SICCI
SOLOMON ISLANDS CHAMBER
OF COMMERCE AND INDUSTRY

Economics Association of Solomon Islands

Private Sector Pathway to COVID-19 Recovery

Submission to

Solomon Islands Government: Policy Reprioritisation

(February 2021)

Content

I) Executive Summary

The COVID-19 pandemic has caused significant disruptions to the global economy and presented many economic and fiscal challenges for the Solomon Islands Government. The Solomon Islands growth forecast sit around -4% real GDP contraction for 2020 and the outlook for 2021 is heavily dependent on the global Covid-19 situation, borders gradually opening to trade and people flows, and recommencement of delayed infrastructure construction activity. Current forecasts for 2021 range between 1.5% to a more optimistic 4.5% real GDP growth.[1]

The Solomon Islands Chamber of Commerce and Industry (SICCI) in collaboration with the Solomon Islands Economics Association (EASI) developed the ‘Private Sector Pathway to COVID -19 Recovery Strategy’ as the basis of focus for the wider private sector collaboration with the Solomon Islands Government (SIG) during its 2021 redirection policy and national budget consultation to ensure tangible action on key reforms. This strategy document contains the private sector’s perspectives on major strategic areas and recommendations to the Solomon Islands Government that can best support business for economic recovery in the next three years. This strategy identifies the key issues currently faced by domestic businesses and the core reforms needed to create a conducive environment for private-sector led growth for economic recovery. The evidences gathered from SICCI membership and budget analysis provided can assist Government policies that will enable a conducive businesses environment especially amidst the global pandemic.

The private sector plays a key role in a sustainable and inclusive economic recovery

The private sector is known as the engine room for growth, job creation and innovation. Successful businesses drive growth, create jobs and pay the taxes that finance services and investment. In developing countries, the private sector generates around 90 per cent of jobs, funds 60 per cent of all investments and provides more than 80 per cent of Government revenues.

In the current environment where there is little public fiscal headspace and substantially reduced domestic revenue collections due to decreased activity in the economy, it is the private sector that can led the economic recovery for Solomon Islands. **Ongoing proactive engagement between the private sector and the Government** is crucial to ensure the greatest growth and development returns from future action. SICCI, the peak representative organisation for the private sector in Solomon Islands, welcomes the opportunity to collaborate with Government in the formulation of the Policy Redirection Strategy. Key messages from the recent SICCI business-wide survey are highlighted throughout this paper and are summarised at **Attachment A.**

SIG Policy Reprioritisation: Significant improvements are needed in Budget design and execution

The 2021 Budget is the Government’s primary fiscal lever to frame the Government’s fiscal response to Covid-19.

The 2021 Budget presents the opportunity for a needed step-change when it comes to Budget formulation and, perhaps more importantly, Budget execution. SICCI would like to see:

- **Good quality services provided efficiently to the public**;
- **Targeted support to businesses and consumers** to minimise disruptions to the economy in the wake of Covid-19;
- **Support to stimulate activity in the economy** that provides returns to the local economy; and

[1] CBSI forecast a 1.5% real GDP growth for 2021, while the IMF has forecast 4.5% real GDP growth.

- **Tangible action on core reforms** to create a conducive environment for private sector growth.

Analysis of the Budget by SICCI and the Economics Association of Solomon Islands (EASI) is at **Attachment B.**

Need for a clear narrative on what the Government is re-prioritising and why: Business indicated that they would value a clear, strategic long-term vision from Government on the pathway to Covid-19 recovery to understand the vision for different sectors (potential contributions to growth). The Budget allocates funding according to this 'reprioritisation'.

There is an urgent need to encourage a more sustainable Budget approach: While recent years have seen revenue growth slow and turn negative, expenditure pressures have remained elevated, eroding fiscal buffers built in earlier years. This will require a thorough examination of current expenditure and identification of savings measures (inefficient spending or reprioritisation).

Improved efficiency of recurrent expenditure and more growth-focused spending: In 2019, the Recurrent Budget accounted for 88% of the total Budget expenditure. The Government has identified that even the Development Budget is highly recurrent in nature. In 2018 and 2019, 60% of the Development Budget was spent on highly discretionary rural development or on public service and provincial Government. [2]

Ensuring more transparency and accountability for Budget execution: Budget execution is vital to ensure prioritised, high-quality spending. All expenditure, except payroll, is consistently underspent, regardless of the volume of spending. By the Government's own admission, the Development Budget is consistently poorly executed, with over 50% of spending (approximately SBD$550m) categorised as either unverifiable or off-track in 2017.

Policy Reprioritisation: Creating the right settings for the private sector-led recovery

A SICCI business-wide survey and follow-up interviews of business across different sectors highlighted the **common challenges** faced by business during 2020, such as: the increased costs related to operating in an uncertain business environment, increased costs and uncertainty in relation to international and domestic freight, mobilising employees and expertise during the State of Emergency and increased costs related to enforcing Covid-19 preventative measures.

