

NATIONAL PARLIAMENT OF SOLOMON ISLANDS
8TH PARLIAMENT – 1ST SESSION – 4TH MEETING
DAILY HANSARD

TUESDAY 7TH AUGUST 2007

The Speaker, Rt Honorable Sir Peter Kenilorea took the chair at 10.05 a.m.

Prayers.

ATTENDANCE

At prayers, all were present with the exception of the Minister for Home Affairs, Foreign Affairs and Members for East Honiara, North Malaita, Central Honiara and South New Georgia/Rendova

Point of order – Appointment of Julian Moti as Attorney General

Hon FONO: Point of Order, Mr Speaker. I rise to seek your ruling in accordance with section 38 whereby I have received a letter from the Chairman of the Public Service Commission concerning the appointment of the Attorney General who is currently in the Chamber. The letter was dated 6th of August and was also copied to you, Sir. It says, 'the Public Service Commission does not recognize the appointment of Julian Moti to the post of the Attorney General as valid for three reasons:-

1. Suspension order of Moti without pay that was issued on 4th October 2006 is still in force in accordance with Section 116 of the Constitution and provisions of Legal Notice No. 38 dated 4th April 2000.
2. That Mr Moti's case is still pending in the High Court and has since only been withdrawn by Moti after his appointment to the post.
3. That the appointment of Mr Moti in the opinion of the Public Service Commission is unconstitutional.

It went on further to say that it is public knowledge that the Public Service Commission is mounting a challenge in the High Court on the manner in which Mr Moti was sworn in as the Attorney General by the Governor General. As soon as the Solomon Islands Appeal Court handed down its decision on the case of the removal of the former Attorney General, Mr Primo Afeau, the Public Service Commission's Solicitor, Andrew Radcliff will begin instituting the challenge in the High Court.

Sir, the above decisions were among resolutions made by the Public Service Commission in its 24/2007 Meeting held on Wednesday 11th July 2007 in the Public Service Conference Room.

Sir, that letter was also copied to you and so I am seeking your ruling that since cases are still pending in the High Court on his appointment, whether it is constitutional for him to be representing the Government in this Chamber. Thank you, Mr Speaker.

Mr Speaker: I would like to direct your attention to Order 36(2) which says 'Reference shall not be made to a case pending in a court of law in such a way as, in the opinion of the Speaker, might prejudice that case'. And in any case the principle of 'one is innocent until proven guilty' persists, I therefore rule that the issue at hand is out of order, so we shall continue with the presence of the honorable Attorney General. My ruling is made in accordance to Order 38, that the decision of the Speaker shall be final.

PRESENTATION OF PAPERS AND OF REPORTS

- Report of the Public Accounts Committee on its Examination of the Auditor General's Audit Reports on 'Immigration Division of the Ministry of Foreign Affairs, External Trade and Tourism'. (National Parliament No. 26 of 2007)

- Report of the Public Accounts Committee on its Examination of the Auditor General's Audit Report on the 'Ministry of Infrastructure and Development, Civil Aviation Division'. (National Parliament Paper No. 27 of 2007)
- Report of the Public Accounts Committee on its Examination of the Auditor General's Audit Report on 'Ministry of Education and Human Resources Development Tertiary Scholarships Program'. (National Parliament Paper No. 28 of 2007).
- Report of the Public Accounts Committee on its Examination of the Auditor General's Audit Report on the 'Ministry of Finance and Treasury Central Payroll System'. (National Parliament Paper No. 29 of 2007).
- Report of the Public Accounts Committee on its Examination of the Auditor General's Audit Report on the 'Ministry of Agriculture and Lands, Lands Registration Procedures and Kukum Subdivision Report'. (National Parliament Paper No. 30 of 2007).
- Office of the Auditor General Annual Reports 2002 to 2006. (National Parliament Paper No. 31 of 2007).
- The Facilitation of International Assistance Act 2003 (No. 1 of 2003). (National Parliament Paper No. 32 of 2007).
- Solomon Islands Gazettes 2007 Numbers 1 to 74. (National Parliament Paper No. 33 of 2007).

Death of Hon Joses Sanga and Hon Bartholomew Ulufa'alu

Hon SOGAVARE: Point of Order. I beg leave to request that Parliament observe a minute silence for the two fallen colleagues.

Members of Parliament stood to observe a minute of silence in respect of the Late Honorable Joses Sanga and the Late Honorable Bartholomew Ulufa'alu.

