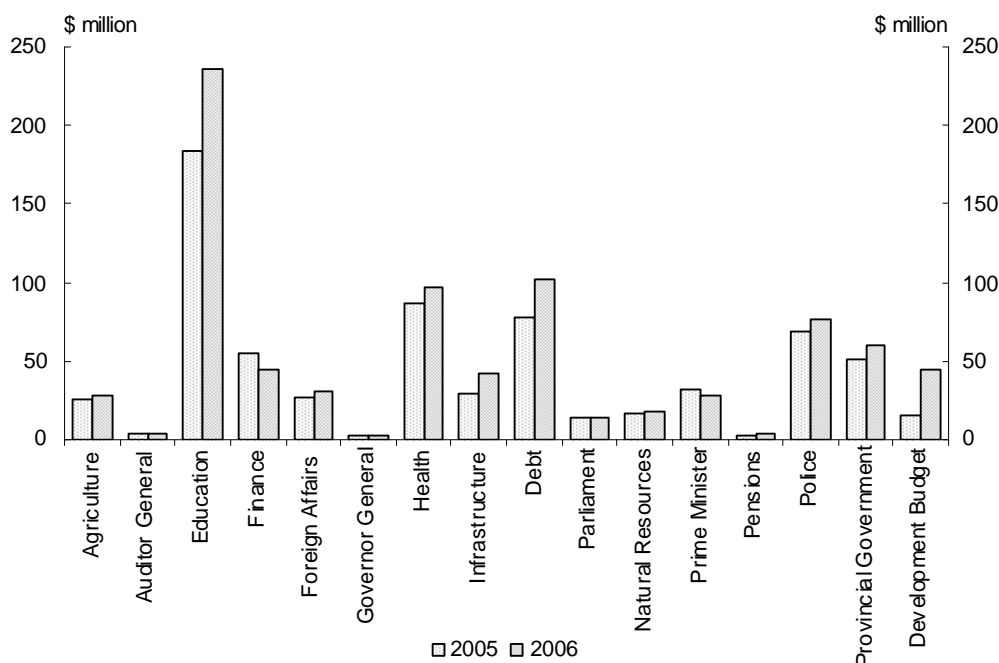
Expenditure

The 2006 Budget continues the large increases in expenditure financed in 2004 and 2005. The increase in expenditure in 2006 is largely due to the corresponding increase in domestically sourced finance available to Government and increased New Zealand Budget support.

After excluding one-off payments in 2005, most Ministries will benefit from increased ongoing funding in 2006 with significant proportional increases to key education, health and infrastructure sectors (Chart 3.2 refers).

The 2006 Budget provides another rise in funding available to Departments and an increased focus on planning and management will be required to ensure that funding is effectively spent.

Chart 3.2: Expected expenditure by Ministry, 2005 and 2006^(a)



(a) Funding for Education includes New Zealand Budget support for education of \$40 million in 2005 and \$61.3 million 2006.

3.3 Financial management priorities for 2006

Priority financial management areas for 2006 include: maintaining and increasing public and donor confidence in the Solomon Islands Government Budget; continuing Budget control and monitoring; increasing Government revenue; continuing expenditure control; the pursuit of value for money in order to enhance service delivery to the community; and a closer linking of departmental strategic objectives with outlays.

Maintaining public and donor confidence in the Solomon Islands Budget

The Solomon Islands Government has sought to further improve public and donor confidence in its financial management through the delivery of a credible and fully financed Budget without borrowing. Formal debt servicing remains at around 15 per cent of domestic revenue. The Budget continues the path to reform with the publication of the Forward Budget Estimates.

Continued Budget control and monitoring

As in 2005 funding for Ministries in 2006 will be allocated on a half yearly basis to assist in maintaining fiscal discipline while providing Ministries with sufficient flexibility to plan their expenditure. Previously allocations were made quarterly. It is expected that reduced administrative burden on Ministries through this measure will allow more time for them to focus on internal financial management issues.

Fiscal discipline on a whole of government basis will be ensured through a continuation of both published monthly reports and quarterly budget reviews. Ministries that exhibit unusual expenditure profiles in any month will, as necessary, be assisted in their financial management by the Ministry of Finance to ensure that they can live within their annual budget.

Increasing Government revenue

The focus on improved taxation compliance in 2004 and 2005 greatly increased revenue collections in the areas of Inland Revenue and Customs. This focus of attention will be maintained and strengthened in 2006 including with additional funding support for Customs and Inland Revenue. Continuing steps that could lead to further increases in the revenue base include:

- Controls to ensure that the appropriate amount of revenue is collected in accordance with legislation and reaches the Official Revenue Account;
- Auditing the practices of Ministries collecting revenue to ensure transparent and accountable practices are adhered to;

- Reviewing and revoking inappropriate tax exemptions, and limiting the number of exemptions granted in future; and
- Closely examining the taxation system with a view to implementing reforms that will streamline the existing tax system, reduce exemptions and broaden the tax base.

Continuing expenditure control and pursuit of value for money

The 2006 Budget is consistent with the Government's commitment to live within its means. To ensure that the Budget remains affordable and sustainable, expenditure will need to be closely monitored and controlled throughout 2006. Financial analysis and the continuation of the publication of monthly reports by the Ministry of Finance of Departments' monthly expenditures should assist in keeping spending under control.

Linking departmental strategic objectives with outlays

The use of Baseline Budgets to link departmental objectives, priorities and outputs to budget line item expenditures represents the start of a broader focus on corporate and strategic planning as part of wider improvement in measures designed to improve the operation of government.

Debt management and Budget funding

The Government's total level of debt is estimated to be around \$2.2 billion at the end of 2005. This is composed of around \$1.7 billion in official public sector debt and around \$500 million in other debts, which include informal debt obligations, and contingent liabilities and guarantees. The Government has continued to make progress in regularising its debts and has restructured and resolved a number of its debts this year. In a world first the Government also initiated its own multi-lateral debt meeting with its external creditors, dubbed the 'Honiara Club', which resulted in the provision of some debt relief to the Solomon Islands.

Owing to the substantial level of Government debt, the Government plans to continue to run balanced budgets or cash surpluses going forward. As a consequence, the Government will not be seeking to borrow any funds to finance the recurrent Budget.

In its recent discussion with international creditors, the Government committed to maintain fully funded recurrent budgets, undertake no further borrowing, not issue sovereign guarantees, and to use debt servicing funds only to service debt. This was a major commitment to rebuild financial credibility.

The 2006 Budget allocates 17.7 per cent of domestic sourced revenue (\$121.7 million) to debt servicing. In 2006, \$101.7 million of this is for official public sector debt servicing and \$20 million for informal arrears. While these amounts are substantially higher than the domestic funds available for debt servicing in 2005, they are not sufficient to cover the Government's current debt servicing requirements (including payments of arrears) in 2006.