Alternatively, the insights gathered highlighted that **business impacts from Covid 19 vary significantly, greatly influenced by the sector in which the business operates.** Businesses in the most affected sectors (such as Tourism operators) are significantly impacted by the closure of borders as they have struggled to pivot to appeal to the domestic market given the slowing economy. On the other hand, many agricultural based businesses have been less impacted by Covid-19 impacts, supported by stable commodity prices and sustained global market demand.

SICCI has formulated a multi-pronged strategy with **focus areas for the Government to prioritise** to create the right settings for future private sector growth, these include:

1. Getting the basics right to create certainty for businesses;
2. Providing immediate, targeted cash-flow support to alleviate pressure on the most affected business, while not creating an unlevel playing field;
3. Actions to stimulate economic activity and improve productivity via infrastructure and sector support; and
4. Fundamental reforms to create a better business environment for future growth and prosperity – focused on Tax Reform and improvements in Transport Infrastructure.

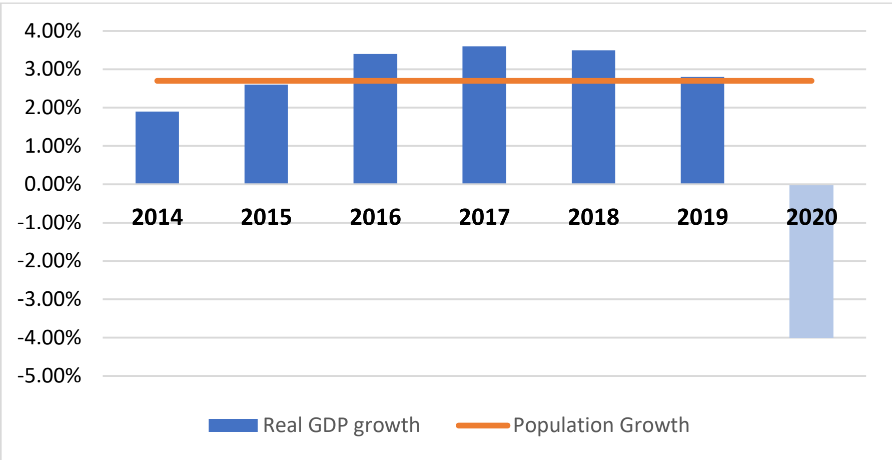
[2] The IMF has emphasized that spending priorities need to be better aligned with the NDS.

II) Economic and Fiscal Overview

Growth was sluggish pre-Covid-19

- Real GDP Growth in recent years has been lacklustre and, given the high population growth rate, is not sufficient to ensure sustained improvements in living standards.

Chart 1: Real GDP Growth v Population Growth (%)



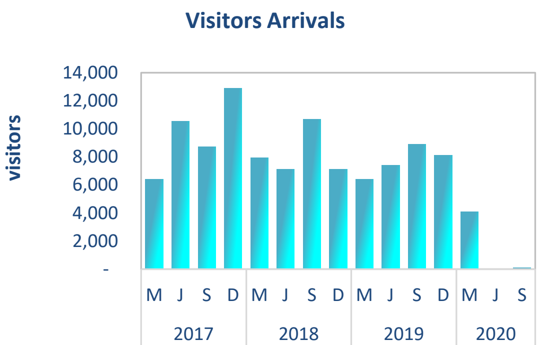
Source: SIG, Final Budget Outcomes (2014 - 2019), 2020 CBSI forecasts.

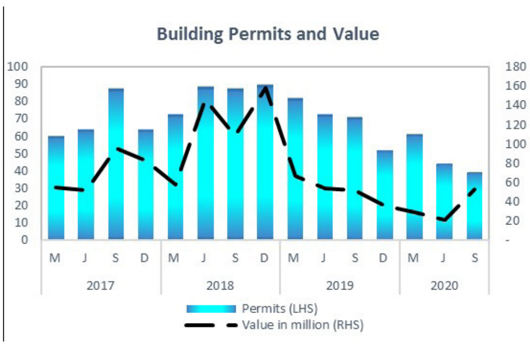
- The drop-in economic activity since 2017 was due to a slowdown in trade in line with sluggish investment trends. Likewise, commodity price volatility also contributed to an overall decline in domestic consumption and private-sector investment.

- Round log exports have started decreasing from peak export volumes in 2018 and due to the unsustainable practices, present a significant vulnerability to the economy.