MINISTERIAL STATEMENT

STATEMENT ON THE NATIONAL ECONOMY

Hon LILO: Thank you Mr Speaker for granting leave under Standing Order 24 to deliver the statement on the national economy.

Mr Speaker, I am most privileged to be accorded this opportunity to present a brief update on the current position of the Solomon Islands economy, and also the Government's mid-year budgetary position as well as a revised expected outcome for the 2007 fiscal year.

Mr Speaker, I am pleased to inform this honorable House that the Solomon Islands economy continues to grow strongly in the first half of 2007. The Central Bank of Solomon Islands estimates that the real GDP or the gross domestic product growth in 2006 reached 6.1 percent, and that growth in 2007 will remain around 6 percent. While these strong growth figures are partly attributable to greater activity in logging, strong growth is also being achieved in the fisheries, palm oil and services sectors of the economy.

But this growth has not compromised inflation or the exchange rate. In fact inflation to June was 5.6 percent on a three-month moving average basis and it is well below the budget forecast of around 8 percent. Despite a significant current account deficit and strong aid flows, foreign investment levels have maintained reserves at comfortable levels. This is expected to continue.

Mr Speaker, in the short term, risks centre on a possible loss in business confidence that may arise from further significant exchange rate depreciation or a sudden increase in the rate of inflation due to further increases in the price of oil. But, Sir, the most and more fundamental challenges are those faced by the economy over the medium term - more predominantly around the issue of the forecasted decline in the logging industry.

As a responsible Government, Mr Speaker, we are progressing and promoting an ambitious economic reform agenda that will ensure the decline in the logging sector will, to the greatest extent possible be offset by growth in other sectors of the economy.

Sir, a new legislation will, in the next few days, be introduced to this Honorable House. This legislation is aimed at ensuring better governance in our State Owned Enterprises to deliver services to businesses and communities. Furthermore, Mr Speaker, the Government is rewriting the country's Companies and Trusts laws and regulations, including the introduction of a new Companies Act, Trustees Act and Secured Transactions Act in order to modernize the regulation of Solomon Islands businesses and provide greater access to capital and credit. This legislation is scheduled to be introduced to Parliament by the end of this year.

Mr Speaker, the Solomon Islands business sector will also be assisted with business skills training and business license fees will be abolished. These reforms are consistent with the Government's Bottom-UP Approach policy and will benefit all Solomon Islanders, particularly those in the provinces and the rural areas.

These reforms build upon those already introduced by this government and includes:-

- Reduction of tariffs by half to a maximum rate of about 10 per cent;
- Significant reduction in the granting of tax exemptions and holidays as well as improvement in the transparency of the tax exemption application process;
- Improvement of the tax administration and proactive collection efforts through the Inland Revenue Division; and
- Introduction of competition in the international aviation sector resulting in a dramatic fall in the cost of international travel.

Sir, this Honorable House will be interested to note that the Government's economic reform efforts and initiatives have been duly recognized and acknowledged in the concluding statement made recently by the visiting IMF Article 4 Mission. They welcomed the economic reforms undertaken to date and recommend that further reforms be progressed as quickly as possible and within a coherent medium term framework.

Sir, this Honorable House will also be pleased to note that the Government is in the process of preparing a medium term strategic plan and an associated medium term fiscal plan. Mr Speaker, the fiscal plan will also provide estimates of the effects of structural changes in the economy, such as the forecasted decline in the logging industry, in order to inform Government decision-making on how best to overcome such challenges for the benefit of the people of this country.

Mr Speaker, I am sure Honorable Members will recall, in my speech on the 2007 Budget that the Government had identified a number of financial management priorities on which it would focus in 2007.

Sir, these priorities 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; and the pursuit of value for money in order to enhance service delivery to the community. The Government is also very much committed to reducing its national debt to a sustainable level as well as receiving a fair share of revenue from the exploitation of the country's natural resources such as logging, fisheries and mining.

Mr Speaker, none of these priorities have changed. As I will discuss further in detail in a moment, results for the first six months of 2007 have strengthened the overall fiscal position of the government. This allows the overall projected full year budget outcome to be largely maintained even after the Supplementary Budget expenditures have been taken into account. As a consequence, the Government continues to have a credible and fully funded budget without borrowing.