From the funds available for official public sector debt servicing in 2006, the Government expects to service its restructured debts and a number of its external loans. With respect to funds available for informal arrears payments (\$20 million) these are significantly lower than the \$34.3 million allocated in 2005. However, it is expected that these funds will be sufficient to make some further part payment on these debt obligations.

3.4 Debt management

Over the year the Government installed the new CS-DRMS 2000+ (Commonwealth Secretariat Debt Recording and Management System) within the Central Bank and the Debt Management Unit in the Ministry of Finance. The new system provides data redundancy and also allows debt management analysis and operations to be performed more efficiently.

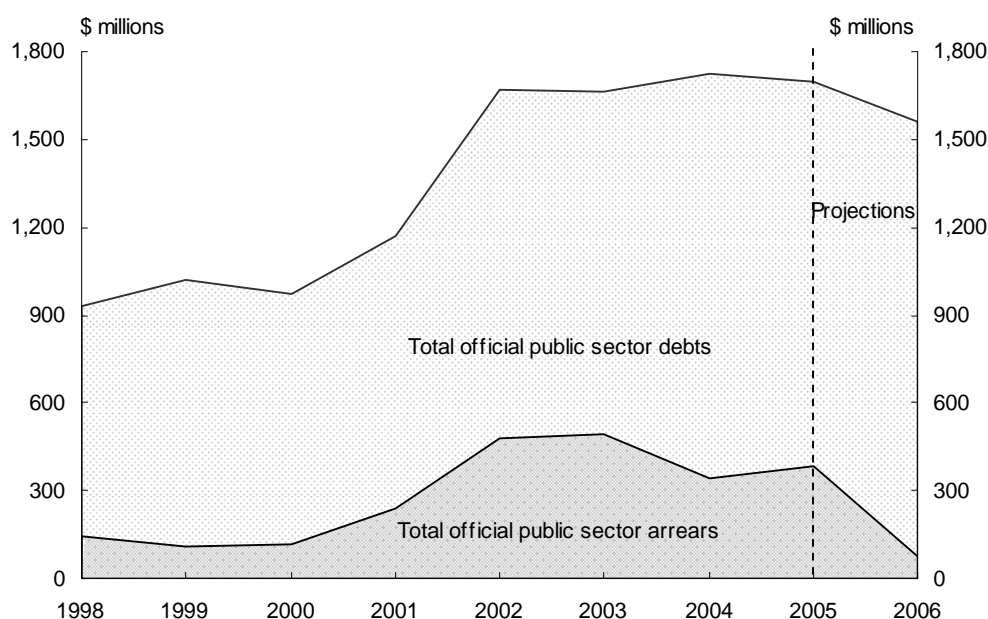
In 2006 the Government will continue to focus on implementing the comprehensive debt management plan including: the continued regularising and restructuring of debt obligations; the construction of relevant operational and other debt policies and procedures; the improvement of debt management activities; and improving local debt management capacity.

Official public sector debt

During 2005, the nominal level of official public sector debt has continued to fall and is expected to be \$1.7 billion by the end of 2005 (see Chart 3.3). The fall reflects the servicing of restructured and other debt obligations by the Government over the year.

In 2006 the level of public sector official debt and arrears is set to fall in line with the outcomes of debt restructuring that the Government is currently finalising.

Chart 3.3: Official Public Sector Debt 1998 – 2006^(a)



(a) Further depreciation of the SBD exchange rate against the loan currencies will have the affect of increasing the total stock of formal debt outstanding.

Source: Central Bank of Solomon Islands and Ministry of Finance.

Building on its success with the restructuring of its commercial bank debt in July 2004, the Government successfully restructured its employee contribution arrears and its outstanding bonds (totalling around \$75 million) to the National Provident Fund (NPF) in December 2004. Similar to the commercial bank debt restructuring, the new NPF bonds have an average interest rate of 2.25 per cent, a 7 year grace period applying to half the principal and a 15 year term on the longest bond.

One of the major outcomes for 2005 was the conduct of the Honiara Club meeting. The meeting provided the basis for the Government to negotiate with its external creditors concerning the provision of some debt relief on its external debts. Discussions took into account the IMF's 2005 Article IV report and Debt Sustainability Analysis where the IMF note that the Solomon Islands is at high risk of debt distress. The meeting was chaired by a representative from the New Zealand Government.

As a result of the meeting the Government has undertakings from all creditors attending the meeting to do a range of things that will lower the Solomon Island's debt burden. At the same time, it has given undertakings to the creditors that it will observe good budget practices and proceed with implementing reforms to the economy and improving government services.

Creditors also agreed to consider providing some immediate debt relief through a moratorium on debt repayments for two years. Over this period it is expected that some further debt relief could be settled upon.

In 2006 the Government will continue to follow up Honiara Club outcomes with its external creditors in bi-lateral meetings. Another Honiara Club meeting may be held in 2006 to progress discussions about debt relief with external creditors.

Recently, the Government has agreed an in-principle settlement with one of its major external creditors that provides significant debt relief (over 75 per cent of the debt forgiven).

The Government is also currently in discussions with the Central Bank of the Solomon Islands to restructure its debt of around \$200 million. It is expected that this long outstanding matter will be resolved before the end of the year. With the expected signing of this agreement the Government will have fully regularised all its official domestic obligations and cleared all its domestic official arrears.

Informal debt

The 2005 Budget allocated \$34.3 million for the continued part payment of its informal arrears obligations. These included the Government's trade creditor arrears holders and deductions taken from public sector employees' pay packets that were never forwarded to various organisations. The Government arranged two rounds of payments, with a maximum of \$17,000 and \$19,000 being paid for each claim respectively. It is planned to have a third round of payments before the end of the year. The process of verifying claims is ongoing as the Department of Finance and Treasury continuously receives claims from originating Ministries on an ad hoc basis. After the first two rounds of payments, 337 claims had been paid in full during 2005 and over 92 per cent of the Government's original trade creditor arrears holders had been paid off in full.

In dealing with these trade creditor arrears, the Government has sought individual settlement agreements with large trade creditors. Of the seven deemed large trade creditors, four have agreed in principle to a repayment schedule or securitisation of their debt. The Government is in negotiations with the remaining three large trade creditors.

In addition to the payments made to trade creditor arrears holders, the Government's unpaid public service pay deductions were paid in full and are now up to date. Furthermore, unpaid NPF pay deductions have also been paid in full. The Government has continued to meet its payroll,

superannuation contribution and trade creditor forward commitments as and when they have fallen due.

Informal arrears obligations

In the 2006 Budget, the Government has allocated \$20 million for the continued part payment of its trade creditor arrears claims. The Government has also stated that if the Budget position is better than expected, then further finance for the payment of arrears will continue to be a very high priority.

The Government still has significant domestic trade creditor arrears (in excess of \$75 million) and as a consequence, the Budget allocation of funds only allows for some additional part payments.