Covid-19 has had varying impacts on different sectors of the economy…

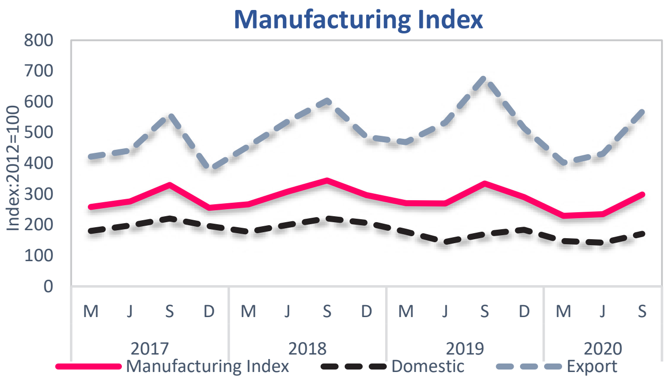
- **Tourism was significantly impacted in 2020** and recent indications are that the borders will remain closed until October 2021. **Building Permits, indicate reduced activity in the construction sector throughout 2020.**

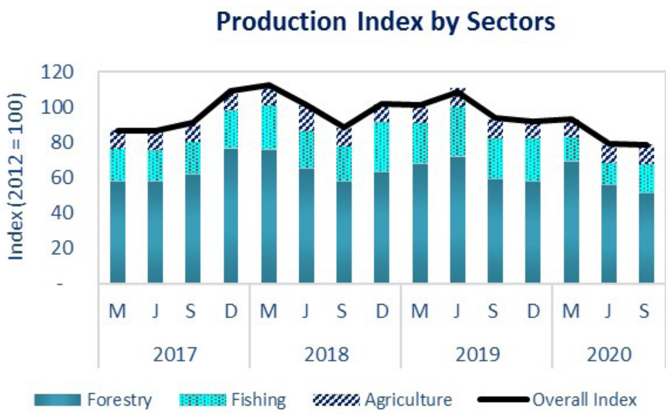




- Throughout 2020, electricity produced and sold was around the same as in 2019, despite the sharp disruptions to business around April 2020 and subsequent reduced economic activity over the first half of 2020.

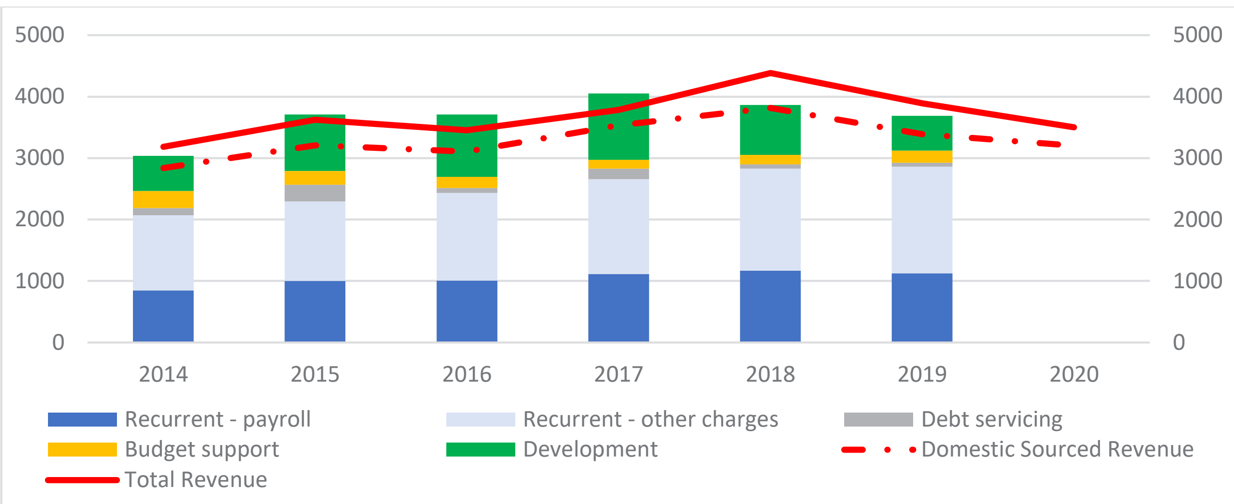
- **The Manufacturing Index shows reduced activity in Quarter 1 driven primarily by the export component.** There was a turnaround in the Manufacturing sector in Quarter 3, likely driven by a rise in cannery production and the reopening of pubs, but YTD (Q3) the Manufacturing Index was still 13% below the same period in 2019.





- The **Production Index** dropped to 79 points in Quarter 3, 2020, 16% lower YoY, largely driven by reduced contributions from Forestry. The chart above also reflects reductions in fish catch in 2020 compared to 2019, however, the agriculture sector has displayed sustained performance throughout 2020.

Chart 2: Components of Budget Expenditure and Revenue (2014 – 2019. SBD$m)



Source: SIG, Final Budget Outcomes (2014 - 2019).

