

Presentations on country context, needs and expectation from P-CBA

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Country Development Challenges

- Ethic tension from 1998-2003
 - No infrastructure investment during the period
 - Deteriorating Budget (revenue falls and uncontrolled expenditure)
 - There is a need to Strengthen capacity to capture and allocate resources to policy priorities

Challenges for services provisions

- SOE delivery
 - Most are in poor financial situations – impacts negatively on service provision
 - They cannot borrow (except for couple)
 - Gov't has had to bail them out when they have previously defaulted on their debts

Challenges on country development – economy

- GDP growth between 1998 and 2008 averaged only 1.3 percent a year
- GDP per capita remains at least 15 percent lower than before the Tensions
- With the exhaustion of logging, future growth prospects are uncertain and heavily reliant on mining
- Debt level reaches unsustainable levels

Debt Sustainability Indicators

- Post ethnic tension at unsustainable levels of debt

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt/GDP	53%	47%	40%	33%	32%	25%	18%	14%	11%	10%	8%	7%
Debt/SIG own-sourced revenue	250%	198%	141%	115%	105%	82%	58%	45%	37%	32%	28%	23%
Debt/Exports		187%	125%	97%	116%	82%	41%	31%	29%	26%	24%	22%
Debt Servicing/SIG own-sourced revenue		11%	12%	12%	7%	6%	4%	6%	4%	3%	3%	2%
Debt Servicing/Exports		11%	11%	10%	8%	6%	3%	4%	3%	3%	2%	2%

Debts

- Trade creditor arrears – Gov't was restricted in providing services
- Honiara Club 2005 – Restricted gov't borrowing
- Post Honiara Club, debt sustainability improved, culminating in Cabinet endorsement of the Debt Management Strategy (DMS) in 2012
- There is now room to borrow to fund essential development
- DMS allows new debt if consistent with the DMS

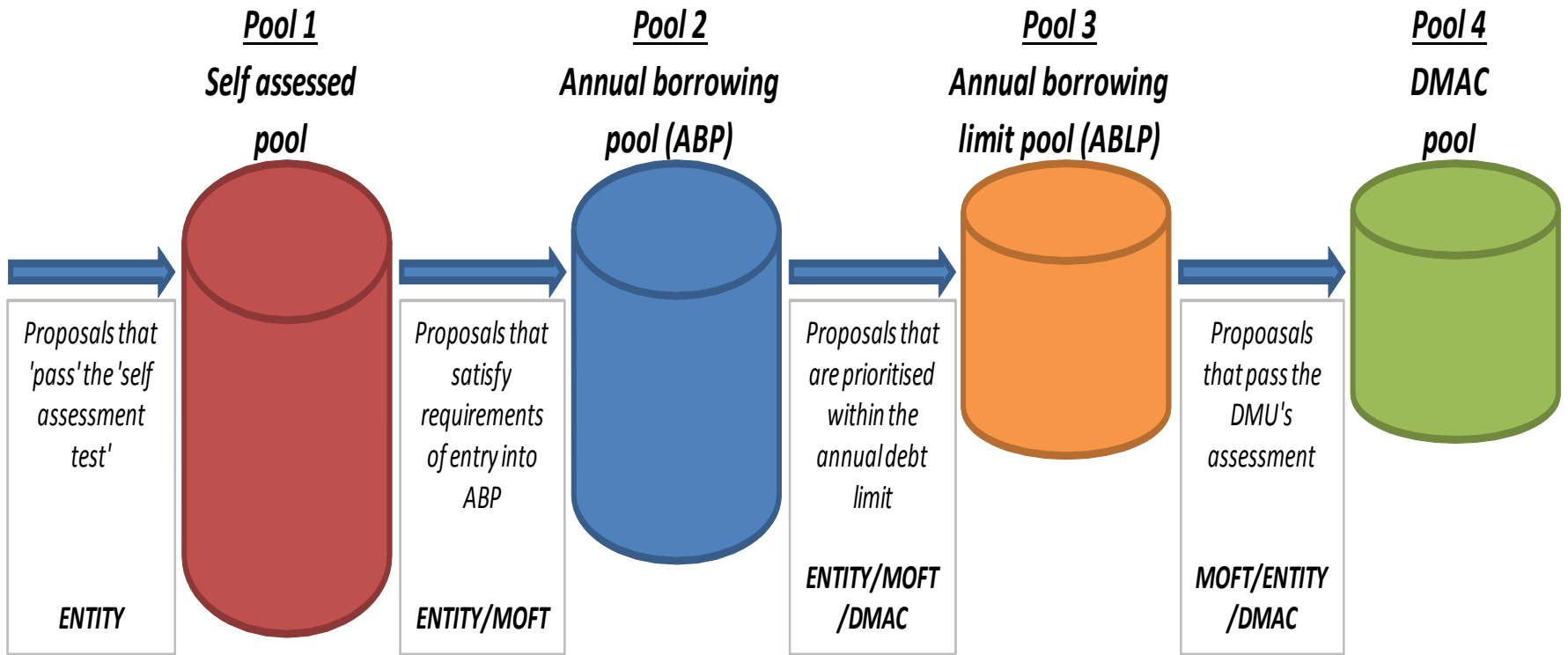
Baseline situation - Requirements of the DMS

- **Must be a fit purpose**
 - Investing in the productive capacity of SI
 - Funding priority core infrastructure and development initiatives
 - Specific purposes (projects) identified as a high priority in the National Development Strategy (NDS)
- **Borrowing must not be used for:**
 - Funding shortfall in recurrent expenditure
 - Funding for SOEs' losses