Contingent liabilities and guarantees

The current level of the Government's contingent liabilities and guarantees is estimated to be over \$350 million. In 2005 a number of additional contingent liabilities were identified. Namely, the Solomon Islands Electricity Authority (SIEA) was found to carry substantial debts to the Government (in excess of \$180 million), with no way of servicing these debts and continuing its operations. In 2006, the Government is likely to assume liabilities that were previously transferred to the Investment Corporation of the Solomon Islands (the Government's shareholding body in Government owned enterprises).

The Government has been working with the NPF (the holder of a number of Government loan guarantees) to ensure that its guarantees are managed appropriately. At present, the Government is working with NPF in resolving guarantees given in respect of loans to SIEA. It is hoped that this matter will be resolved before the end of the year or at the latest early in the new year. In 2006, the Government expects to continue to work with NPF in resolving a number of non-performing loans guaranteed by it and provided by NPF. At present, the Government is not issuing any new Government guarantees.

3.5 Budget support

New Zealand Budget support

In 2006 the New Zealand Government will continue to provide support to the education sector. New Zealand's Budget support consists of \$61.3 million in 2006 and is designed to assist the Government with the achievement of its key education goals and objectives as set out in its Education Strategic Plan (ESP), 2004 – 2006, in particular to:

- Provide equitable access to quality basic education for all children in Solomon Islands;

- Provide access to community, technical, vocational and tertiary education that will meet individual, regional and national needs for skilled and competent people; and
- Manage resources in an efficient and transparent manner.

Budget Process reform

For many years the Solomon Islands Budget used a single year, zero-based budget framework. This resulted in large spikes and troughs in resourcing to agencies, preventing departmental planning and hampering service delivery across the board, with no future resourcing framework in which to plan. The framework also resulted in no clear linkage between the budget and government policy decisions.

The 2004 Budget Reforms

The 2004 Budget focused on achieving a balanced macro-budget position within the existing zero-based budget framework, while introducing budget discipline, controls and monitoring. Budget allocations were designed to get spending back in line with Government priorities. This first step created a solid platform for further budget reform.

The 2005 Budget Reforms

For the 2005 Budget, a simple marginal budget process was implemented. This framework allows Government to operate on a more stable basis with greater certainty to Departments going forward and for Government to link funding allocations to active policy decisions.

The process also allowed Departments the opportunity to redistribute their funds between their Budget line items. This allowed Ministries' internal budgets to more closely match their intended expenditure and activity profiles.

The marginal Budget framework is a positive step forward in linking Government policy, public sector activities and strategic funding allocations. The framework will also support responsible government as the public can use the policy decisions to assess the performance of government.

The Next Steps in 2006: Forward Budget Estimates

The next stage of the Budget process reform is being implemented in this Budget with the publication of the Forward Budget Estimates. The Forward Budget Estimates identify a best estimate of the funding envelope within which the Government can expect to deliver its policy objectives over the

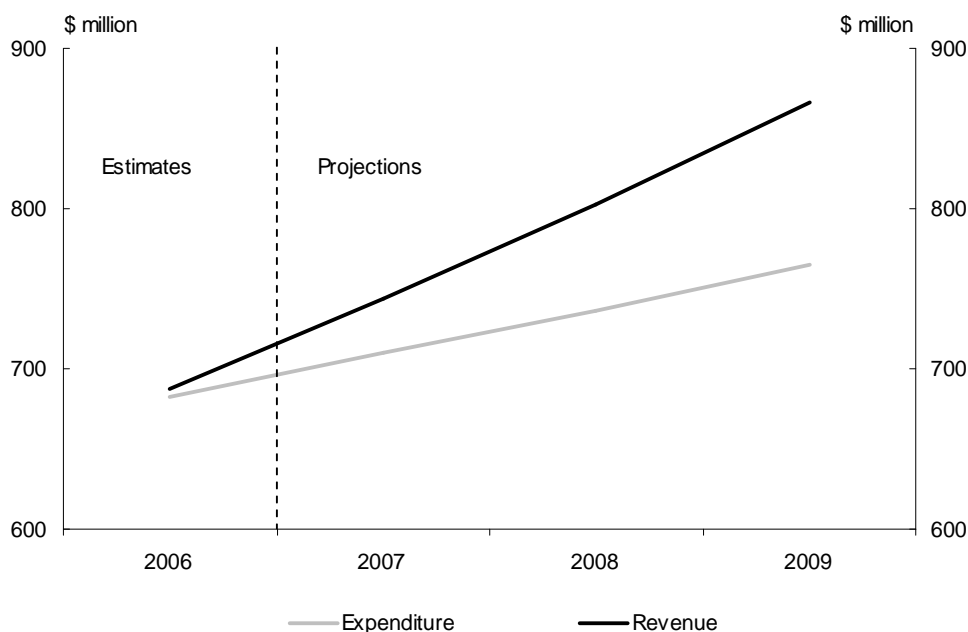
three forward years after the Budget year as at the time the projections are made. Funding for spending will however continue to be appropriated on an annual basis.

The first step in the development of the Forward Budget Estimates was consultation within Government and with donors outlining methodology for deriving the Forward Budget Estimates as a tool for forward planning. There was general agreement through this consultation process regarding the methodology. A key theme emerging in the consultation process was the importance of facilitating economic growth in order to ensure revenue targets are achieved as well as greater social prosperity. The projections outlined below reinforce the importance of that theme.

Forward Budget Estimates projections

The initial Forward Budget Estimates which have been developed comprise the Budget (2006) and three year forward estimates of baseline expenditure and revenue. Chart 3.4 shows the expected rise in forecast ongoing available finance (top line) and the indexed baseline cost of continuing current levels of service provision (bottom line). As such Chart 3.4 illustrates the Government’s internal capacity to fund new expenditure after continuing to maintain its baseline expenditure bottom line.

Chart 3.4: Forward estimates of revenue and expenditure, 2006 – 2009



Funding available for new expenditure across the forward estimates period is also shown in Chart 3.5. The table depicts two scenarios. The first is that underlying the 2006 Budget – continued 3 per cent growth in expenditure,