KEY RECOMMENDATIONS

I) **Getting the Basics** Right to create certainty for businesses

Recommendation 1.1: Ensuring stable macroeconomic and fiscal settings, and responsible borrowing for activities with the greatest economic and social returns.

Recommendation 1.2: Government to undertake continued proactive Covid-19 preparedness and management, while exploring options to open borders as part of possible regional travel bubbles.

Recommendation 1.3: Improved efficiency and performance across the public sector.

Recommendation 1.4: Timely Government payments to suppliers.

Recommendation 1.5: Transparent and accountable Government, with ongoing engagement with the private sector.

II) **Providing Immediate cash-flow** support to alleviate pressure on the most affected businesses, while not creating an unlevel playing field

Recommendation 2.1: To assist in the economic response to Covid-19, temporary and targeted support should be provided to established businesses that are most impacted by Covid-19.

Recommendation 2.2: Immediate measures that assists with cash-flow should be prioritised. Support should not create an unlevel playing field between businesses.

Recommendation 2.3: Continued support by way of Tariff reductions should be implemented – particularly Tariffs set by Ports and SIEA. This will assist business and support consumers too.

III) **Actions to stimulate economic activity** and improve productivity via infrastructure and sector support to broaden the economic base

Recommendation 3.1: Infrastructure Development: Clear vision for Strategic Infrastructure Development, quality infrastructure with the greatest economic and social returns and clear life-cycle approach to infrastructure development. This means, prioritising the Building Code legislation.

Recommendation 3.2: Infrastructure Development: Maximising local content and domestic returns from infrastructure development.

Recommendation 3.3: Investment stimulus via the tax system (accelerated depreciation) would encourage businesses to bring forward capital investments.

Recommendation 3.4: Sector support should focus on specific barriers to different sectors, ensuring a level playing field for business and a long-term view of sector development.

IV) **Fundamental reforms** to create a better business environment for future growth and prosperity

Recommendation 4.1: Tangible action on tax reform in 2021, with collaboration and consultation with the Private Sector.

Recommendation 4.2: Clear guidance from Government on the overarching plan for improvements in transport infrastructure across Solomon Islands (where, what, when) and active coordination with development partners to ensure optimisation of SIG resources and progress aligned to national priorities.

III) Private Sector Pathway for Covid-19 Recovery

(1) GETTING THE BASICS RIGHT TO CREATE CERTAINTY

Key recommendation 1.1: SICCI looks to Government to 'get the basics right' to support certainty in a somewhat uncertain time. At the core, this means ensuring stable macroeconomic and fiscal settings, and responsible borrowing for activities with the greatest economic and social return.

Ensuring a stable macroeconomic and fiscal environment to support the stability of the domestic environment, includes:

- Responsible borrowing of debt to fund development with the highest social and economic returns;
- Ensuring evidenced-based policy and economic and financial analysis related to Government spending;
- Managing cash-flow and slowly rebuilding cash-buffers;
- Improving domestic resource mobilisation via tax reform to support a more sustainable revenue base;
- Properly managing natural resources and ensuring returns from natural resources are used to fund long-term development; and
- Funding optimisation and enhance development partner coordination to ensure a coordinated use of funds to support growth and development in Solomon Islands.

Key recommendation 1.2: Government to undertake continued proactive Covid-19 preparedness and management, while exploring options to open borders in a prudent manner as part of possible regional travel bubble.

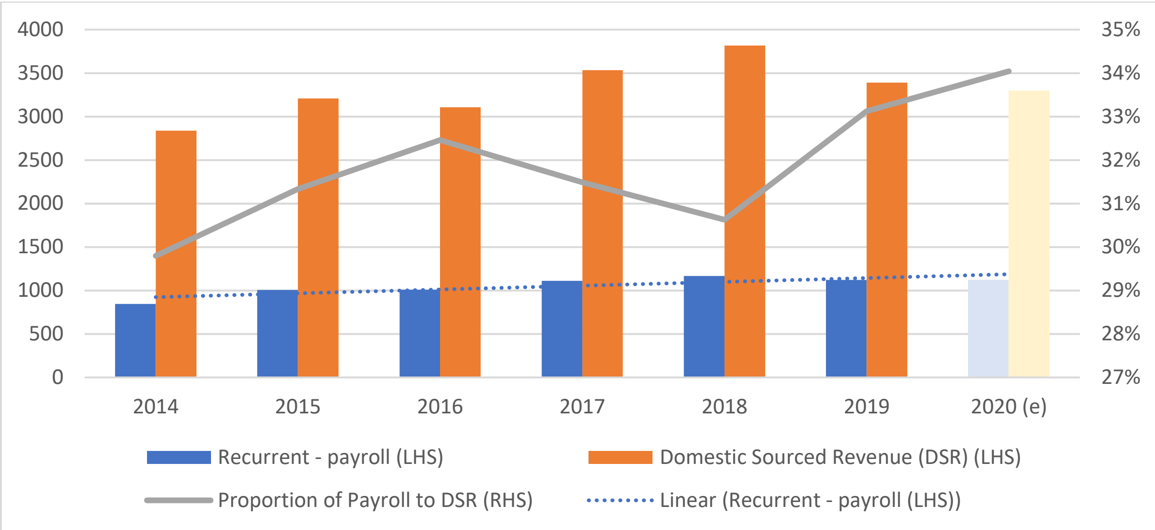
- **Business has been highly supportive of the Government's management of the health impacts of Covid-19.** Given the longevity of the Covid-19 impact, it is important that Government continues its efforts to maintain trade routes open and ensure market access in a risk-weighted manner, including using diplomatic channels to seize opportunities to participate in travel bubbles and other mechanism to facilitate ongoing access to overseas markets.