Mid-year Budget Position

Mr Speaker, the mid-year position of the 2007 Budget is some \$57million stronger than was initially forecasted in the budget, with surplus revenue over expenditure of nearly \$15 million. In fact, revenue collections over the first six months of 2007 have grown strongly, with collections of around 9 percent higher than pro-rata budget estimates. I must thank the Government's reform to exemption processes,

stronger compliance effort as well as a strong growing economy that contributed to this.

Mr Speaker, the largest single source of domestic revenue, representing around half of total revenue collected so far in 2007, is Inland Revenue. Mr Speaker, up until June 2007 the Government has collected tax revenue of \$259 million, 48 per cent ahead of tax collections over the same period in 2006. While there have been a number of “one-off” revenue gains, relating to back taxes from previous years, I am pleased to say that underlying revenue growth has remained strong.

Sir, another source of revenue that has grown strongly so far in 2007 is Customs and Excise. The majority of the growth above budget estimates reflects greater than expected collections of export duty on logs. Mr Speaker, logging exports in the first six months of 2007 were 20 percent above forecast, and this has impacted directly on export revenue.

Mr Speaker, I would now like to outline Government expenditure to date in 2007. Overall expenditure for the year to June of around \$497 million is approximately \$15million below forecast. A considerable overspent in the category of ‘other charges’ has been more than offset by significant under expenditure against the Development Budget and under expenditure against budget in payroll across all ministries.

Mr Speaker, factors contributing to the higher than budgeted expenditures in some areas include arrears payments and recapitalization funding to the Solomon Airlines, costs associated with the inquiry into the April 2006 riot, expenditure on disaster relief work in the Western and Choiseul Provinces following the April 2 tsunami, and the payment of tithes to the constituencies by the Government.

Mr Speaker, this under-spending by Ministries generally reflects the ongoing limited capacity in the country’s public service to implement development programs. This highlights the fact that there is still a lot of work to be done in strengthening the Solomon Islands Public Service.

Revised 2007 Estimates

Mr Speaker, I will now provide this Honourable House with an overview of the

revised 2007 Budget estimates for the full-year. The revised full year deficit is forecast to increase by a modest of about \$4.6 million compared with the original budget estimate. Revenue is expected to continue grow strongly in the coming months, but expenditure is forecast to increase even more strongly, largely because of the expenditure approved in the Supplementary Budget. Nevertheless, Mr Speaker, the full-year budget position is expected to remain fully funded.

Mr Speaker, the strong revenue growth from tax revenue and customs and excise sources is expected to continue for the remainder of 2007. In fact, Mr Speaker, full year revenue is expected to exceed \$1 billion for the first time in the country’s history.

Sir, the Inland Revenue Division is continuing with its successful risk-base approach to audit activities, and will maintain its focus on high worth individuals and prominent persons, key areas of revenue generation and those operating outside the tax system.

Mr Speaker, customs and excise collections are also expected to maintain their recent gains. In particular, a new determined value for export of round logs to be introduced in October will reflect its true market value and should improve the return to the country from harvesting of this valuable resource.

On the expenditure side, Mr Speaker, expenditure growth in the second half of the year will be largely driven by the new expenditure proposals in the 2007 Supplementary Appropriation Bill 2007. A total of nearly \$83 million in expenditure authorized by the Bill includes \$25 million in recurrent and development expenditure by contingency warrants and \$57 million in supplementary recurrent and development expenditures.

Mr Speaker, as a matter of fact, ministries expected to receive funding through the Supplementary Appropriation will include:

- The Office of the Prime Minister and Cabinet, mainly for constitutional reform activities.
- The Ministry of Infrastructure & Development, mainly for the establishment of the National Transport Fund.

- The Ministry of Home Affairs associated with tsunami assistance; and
- The Ministry of Finance and Treasury for the Rural Equity Supplementation Scheme under the Rural Banking Expansion Project.

Conclusion

What I am saying, Mr Speaker, is in the nutshell the Solomon Islands economy is growing and is continuing to grow strongly. This is, in part, due to the Grand Coalition for Change Government's ambitious economic reform program. This strong growth is helping to support increased revenue, which in turn is allowing additional expenditure in the Supplementary Budget without in anyway compromising the fully funded Budget objective.

Also the outcomes and forecasts that I have outlined today highlight the fact that this Government is comprised of good sound economic managers and will continue to strive to improve the Solomon Islands economy for the benefit of all Solomon Islanders and for the good of us all.