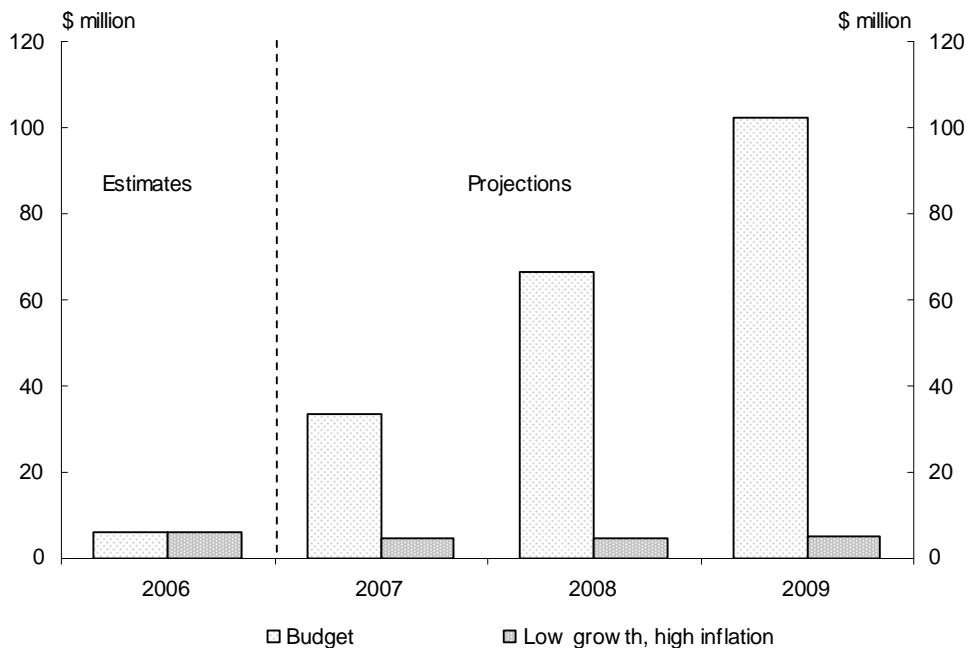
with revenue running at 14.6 per cent in the Budget year and 8 per cent in each year of the projections period.

The second scenario reflects likely outcomes if the economy were to experience low real growth. In this scenario, revenue projections are driven by a nominal growth assumption of 6 per cent. However this scenario assumes that the cost of providing government services rises by 6 per cent (that is, 3 per cent higher than the current baseline). As Table 3.5 shows, were such a scenario to play out, it would mean significant constraints on the quantum of funding available for new expenditure. If this were to occur in 2007 then in concrete terms compared to Scenario 1, the spending cut would be equivalent to the cost of building 29 Rural Health Clinics, 24 Secondary Schools or between 30 and 150 kilometers of graded roads. By 2009 the spending cut against Scenario 1 would be equivalent to the cost of building 97 Rural Health Clinics, 81 Secondary Schools or between 90 and 500 kilometers of graded roads, a significant loss of capacity for Solomon Islands.

Table 3.5: Funding available for new expenditure (\$m) under Budget and low growth, high inflation scenario

	Estimate	Projections		
	2006	2007	2008	2009
Budget				
Expenditure	682.3	709.5	736.3	764.4
Revenue	688.1	743.2	802.6	866.8
Funds available	5.9	33.7	66.3	102.4
Low growth, high inflation				
Expenditure	682.3	724.8	768.3	814.4
Revenue	688.1	729.4	773.2	819.6
Funds available	5.9	4.6	4.9	5.2

**Chart 3.5: Funding available for new expenditure, 2006-2008
Budget assumptions and low growth, high inflation assumptions**



Assumptions underlying the Forward Budget Estimates projections in Chart 3.4

Revenue Forecasts

The Forward Budget Estimates provide projections of revenue growth and generally take into account the economic growth outlook. The central assumptions, with total revenue projected at \$743.2 million in 2007, \$802.6 million in 2008 and \$866.8 million in 2009, are that Inland Revenue and Customs and Excise collections are assumed to rise with the full extent of expected nominal economic growth.

Nominal growth is projected to be 8 per cent, based on a combination of around 4 per cent real growth and 4 per cent inflation. These conservative assumptions are consistent with the view that a number of internal and external factors (for example, the outlook for forest industries, ongoing high and volatile oil prices) could mute growth in the years beyond 2006. The precise split between inflation and real growth does not materially affect the projections. The projections do assume that there will be some recomposition in the economy as forest industries decline over the projections period and other industries grow to offset that impact.

The current NZAid package of assistance will expire at the end of 2006. A review in mid-2006 will consider any future requirements or opportunities for further education support. Revenue projections assume the continuation of

NZ Budget support at a level of \$40 million which will be revised in the light of the upcoming review and the negotiation of any future package.

The projections do not take into account any availability of cash reserves which may or may not be available for additional spending.

Baseline Expenditure

Consistent with the current Baseline Budgeting approach one-off expenditures included in the 2005 Budget have been excluded from the 2006 baseline starting point for forward projections. An indexation factor of 3 per cent per annum has been applied. It has been assumed that debt servicing will be maintained at 15 per cent of domestic revenue.

It is important to recognise that the 3 per cent indexation of expenditure contains an upside risk. As was found in 2006, it may be necessary to increase base funding by more than the 3 per cent simply to maintain existing service levels.

Use of the Forward Budget Estimates

The Forward Budget Estimates allow forward planning and prioritising of expenditure in the knowledge of the level of budget support resources likely to be available.

However, in using the Forward Budget Estimates to assess the Government's financial position, it needs to be recognised that the Baseline Budget only partly addresses the cost of providing Government services. In a number of cases, the delivery of recurrent services is underwritten by donor support such as the contribution Australia is making to delivering police services for Solomon Islands. Apart from New Zealand Budget support for education, this donor budget support is not reflected in either the Budget or the Forward Budget Estimates. If this additional support is taken into account it is clear that the funding challenge facing the Government in future years is very much larger than reference to the Forward Budget Estimates would suggest.

The publication of the Forward Budget Estimates will assist with planning both within and outside Government. The projections published in this Budget indicate that the Government will have a modest increased capacity to undertake additional spending beyond baseline expenditure as long as the economy grows and costs are contained. However, the need for continued donor support of the Solomon Islands will clearly remain essential to achieve a self sustaining level of economic recovery.

It is important that users are aware that the indicative baselines in the forward estimates are a planning tool only and do not guarantee that a specified level of funding will be available. Funding for spending will continue to be appropriated on an annual basis.

4 2006 Budget – New Spending Measures

Through the 2006 Budget the Government has funded a series of major packages designed to: increase basic service delivery; ensure safer communities; support the public sector; strengthen responsible Government; build national wealth; support the provinces; maintain critical infrastructure; promote Solomon Islands internationally; and revitalise the productive sector. These measures are consistent with pursuing the National Economic Recovery, Reform and Development Plan 2003 – 2006 (NERRDP 2003-2006).

The distribution of the \$159.5 million of funds (on top of the Budget Baseline) available for allocation has been determined following close consultation with all Ministries. These measures are designed to deliver the greatest possible benefit to the people of Solomon Islands.

The complete list of 2006 additional funding allocations is provided in Table 4.1 and Table 4.2.

4.1 2006 Budget Packages

1 NERRDP 2003-2006 Strategic Area 1: Normalising law and order and security situation

1.1 Safeguarding Our Communities

These measures focus on maintaining peace and security in Solomon Islands and building a domestically funded law and justice and sector.

1.1.1 Safeguarding Our Communities – increased resourcing to strengthen the police and prison services

Ministry	Department	Additional Allocation (\$)
Police, National Security and Justice	Police and National Security	3,050,000

The Government will provide an additional \$3.05 million to the Ministry of Police, National Security and Justice, to support the strengthening of the police and prison services.