- In addition to market access during Covid-19 times, the Government should be proactive to strategically position Solomon Islands in the post Covid-19 climate and actively plan what is needed domestically to ensure a high standard of hygiene and controlled environment to reduce any spread of Covid-19.

> **Key recommendation 1.3:** Improved efficiency and performance across the public sector.

- The tight fiscal conditions increase the need for Government to monitor expenditure volumes and ensure more efficient use of money, which includes improved performance across the public service.

Proportion of SIG Payroll to Domestic Source Revenue (2014 - 2019)



Source: SIG, Final Budget Outcomes (2014 - 2019), 2020 CBSI forecasts.

- At a minimum, this includes improved performance by public sector officers across all Ministries. As part of the Policy Reprioritisation, an Expenditure Review should occur to identify the returns to different expenditure items to help to prioritise where money could be reprioritised onto higher priority services or reforms.

- Many businesses indicated struggles interacting with public officers, “slowness to respond” or “lack of any response to queries or questions” was repeatedly mentioned during interviews. In a regulatory sphere, Government can act as the gateway to operations and if there are overly slow processes in place, it restricts economic activity and growth.

- Many core Government reforms seem to lack traction, with little progress made over many years. These findings emphasise a need to focus the prioritisation on achieving real tangible progress on a few priority reforms, such as tax reform which has been a priority project for over 4 years, albeit little progress made.

Key recommendation 1.4: Timely Government payments to suppliers.

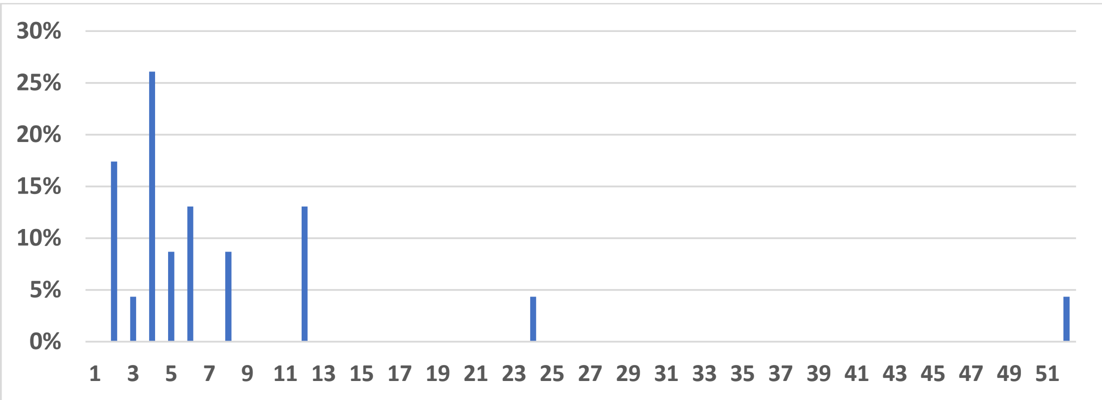
- The Government should pay suppliers in a timely manner so to not act as a brake on growth and economic activity.

- Businesses consistently reported cashflow as a key issue facing small businesses, particularly during the added uncertainty experienced during the pandemic. Timely Government payments provide certainty as businesses beginning to recover from the effects of the pandemic.

- In a small economy such as the Solomon Islands, the Government plays a substantial role and must continue to make timely payments to businesses. Timely payments will assist in facilitating and generating economic activities in the recovery efforts.

- Based on responses to the SICCI business survey, on average, 70% of the payments to businesses for the supply of goods and services were made within 6 weeks. Longer waiting time were exhibited for payment from SIG to utility providers, professional services and business in the construction sector, likely due to the size of the payments made to this sector.

Average time to receive payments for supplies of goods or services from SIG (weeks)



Source: SICCI Business Survey – February 2021

Key recommendation 1.5: Transparent and accountable Government, with proactive engagement with the Private Sector.