Mr Speaker, I thank the Honourable House again most sincerely for your time and attention today.

Mr Speaker: The statement by the Minister or any statement is not subject to debate but at the discretion of the Speaker some questions maybe asked, and I do allow that. I only allow short questions.

Mr HAOMAE: Mr Speaker, the question is in relation to the fiscal and monetary policy on the state of the economy of the country. At what state is the economy now relative to the pre-ethnic tension days?

Hon Lilo: Mr Speaker, as I have said, qualitatively it is growing very strongly. But quantitatively the economy is growing at 6.1%. That is the position we are at right now. Thank you.

Mr Haomae: The Minister used the word 'growth' but the state of the economy appears to be recovering from the ethnic days. Mr Speaker,

growth and recovery are two different terminologies. Is the economy now recovering or is it growing, because if it is recovering then it is not growing. What is the difference in terms of the state of the economy?

Hon Lilo: Mr Speaker, I would like to thank the honourable Member for trying to distinguish the difference between growth and recovery. The measurement of the growth of the economy is the GDP, and so if the GDP grows the economy grows. You can generally refer to any other activity within the economy as contributing towards the process of recovery but the ultimate outcome is the fact that the measurement of the economy right now is growing at 6.1%.

Hon FONO: Mr Speaker, under Standing Order 24(2), I would like to ask a question in pidgin in order for people to understand. I thank the Minister for issuing that statement. I thought he was reading the supplementary budget speech. He should have waited to deliver that statement in his supplementary budget speech.

Can the Minister inform the Chamber and the nation why this economic growth rate that he is so proud of is not reflected in the exchange rate that has really gone down from previous years? Our exchange rate, our currency is weak as well as inflation and the price of goods is not reflected in that statement.

People in the rural areas know that the price of rice is very expensive compared to past years. In Malaita alone, the price of one 20kg bag of rice is \$130 to \$140. How much more would it be in Temotu or Choiseul? I think it would be \$200. How is the economic growth rate not reflective of the exchange rate and inflation rate, which is really affecting the lives of people in the rural areas? That is the question.

Can the Minister explain those two issues - the exchange rate and inflation rate causing the price of goods to be very high?

Hon Lilo: Thank you, Mr Speaker, unless you want me to speak for one more hour.

Mr Speaker: Make it short.

Hon Lilo: Mr Speaker, inflation still exists in any growing economy. There is no growing economy where inflation is not present. I think that is the simple point on this. Just look at growing and very strong developed economies where inflation still exists.

What it means here is that we have to work very hard to ensure we grow our export sector so that it complements our effort in bringing down inflation in the country. This is not a phenomenon that only exists in Solomon Islands that the economy is growing but that inflation is also increasing. It happens in all developed economies.

Mr Haomae: Mr Speaker, I promise this will be the last question from me. What is the present ratio in terms of the balance of payment, between receipts from freights and receipts from trade and receipts from official transfers?

Hon Lilo: Sorry, I do not have it here with me but the quarterly report of the Central Bank is available, so make use of it. I think it is somewhere in your pigeonholes. If you have not read it go and pick it from there and see it for yourselves. It is in your pigeonholes.

Mr Haomae: Mr Speaker, I am aware of that but it shows that the official transfer is more than the trade receipts and that is why our dollar is going down.

The Minister is saying that the economy is growing but he has not answered my question properly on whether the state of the economy is back to the situation before the pre-ethnic days or not. If that is not the case, Mr Speaker, then the economy is not growing, it is merely recovering.

Hon Lilo: Mr Speaker, you cannot put time as a cause in trying to measure the growth of the economy. Today is different from 2001, and unless we go through some kind of exercise to try to translate the equivalence of today to the past, we would not be able to do so. Just like our age where we cannot bring back our age to 2001 and say it is the same as in 2001.

Mr Speaker, the fundamental issue here is that the economy is growing. I did say that there are still some compromising factors in

relation to the depreciation of our currency and also inflation. But none of these will hold us back in moving forward because we have to move forward, and that is why we are focusing on other sectoral developments to support the country moving forward.

Mr TOZAKA: Mr Speaker, I just want confirmation from the Honourable Minister. Contributing to the economy you are referring to here are the various capacity buildings in the various departments initiated by the Regional Mission to Solomon Islands. I would like you to confirm whether you are in support of those various capacity buildings.