This measure comprises:

- \$2.3 million to meet increased payroll costs arising from a combination of adjustments to the pay and allowances received by prison officers during 2005 and a successful recruitment campaign which has strengthened the prison service;

- \$0.3 million to meet increased fuel costs associated with operational police services activities; and
- \$0.5 million for increased staff housing rental costs and to address the training needs of headquarters support staff.

1.1.2 Safeguarding Our Communities – increased resourcing for legal and justice sector

Ministry	Department	Additional Allocation (\$)
Police, National Security and Justice	Justice and Legal Services	1,446,800

The Government will provide an additional \$1.45 million to the Ministry of Police, National Security and Justice, Department of Justice and Legal Services to strengthen justice and legal services. This additional funding includes:

- \$0.7 million to increase hearing numbers, which is expected to reduce the case backlog in the High Court, Local Court, Customary Land Appeals Court and Court of Appeals by about one-third during 2006; and
- \$0.8 million for office support services and to provide for professional development related overseas travel by High Court Judges and the Attorney General.

2 NERRDP 2003-2006 Strategic Area 2: Strengthening democracy, human rights and good governance

These measures focus on assisting the Solomon Island public sector to effectively and efficiently deliver Government policy for the benefit of all Solomon Islanders.

2.1.1 Support for the Public Sector

Ministry	Department	Additional Allocation (\$)
All	Various ^(a)	5,557,210

(a) Supplementation has been provided to all Ministries. Calculation of funding was based on a review of existing services and future needs. The distribution of funds to Departments was dependent on the extent to which IT services were decentralised within Ministries.

The Government will provide \$5.56 million to implement an Information Technology Strategy to deliver information technology resources to support the functions of government and delivery of government services.

Funding will be used to:

- develop information technology budgets in each agency; and

- to cover high priority areas of license fees, repairs and maintenance and replacement of hardware.

Funds will also be sought from donors to assist with implementation of the Strategy. Details for administration of the Strategy will be further developed to ensure a consistent approach across Ministries.

Funds allocated to individual Ministries are shown in Table 4.2 below.

2.1.2 Support for the Public Sector – supplementation for increased utilities costs

Ministry	Department	Additional Allocation (\$)
All Ministries(a)	All Departments(a)	11,861,286

(a) Supplementation has been provided to all Ministries. Payments of electricity and water charges are centralised in some Ministry headquarters hence specific allocations to agencies have not been made.

The Government will provide total additional funding of \$11.86 million in 2006 to all Ministries to defray the costs of extraordinary increases in electricity and water charges that commenced in 2005. This supplementation means that agencies can avoid cost cutting in other areas of expenditure to pay for increased utilities costs. The Government was concerned that cost cutting could lead to deterioration in the level and standard of service delivery.

Funds allocated to individual Ministries are shown in Table 4.2 below.

2.1.3 Support for the Public Sector – supplementation for increases in statutory salaries

Ministry	Department	Additional Allocation (\$)
Various	Various	617,904

The Government will provide total additional funding of \$0.62 million in 2006 to meet increased payroll costs resulting from recent statutory salary increases granted to certain Statutory Holders of Public Office in a number of Ministries.

Funds allocated to individual Ministries are shown in Table 4.2 below.

2.1.4 Support for the Public Sector – supplementation for increases in pensions and gratuities

Ministry	Department	Additional Allocation (\$)
Various	Various	822,094

The Government will provide additional funding of \$0.82 million in 2006 to meet the cost of increased pension contributions arising from public sector salary increases granted during 2005.

2.1.5 Support for the Public Sector – additional funding for the National Parliament

Ministry	Department	Additional Allocation (\$)
National Parliament	National Parliament	133,000

The Government will provide an additional \$0.13 million to the National Parliament to maintain Member of Parliament accommodation benefits and for repairs and maintenance to Parliament House.

2.1.6 Support for the Public Sector – additional funding for the refurbishment of houses for incoming Ministers in 2006

Ministry	Department	Additional Allocation (\$)
Infrastructure Development	Infrastructure Development	1,000,000

The Government will provide an additional \$1 million to the Ministry of Infrastructure Development to undertake refurbishment of housing for incoming Ministers following the 2006 election.

2.1.7 Support for the Public Sector – additional funding to support immigration activities within the Ministry of Foreign Affairs, Commerce and Tourism.

Ministry	Department	Additional Allocation (\$)
Foreign Affairs, Commerce and Tourism	Commerce, Industries and Employment	790,000

The Government will provide an additional \$0.79 million to support the activities of the Immigration Division within the Department of Commerce, Industries and Employment. Within this:

- \$0.6 million will be used to replenish the stock of official and standard passports and for increased office expenses; and
- \$0.2 million will be provided for provincial accommodation for technical assistance personnel who are contributing to the strengthening of Immigration services.

2.1.8 Support for the Public Sector – additional funding to support activities within the Department of Commerce, Industries and Employment

Ministry	Department	Additional Allocation (\$)
Foreign Affairs, Commerce and Tourism	Commerce, Industries and Employment	294,000

The Government will provide an additional \$0.3 million to the Department of Commerce, Industries and Employment for additional operational costs. These costs include increased house rental, upkeep costs of official buildings and additional Trade Disputes Panel operational costs to enhance regional access to those panels.

2.1.9 Support for the Public Sector – establishment of a Ministerial and Parliamentary Services Group

Ministry	Department	Additional Allocation (\$)
Prime Minister and Cabinet	Prime Minister and Cabinet	150,000

The Government will provide an additional \$0.15 million to the Office of the Prime Minister and Cabinet to establish and staff a Ministerial and Parliamentary Services Group to more efficiently and effectively manage the vehicle, housing, transport and entitlements requirements of national Members of Parliament.

2.1.10 Support for the Public Sector – establishment of an official Government website

Ministry	Department	Additional Allocation (\$)
Prime Minister and Cabinet	Prime Minister and Cabinet	80,000

The Government will provide an additional \$80,000 in 2006 for the Office of the Prime Minister and Cabinet to commence the development and establishment of an official internet web site to disseminate information on the Solomon Islands and its Government. This funding will complement support offered by UNESCO for development of the web site. The website will enhance access to information on services to the community and promote transparent and effective government.

2.1.11 Support for the Public Sector – additional resourcing within the Ministry of Natural Resources

Ministry	Department	Additional Allocation (\$)
Natural Resources	Headquarters, Forestry and Fisheries	350,000

The Government will provide an additional \$0.35 million to the Ministry of Natural Resources to cover increased costs for the upkeep and maintenance of official and Government buildings, office and transport expenses and house rentals, which cannot be absorbed within existing baseline allocations.

2.1.12 Support for the Public Sector – additional resourcing for the Department of Lands and Survey

Ministry	Department	Additional Allocation (\$)
Agriculture and Lands	Lands and Survey	60,000

The Government will provide an additional \$60,000 to the Department of Lands and Survey to increase the scope of its work on tribal land recording.