- Most businesses feel well-informed when it comes to the updates on the Covid 19 situation, but more clarity could be provided by Government to business on:

  o the strategy in relation to the future opening of the borders, and
  o the appropriate processes and procedures under the State of Emergency to facilitate key movements of personnel.

- Some business owners have struggled to re-enter Solomon Islands following their departures in 2020. Likewise, businesses have noted that they have struggled to repatriate key staff members, with Government processes not clear and delayed correspondence from officials adding significant costs and uncertainty.

- Consultation and collaboration between Government and the private sector has dual benefits. The private sector can be better informed and contribute to the design of Government policy, while the Government can test policy formulated with the realities faced by business and access targeted information on different business segments.

(2) PROVIDING IMMEDIATE SUPPORT TO ALLEVIATE PRESSURE ON STRUGGLING BUSINESS AND CONSUMERS

- The SICCI survey and interviews highlighted that Covid-19 has had varying impacts on different businesses, highly influenced by the sector in which they operate. Many businesses are struggling to maintain operations, and there have been wide-spread job losses (particularly across the MSME sector).

- Initial focus of stimulus needs to be on assisting current established businesses most affected by Covid-19, to minimise broader economic disruptions. Associated measures that help to support household costs of the most vulnerable, can support inclusive growth and increase activity in the economy as ‘saved income’ is spent in the economy.

> **Key recommendation 2.1:** To assist in the economic response to Covid-19, temporary and targeted support should be provided to established businesses that are most impacted by the Covid-19.

- To have the greatest impact with the least long-run cost, fiscal stimulus should be timely, temporary, and targeted.

  - Timely, so that its effects are felt while economic activity is still below potential;

  - Temporary, to avoid raising inflation and to minimize the adverse long-term effects of a larger budget deficit.

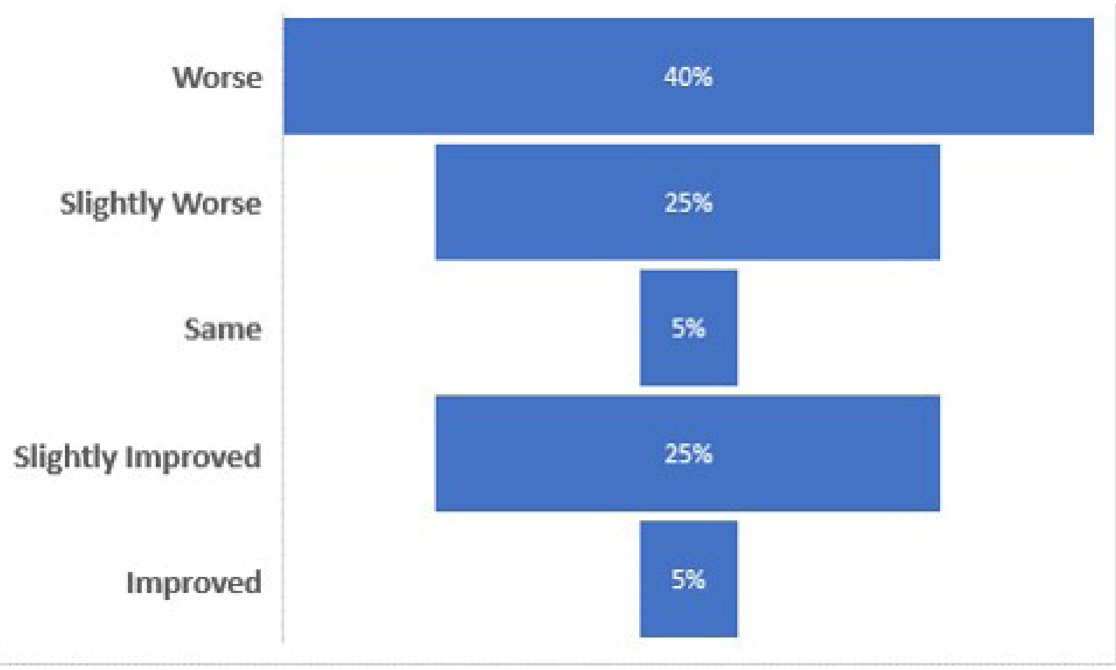
  - And well targeted, to provide resources to the businesses and people who most need them and will spend them: for fiscal stimulus to work, it is essential that the funds be spent, not saved.

- Key concerns raised by business in relation to the Economic Stimulus Package was the lack of targeting of assistance to established businesses in the sectors impacted the most by Covid-19. Other than Government affiliated businesses, 4 businesses indicated accessing funding from the ESP, mainly for rental relief.

> **Key recommendation 2.2:** Immediate **measures that assists with cash-flow should be prioritised** to the businesses most impacted by Covid-19. Support should not create an unlevel playing field between businesses

- Although business performance has been mixed and highly dependent on the sector in which the business is operating, most responses indicated that they are in a worse cash-flow position than 6 months ago.