Baseline Situation (current practices)

- Project to funded under debt financing
- Loan proposal appraisal
 - Framework - DMS, SOE borrowing policy, on-lending & guarantee policies
 - Economic metrics
 - Integrate decision making for projects into the budget process
 - Compare competing projects

Debt Management Framework Process



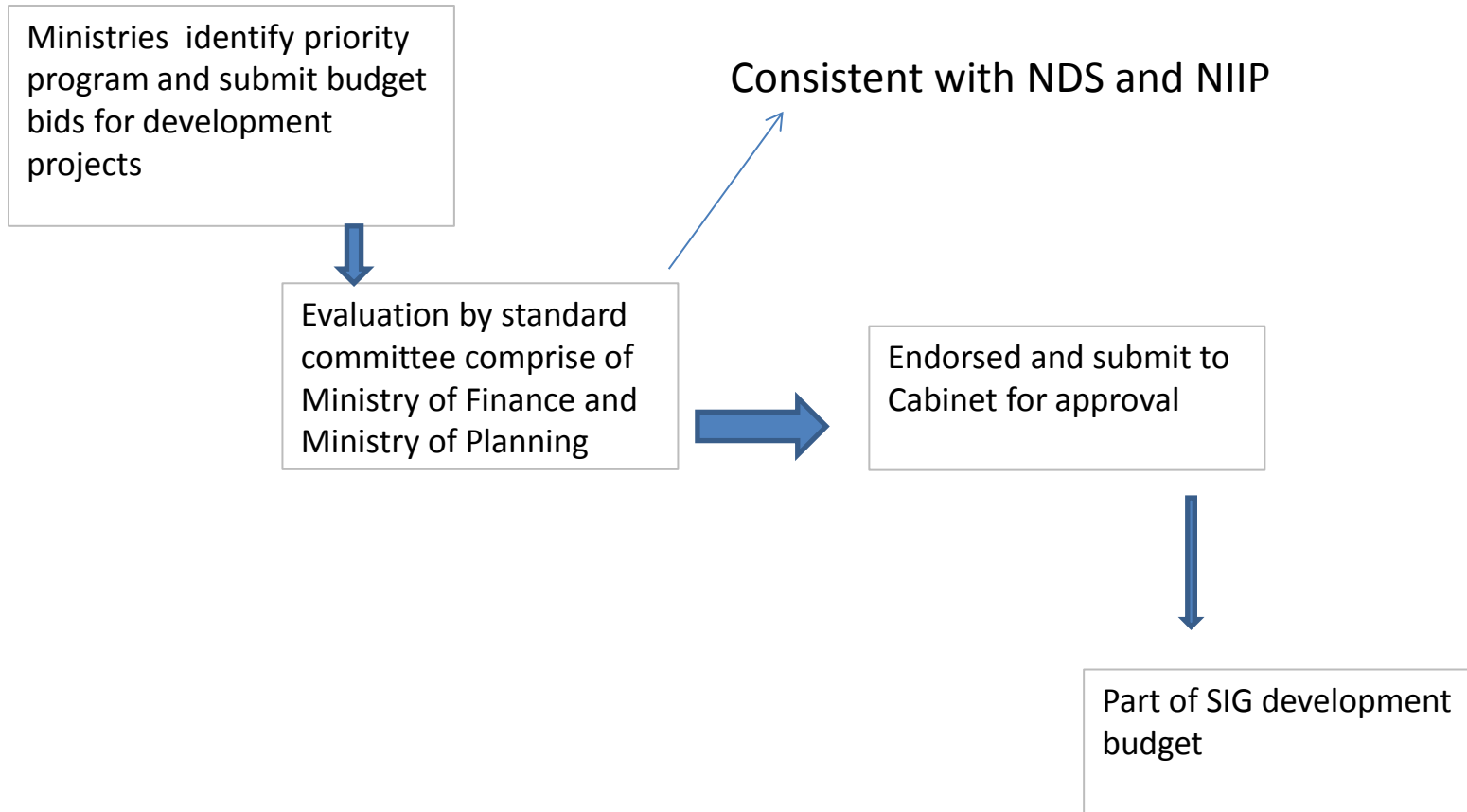
Evaluating and assessing project proposals

- Sustainability – increase GDP by an amount than the cost of increased debt levels.
- Fit purpose – relevant to NDS and National Infrastructure Investment Plan (NIIP)
- Nature of the project – commercial or social
- Cashflow – preference to project with higher rate of return
- Creditworthiness of the beneficiary (for on-lend and guarantee)
- Affordability - SIG can still service the debt in times of economic difficulty

Baseline Situation – SIG Budget

- Recurrent and Development Budget
- Narrow revenue base – mainly from logs
- Most projects have been funded by donors
- Capacity constraints within the bureaucracy to provide services

Development Budget Flow



Needs, Capacities and Training

- There's a need for project prioritization committee when comes to funding
 - It on first come first serve basis
- Some of our policies needs to talk to each other. Eg. DMS and NDS
- Currently the Debt Management Unit is the only unit that do loan proposal analysis but very much focus on debt side
- Line ministry did not have the capacity to draw up project for funding
- Normally Donors/ lenders come up project proposal and negotiate with SIG

Expectations

- Help us to do project prioritization - currently it is first come first serve
- The initiative will help us to plan our investment plan and priority areas
- Be able to develop a policy to be integrated with the existing policies

Thank You