3 NERRDP 2003-2006 Strategic Area 3: Restoring fiscal and financial stability and reforming the public sector

3.1 Strengthening Responsible Government

These measures focus on strengthening key public sector accountability and governance functions.

3.1.1 Strengthening Responsible Government – increased resourcing for Planning

Ministry	Department	Additional Allocation (\$)
Finance, National Reform and Planning	National Reform and Aid Coordination	1,500,000

The Government will provide an additional \$1.5 million in 2006 to the Department of National Reform and Aid Coordination. The bulk of this additional funding (\$1.4 million) will be used for costs associated with hosting the 2006 Regional Forum Economic Ministers' meeting. The remaining \$0.1 million will provide for an increase in bilateral aid meetings and project management activities.

3.1.2 Strengthening Responsible Government – additional resourcing for the Ombudsman

Ministry	Department	Additional Allocation (\$)
Prime Minister and Cabinet	Prime Minister and Cabinet	100,000

The Government will provide an additional \$0.1 million to the Office of the Prime Minister and Cabinet, to strengthen investigation activities by the Ombudsman. Funding will cover additional office and communication expenses.

3.1.3 Strengthening Responsible Government – funding for 2006 elections

Ministry	Department	Additional Allocation (\$)
Provincial Government, Home Affairs, National Reconciliation and Peace	Home Affairs	15,020,000

The Government will provide an additional \$15.0 million to the Department of Home Affairs to fully fund the Government's costs of conducting the 2006 national elections. The Department will also receive \$0.02 million to assist with the costs of the Honiara City Council elections.

3.2 Building National Wealth

This measure focuses on assisting key revenue collection agencies to limit revenue leakage.

3.2.1 Building National Wealth – increased resourcing to support Customs and Inland Revenue

Ministry	Department	Additional Allocation (\$)
Finance, National Reform and Planning	Finance and Treasury	1,501,709

The Government will provide an additional \$1.5 million in 2006 to the Department of Finance and Treasury principally to support the Customs and Inland Revenue functions of the Department. Funding includes:

- \$0.6 million for a new diesel powered generator;
- \$0.4 million for increased staffing and associated support costs in Customs; and
- an additional \$0.5 million for increased housing rental and postage costs.

4 NERRDP 2003-2006 Strategic Area 4: Revitalising the productive sector and rebuilding supporting infrastructure

4.1 Maintaining Critical Infrastructure

These measures focus on rebuilding the public infrastructure that will be vital to supporting future economic growth in Solomon Islands.

4.1.1 Maintaining Critical Infrastructure – Transfer of Funds to the Development Budget

Ministry	Department	Additional Allocation (\$)
Finance, National Reform and Planning	National Reform and Planning	44,800,000

The Government will transfer \$44.8 million to the Development Budget in 2006 as a first step in establishing a Strategic Capital Investment Fund for capital investment initiatives that will make a significant cost effective contribution to the future and welfare of the country.

Detailed arrangements for administration of the Strategic Capital Investment Fund will be further developed by the Government in consultation with the private and public sector stakeholders within Solomon Islands and with donors. Details will be announced at a later date. It is intended that funds from the Strategic Capital Investment Fund will primarily be allocated to both major and minor infrastructure projects including joint projects with donors, based on competitive investment selection criteria. A major proportion of the investment generated by the Strategic Capital Investment Funds is expected to benefit the Provinces.

Funds transferred to the Development Budget in 2006 will initially be targeted at a range of strategic capital investments already identified by the Government. Details are provided in the 2006 Development Budget.

4.1.2 Maintaining Critical Infrastructure – Support for Transport Infrastructure and Shipping Services

Ministry	Department	Additional Allocation (\$)
Infrastructure Development	Infrastructure Development	830,000

The Government will provide an additional \$0.83 million to the Department of Infrastructure Development to support the development of transport infrastructure and to maintain communication infrastructure that supports the safety of shipping services. Within this funding:

- \$0.5 million will allow the Search and Rescue division of the Department to take on responsibility for maritime communication; and

- \$0.3 million will be provided in addition to donor funding to meet the resource requirements of the newly established Transport Policy Planning Unit.

4.1.3 Maintaining Critical Infrastructure – Support for Meteorological Services

Ministry	Department	Additional Allocation (\$)
Infrastructure Development	Communication, Aviation and Meteorology	100,000

The Government will provide an additional \$0.1 million to the Department of Communication, Aviation and Meteorology to renovate the Vavaya Ridge Meteorology upper air station to improve safety at that facility and enhance weather forecasting and data supply.

4.2 Revitalising the Productive Sector

These measures increase support for initiatives to provide assistance to the productive sector of the economy.

4.2.1 Revitalising the Productive Sector – continued payment of trade creditor arrears

Ministry	Department	Additional Allocation (\$)
Finance, National Reform and Planning	Finance and Treasury	20,000,000

The Government will provide an additional \$20.0 million in 2006 to reduce trade creditor arrears. This continues the Government's policy of progressively reducing the level of proven arrears owing to trade creditors.

4.2.2 Revitalising the Productive Sector – promoting trade and investment

Ministry	Department	Additional Allocation (\$)
Foreign Affairs, Commerce and Tourism	Commerce, Industries and Employment	1,150,000

The Government will provide an additional \$1.15 million in 2006 for trade promotion and facilitation and to encourage investment in the productive sector.

Activities which will be funded include support for trade fairs (\$0.2 million) and publicity and promotion to increase investor awareness of foreign investment reform (\$0.3 million). Funding of \$0.2 million will be provided to maintain an internet website to disseminate information on trade and investment opportunities.

Funding will also be provided to support the National Trade Facilitation Committee (\$0.3 million), which has been established to advise the Government on trade and trade-related matters. In addition, a \$0.2 million subvention will be made to CEMA to promote export commodities marketing.

4.2.3 Revitalising the Productive Sector – support for local and indigenous industry enterprises

Ministry	Department	Additional Allocation (\$)
Foreign Affairs, Commerce and Tourism	Commerce, Industries and Employment	2,332,540

The Government will provide an additional \$2.33 million in 2006 to support local business enterprises and develop a policy to encourage development of indigenous business enterprises. Of the \$2.3 million additional funding:

- \$1.9 million will be provided to support local businesses, mainly providing grants to enterprises that require ‘seed’ funding to become self sustainable;
- \$0.2 million will be provided for indigenous business policy development; and
- \$0.2 million will be provided for provincial accommodation for technical assistance personnel who are contributing to the development of industry in the provinces.

4.2.4 Revitalising the Productive Sector – enhancing industrial relations

Ministry	Department	Additional Allocation (\$)
Foreign Affairs, Commerce and Tourism	Commerce, Industries and Employment	200,000

The Government will provide an additional \$0.2 million in 2006 to support industrial relations programs which will harmonize the interests of employers and employees in the private sector and improve productivity and growth in the economy.