Businesses were asked: How would you describe your cash flow situation now compared to six months ago?



Source: SICCI Business Survey – February 2021

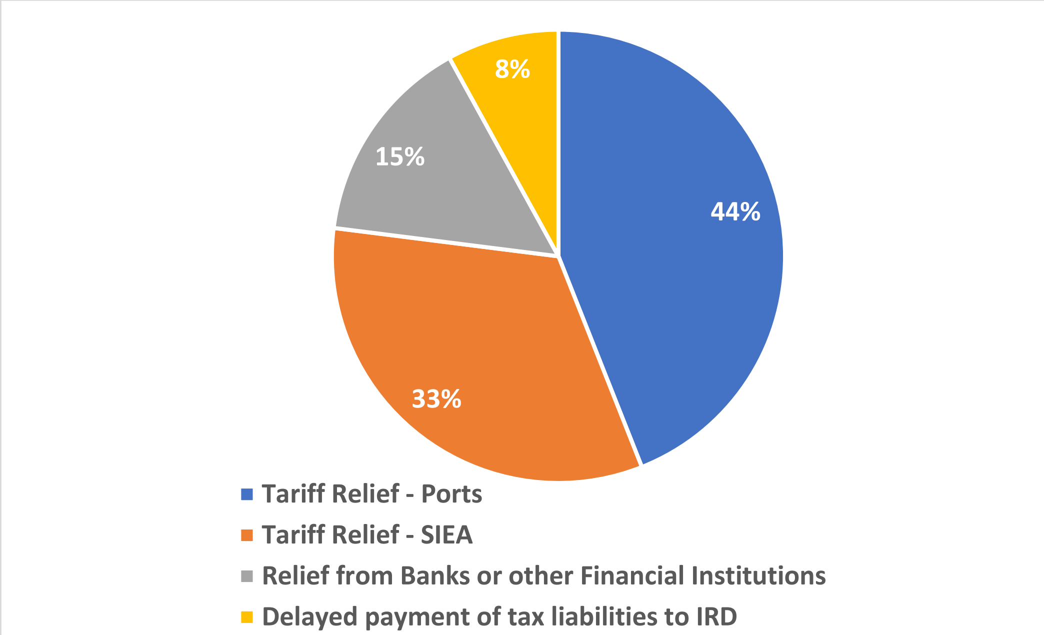
- While grants may not be an option, broad support that reduced fees and licensing could be exported to assist with cash-flow. Some businesses mentioned concessions in relation to business licensing as a mechanism to provide assistance.

> **Key recommendation 2.3:** Continued support by way of Tariff reductions should be supported – particularly Ports and SIEA. This will assist business across the board and support consumers too.

- An astounding 80% of business responses to the SICCI survey ranked the tariff reductions by the Ports Authority as one of the top two benefits accessed as part of the Economic Stimulus Package. This sentiment was shared by businesses across all sectors and all sizes.

    o This finding is perhaps not surprising given Solomon Islands is a small island economy, with most businesses replying on imports as an input to production.

Responses ranked first as providing the most assistance to business under the SIG Economic Stimulus Package



Source: SICCI Business Survey – February 2021

- In terms of indicating which measures provided the greatest benefits to business:

  - 44% of business selected Tariff reductions by Ports.
  - 33% of business selected Tariff reductions by SIEA.
  - 15% of businesses selected the relief from banks.
  - 8% of business selected the assistance by IRD.