Hon Lilo: Mr Speaker, I did say that, in part, it is due to reform actions this government is taking, of course, with all capacity building exercises going on throughout the year. But if you just build those capacities without taking any strong economic reform decisions those capacities will fail. They will fail. That is why the former Prime Minister, the MP for Savo is sitting down listening because capacity building in the past was going very well but still they (the MP for West New Georgia and the MP for Savo/Russells) are granting exemptions and therefore weakening the fiscal position of the government. That is the key factor.

Mr Speaker: I think with due respect to the honorable Member for Savo I will allow his question.

Sir KEMAKEZA: Mr Speaker, my question is in relation to the answer by the Minister. The first point was covered by the MP for North Vella and the second point is institutional strengthening on the same point raised by the Member for North Vella.

I believe investment can only operate in a very conducive environment, which is the law and order situation in the country. Is that also a contributing factor in giving confidence to investors to invest? Is it because of that environment being put in place?

Hon Lilo: Mr Speaker, we were always saying that we will create the right environment for the private sector to grow. We made a commitment

that we will not move the goal post for the private sector to continue to grow. For the last 12 months we lived with that commitment and therefore private sector investment continues to grow.

I cannot find any reason for us to suggest that the decisions made by this government have derailed the confidence of the private sector. No! In fact the private sector is continuing to grow.

Just last week we have seen some investors opening new developments - launching of a new hotel development, new banks are coming in - much bigger banks with very strong shareholders. We have just launched yesterday the ATM machine for rural banks that will allow 280,000 people of this country having access to rural banking.

(hear, hear)

That is amazing! And here you are in four days time moving a motion of no confidence against this government, for what, when we are growing this economy.

Mr Speaker, I have to say this because it is a very good exercise that we are asking these questions. May be the mover will now consider his position to withdraw the motion. Thank you.

Mr BOYERS: Point of order, Mr Speaker. I am making this point of order in relation to the Minister's comment of me giving unfettered exemptions during my time. I would just like to make a correction.

The present Minister of Finance made a statement last year that his government had cancelled all logging exemptions. I would like to correct that comment, and this can be found on the website of the Solomon Star where in June 2005 I issued a statement and an order that all exemptions on logging are cancelled for the purpose of resource owners having equitable distribution or regeneration through reforestation levy has since been now cancelled, which reflects improved growth and revenue collection. That is the statement I would like to make in correcting the accusation made by the Minister. Thank you.

Sir Kemakeza: Mr Speaker, the point I raised made the Minister of Finance to jump up and down when talking about investment. Mr Speaker, the investments that the Minister is proud about like Gold Ridge, SIPL ...

Hon Lilo: Point of order, Mr Speaker. Can you withdraw that word 'proud'?

Sir Kemakeza: Mr Speaker, the rural banking he is proudly talking about is money from the European Union. Who are you going to blind in this country on those things you are talking about?

On the word 'economy and investment' during the time of the Minister there was no investment coming to this country. He is only enjoying what has been there. I would like to tell him the right point that there are no investments coming into the country.

Hon Sogavare: Point of order, Mr Speaker. Can you tell the MP to just ask his question?

Mr Speaker: I have said earlier today when I allowed statements that they are not meant to be debated. We are now verging on to debate rather than asking questions. We shall continue.

Mr Haomae: Mr Speaker, can I make my point of order now? This is a point of order and not a question.

Mr Speaker: Are you asking another question?

Mr Haomae: No, just a point of order. The point of order is like this. The present climate is due to the presence of our security, RAMSI, and the Minister tossed the question. That is the point of order, Mr Speaker. It is because of security situation in the country.

STATEMENT OF GOVERNMENT BUSINESS

BILLS

Bills – First Reading

The 2007 Supplementary Appropriation Bill 2007
The State Owned Enterprises Bill 2007

MOTIONS

Hon SOGAVARE: Mr Speaker, I beg to move that this House do now adjourn.

STATEMENT BY THE HON SPEAKER

Mr Speaker: Honorable Members, as you are aware, following the adjournment of the House today, we will be celebrating a very important event in the life of this parliament: the launch of the National Parliament Website. The official program has been circulated to all Members and guests.

To facilitate the proceedings, I would like to ask all Members to remain in the Chambers following the adjournment. I will leave the Chamber according to our usual procedures but will return immediately to commence the official proceedings.

Following the formalities in the Chamber, I look forward to hosting for all Members and invited guests refreshment in the dining room.

The House adjourned at 11.00 am