4.2.5 Revitalising the Productive Sector – support for the reopening of the Gold Ridge Mine

Ministry	Department	Additional Allocation (\$)
Natural Resources	Mines and Energy	1,400,000

The Government will provide an additional \$1.4 million to the Department of Mines and Energy, to support and assist negotiations which will lead to the

reopening of the Gold Ridge gold mine. The funding includes a \$1 million provision for the costs of land acquisition that is required to facilitate negotiations.

4.2.6 Revitalising the Productive Sector – additional funding for land acquisition.

Ministry	Department	Additional Allocation (\$)
Agriculture and Lands	Lands and Survey	1,000,000

The Government will provide an additional \$1.0 million to the Department of Lands and Survey to meet the costs associated with land acquisition by the Government which will support industry and infrastructure development.

4.2.7 Revitalising the Productive Sector – Investment in natural resource development

Ministry	Department	Additional Allocation (\$)
Natural Resources	Mines and Energy	340,271

The Government will provide an additional \$0.34 million to the Department of Mines and Energy to support the costs of activities directed to natural resource development. Funding includes \$0.2 million for geological mapping and seismology and water resource hydrological activities and \$0.14 million for supporting office expenses and overseas travel.

4.3 Promoting Solomon Islands

These measures focus on stimulating economic activity through the promotion of the Solomon Islands as a tourism and investment destination of choice.

4.3.1 Promoting Solomon Islands – additional funding to support the development of ecotourism

Ministry	Department	Additional Allocation (\$)
Foreign Affairs, Commerce and Tourism	Culture and Tourism	100,000

The Government will provide an additional \$0.1 million to the Department of Culture and Tourism to provide assistance to local tourism operators who are seeking to establish ecotourism ventures in Solomon Islands.

4.3.2 Promoting Solomon Islands – additional resourcing for overseas missions and operating costs

Ministry	Department	Additional Allocation (\$)
Foreign Affairs, Commerce and Tourism	Foreign Affairs	1,565,500

The Government will provide an additional \$1.57 million in 2006 to the Department of Foreign Affairs for increased costs associated with headquarters support costs and mission operating costs at certain posts. Within this:

- \$0.6 million is for support costs met by headquarters and includes funding for office equipment, staff training and transport costs (\$0.2 million) and costs associated with the changeover of High Commissioners in Canberra; and
- \$1 million is for increased operating costs of overseas missions at the United Nations (\$0.2 million), Brussels (\$0.1 million), Taiwan (\$0.2 million), Port Moresby (\$0.1 million) and Canberra (\$0.4 million).

4.3.3 Promoting Solomon Islands – increased funding for official overseas visits by the Prime Minister

Ministry	Department	Additional Allocation (\$)
Prime Minister and Cabinet	Prime Minister and Cabinet	440,000

The Government will provide an additional \$0.44 million in 2006 for the Office of the Prime Minister and Cabinet to provide an adequate budget for official overseas travel by the Prime Minister to promote the national interests of Solomon Islands abroad.

5 NERRDP 2003-2006 Strategic Area 5: Restoring basic social services and fostering social development

5.1 Basic Services

These measures focus on increasing the standard of service delivery to all Solomon Islanders in the areas of health and education.

5.1.1 Basic Services – additional support for essential health services

Ministry	Department	Additional Allocation (\$)
Health and Medical Services	Health and Medical Services	6,471,000

The Government will provide an additional \$6.47 million to the Ministry of Health and Medical Services to maintain and enhance essential services including \$1.7 million to support health services funded through the Health

Sector Trust account to replace donor funding which has been redirected. \$2.6 million will also be provided to meet housing costs associated with increasing health worker staff numbers; \$1.3 million to employ additional nursing graduates; and \$0.9 million to contribute to establishing an eye clinic.

5.1.2 Basic Services – additional support for Education

Ministry	Department	Additional Allocation (\$)
Education and Human Resources Development	Education and Human Resources Development	27,675,818

The Government will provide an additional \$27.68 million in 2006 to the Department of Education and Human Resources Development to increase support across a range of education services. This funding includes:

- \$15.0 million to provide for overseas tertiary training costs;
- \$6.1 million as support for Solomon Islands College of Higher Education to reflect a revision of grant arrangements and to replace donor funding which is being withdrawn;
- \$3.1 million for Community High School grants enable a further 44 schools to be established; and
- \$3.5 million in teacher salary costs. Additional teachers are required to meet the Government's commitment to increase the number of Community High Schools and support the increased enrolment in primary schools following the Government's 2005 decision to offer free primary education.

5.2 Support for the Provinces

These measures focus on increasing the standard of service delivery to the provinces.

5.2.1 Support for the Provinces – increased provincial grants and funding for provincial member salary increases

Ministry	Department	Additional Allocation (\$)
Provincial Government, Home Affairs, National Reconciliation and Peace	Provincial Government and Constituency Development	6,806,796

The Government will provide an additional \$6.80 million to the Department of Provincial Government and Constituency Development, to fund increased Provincial Grants (\$4.0 million) and the cost in 2006 of increases granted during 2005 to Provincial member salaries (amounting to \$2.8 million).

Table 4.1: Measures by NERRDP Strategic Area

	2006 Measure Allocation
	\$
Strategic Area 1: Normalising the law and order and security situation	
<i>Safeguarding Our Communities</i>	
1.1.1 Increased resourcing to strengthen the police and prison services	3,050,000
1.1.2 Increased resourcing for legal and justice sector	1,446,800
<i>Sub total</i>	<u>4,496,800</u>
Strategic Area 2: Strengthening democracy, human rights and good governance	
<i>Support for the Public Sector</i>	
2.1.1 Information Technology Strategy for the public sector	5,557,210
2.1.2 Supplementation for increased utilities costs	11,861,286
2.1.3 Supplementation for increases in statutory salaries	617,904
2.1.4 Supplementation for increases in pensions and gratuities	822,094
2.1.5 Additional funding for the National Parliament	133,000
2.1.6 Additional funding for the refurbishment of houses for incoming Ministers in 2006.	1,000,000
2.1.7 Additional funding to support immigration activities within the Ministry of Foreign Affairs Commerce and Tourism.	790,000
2.1.8 Additional funding to support activities within the Department of Commerce, Industries and Employment	294,000
2.1.9 Establishment of a Ministerial and Parliamentary Services Group	150,000
2.1.10 Establishment of an official Government website	80,000
2.1.11 Additional resourcing within the Ministry of Natural Resources	350,000
2.1.12 Additional resourcing for the Department of Lands and Survey	60,000
<i>Sub total</i>	<u>21,715,494</u>
Strategic Area 3: Restoring fiscal and financial stability and reforming the public sector	
<i>Strengthening Responsible Government</i>	
3.1.1 Increased resourcing for Planning	1,500,000
3.1.2 Additional Resourcing for the Ombudsman	100,000
3.1.3 Funding for 2006 elections	15,020,000
<i>Building National Wealth</i>	
3.1.1 Increased resourcing to support Customs and Inland Revenue	1,501,709
<i>Sub total</i>	<u>18,121,709</u>

Table 4.1: Measures by NERRDP Strategic Area (continued)

	2006 Measure Allocation
	\$
Strategic Area 4: Revitalising the productive sector and rebuilding supporting infrastructure	
<i>Maintaining Critical Infrastructure</i>	
4.1.1 Transfer of funds to the Development Budget	44,800,000
4.1.2 Support for transport infrastructure and shipping services	830,000
4.1.3 Support for meteorological services	100,000
<i>Revitalising the Productive Sector</i>	
4.2.1 Continued payment of trade creditor arrears	20,000,000
4.2.2 Promoting trade and investment	1,150,000
4.2.3 Support for local and indigenous industry enterprises	2,332,540
4.2.4 Enhancing industrial relations	200,000
4.2.5 Support for the reopening of the Gold Ridge Mine	1,400,000
4.2.6 Additional funding for land acquisition	1,000,000
4.2.7 Investment in natural resource development	340,271
<i>Promoting Solomon Islands</i>	
4.3.1 Additional funding to support the development of ecotourism	100,000
4.3.2 Additional resourcing for overseas missions and operating costs	1,565,500
4.3.3 Increased funding for official overseas visits by the Prime Minister	440,000
<i>Sub total</i>	<u>74,258,311</u>
Strategic Area 5: Restoring basic social services and fostering social development	
<i>Increase Basic Service Delivery</i>	
5.1.1 Additional support for essential health services	6,471,000
5.1.2 Additional support for education	27,675,818
<i>Support for the Provinces</i>	
5.2.1 Increased Provincial Grants and funding for Provincial Member salary increases	6,806,796
<i>Sub total</i>	<u>40,953,614</u>
Total	<u>159,545,928</u>

Table 4.2: Expenditure on measures by Ministry

Ministry and measures numbers	\$
Agriculture and Lands	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	157,823
2.1.2 Supplementation for increased utilities costs	145,460
2.1.12 Additional resourcing for the Department of Lands and Survey	60,000
4.2.6 Additional funding for land acquisition	1,000,000
<i>Sub total</i>	<u>1,363,283</u>
Auditor-General	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	111,191
2.1.3 Supplementation for increases in statutory salaries	48,101
<i>Sub total</i>	<u>159,292</u>
Education & Human Resource Development	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	358,682
2.1.2 Supplementation for increased utilities costs	1,641,117
5.1.2 Additional support for education	27,675,818
<i>Sub total</i>	<u>29,675,617</u>
Finance & National Planning and Reform	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	1,417,981
2.1.2 Supplementation for increased utilities costs	1,082,813
3.1.1 Increased resourcing for Planning	1,500,000
3.1.2 Support for Inland Revenue and Customs & Excise Divisions	1,501,709
4.2.1 Continued payment of trade creditor arrears	20,000,000
<i>Sub total</i>	<u>25,502,503</u>
Foreign Affairs, Commerce & Tourism	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	299,439
2.1.2 Supplementation for increased utilities costs	557,284
2.1.7 Additional funding to support immigration activities within the Ministry of Foreign Affairs, Commerce and Tourism	790,000
2.1.8 Additional funding to support activities within the Department of Commerce, Industries and Employment	294,000
4.2.2 Promoting trade and investment	1,150,000
4.2.3 Support for local and indigenous industry enterprises	2,332,540
4.2.4 Enhancing industrial relations	200,000
4.3.1 Additional funding to support the development of ecotourism	100,000
4.3.2 Additional resourcing for overseas missions and operating costs	1,565,500
<i>Sub total</i>	<u>7,288,763</u>

Table 4.2: Expenditure on measures by Ministry (continued)

Ministry and measures numbers	\$
Office of the Governor General	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	37,043
2.1.2 Supplementation for increased utilities costs	84,412
2.1.3 Supplementation for increases in statutory salaries	66,852
<i>Sub total</i>	<u>188,307</u>
Health & Medical Services	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	624,370
2.1.2 Supplementation for increased utilities costs	2,071,688
5.1.1 Additional support for essential health services	6,471,000
<i>Sub total</i>	<u>9,167,058</u>
Infrastructure Development	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	472,798
2.1.2 Supplementation for increased utilities costs	1,186,214
2.1.6 Additional funding for the refurbishment of houses for incoming Ministers in 2006	1,000,000
4.1.2 Support for transport infrastructure and shipping services	830,000
4.1.3 Support for meteorological services	100,000
<i>Sub total</i>	<u>3,589,012</u>
National Parliament	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	259,578
2.1.2 Supplementation for increased utilities costs	1,405,326
2.1.3 Supplementation for increases in statutory salaries	86,352
2.1.5 Additional funding for the National Parliament	133,000
<i>Sub total</i>	<u>1,884,256</u>
Natural Resources	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	221,189
2.1.2 Supplementation for increased utilities costs	319,311
2.1.11 Additional resourcing within the Ministry of Natural Resources	350,000
4.2.5 Support for the reopening of the Gold Ridge Mine	1,400,000
4.2.7 Investment in natural resource development	340,271
<i>Sub total</i>	<u>2,630,771</u>
Prime Minister & Cabinet and the Public Service	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	569,030
2.1.2 Supplementation for increased utilities costs	68,304
2.1.3 Supplementation for increases in statutory salaries	111,700
2.1.9 Establishment of a Ministerial and Parliamentary Services Group	150,000
2.1.10 Establishment of an official Government website	80,000
3.1.2 Additional Resourcing for the Ombudsman	100,000
4.3.3 Increased funding for official overseas visits by the Prime Minister	440,000
<i>Sub total</i>	<u>1,519,034</u>
Pensions & Gratuities	
<i>Measures numbers</i>	
2.1.4 Supplementation for increases in pensions and gratuities	822,094
<i>Sub total</i>	<u>822,094</u>

Table 4.2: Expenditure on measures by Ministry (continued)

Ministry and measures numbers	\$
Police, National Security & Justice	
<i>Measures numbers</i>	
1.1.1 Increased resourcing to strengthen the police and prison services	3,050,000
1.1.2 Increased resourcing for legal and justice sector	1,446,800
2.1.1 Information Technology Strategy for the public sector	676,321
2.1.2 Supplementation for increased utilities costs	2,931,459
2.1.3 Supplementation for increases in statutory salaries	304,899
<i>Sub total</i>	<u>8,409,479</u>
Provincial Government, National Reconciliation & Peace and Home Affairs	
<i>Measures numbers</i>	
2.1.1 Information Technology Strategy for the public sector	351,765
2.1.2 Supplementation for increased utilities costs	367,898
3.1.3 Funding for 2006 elections	15,020,000
5.2.1 Increased Provincial Grants and funding for Provincial Member sal:	6,806,796
<i>Sub total</i>	<u>22,546,459</u>
Transfer to Development Budget	
<i>Measures numbers</i>	
4.1.1 Transfer of funds to the Development Budget	44,800,000
<i>Sub total</i>	<u>44,800,000</u>
Total	<u>159,545,928</u>