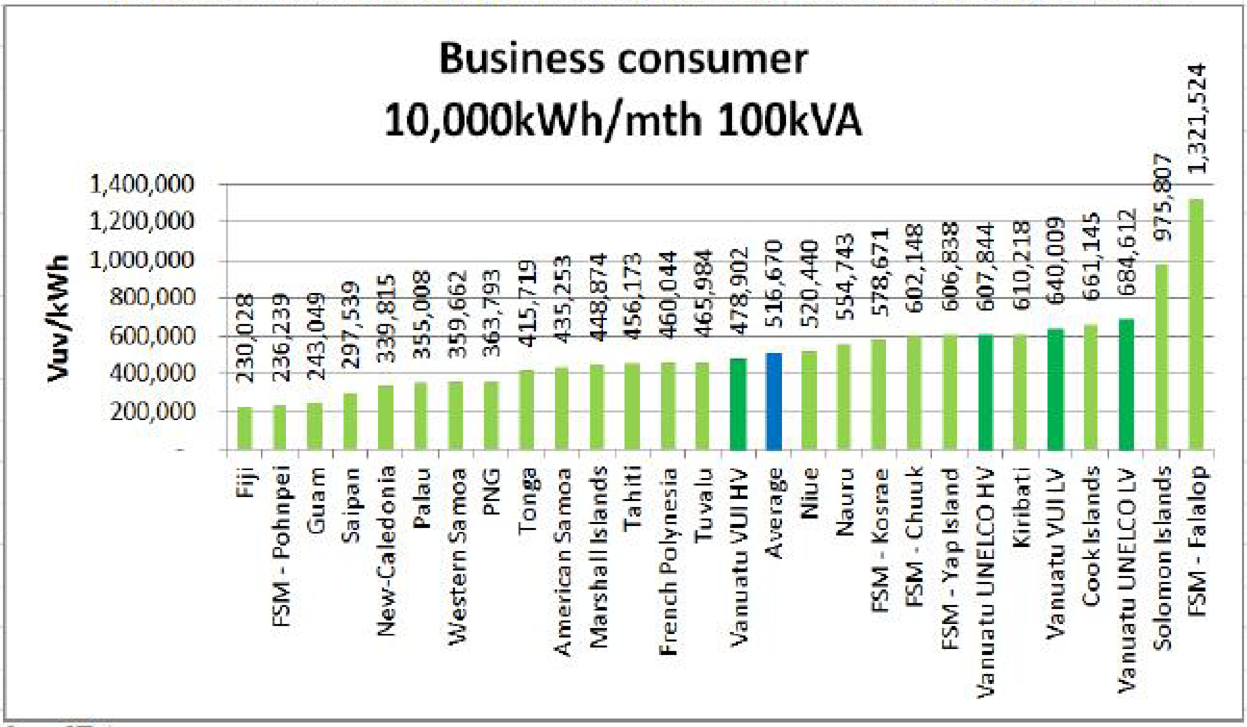
- There are general negative views on the performance of key State-Owned Enterprise (SOEs) utility providers. Business consistently raised concerns over the current tariff levels, given the exorbitant prices faced by business which restricts private sector growth, while key SOEs generally have large yearly profits and sit on large cash reserves. Business insights gathered from interviews includes:

  - "we applied for assistance from IRD, but received no response"
  - "the charges at the Ports Authority are 5 times the rates in Singapore and the electricity costs are double those faced in PNG."
  - "The cost of utilities will restrict any further development of industries and downstream processing".

- For small domestic consumers, the cost of electricity in Honiara can be around double the cost of most other Pacific Island Countries, while for business consumers the cost of electricity in Solomon Islands is just under double the average in the Pacific.[3]

[3] Utilities Regulatory Authority. Comparative Report: Pacific Region Electricity Bills, August 2020. Vanuatu

Figure: Comparision of bills by 'Business consumers' across the Pacific region Vt/kWh



Source: URA

(3) STIMULATING ECONOMIC ACTIVITY

- Business confidence is low. Just over 70% of business surveyed felt that the business environment would either stay the same or deteriorate in the next 6 months.

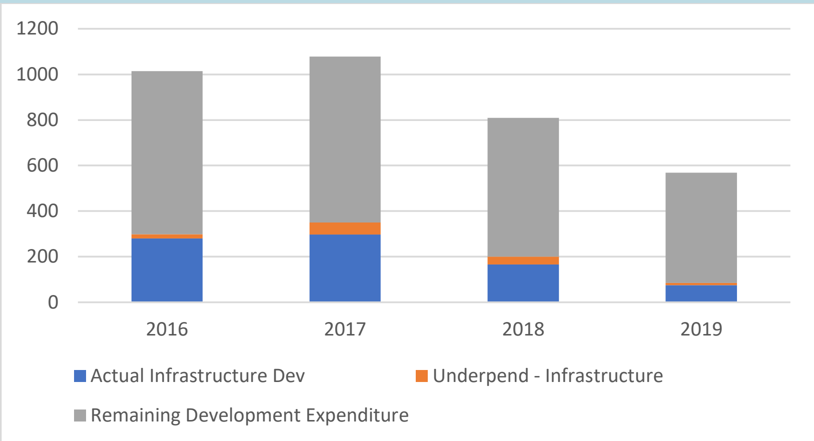
- Although there are many businesses still struggling to keep their doors open and battling with cashflow issues, throughout 2021 the Government will need to focus its efforts on stimulating economic activity.

Infrastructure Spend

The infrastructure gap – the difference between investment needs and current investment levels - in the Pacific is significant, requiring investment equivalent to 8% of GDP. Using this as a proxy for Solomon Islands, this equates to around SBD$1billion in infrastructure investment needs not currently being met. As a percentage of gross domestic product (GDP), however, the Pacific leads all other subregions, requiring investments valued at 9.1% of GDP.[4]

Recent development expenditure on infrastructure development has dropped from a high in 2017 of $297m to just under $76m being spent on infrastructure development spending in 2019. The drop in infrastructure development spending has mirrored the overall drop in the quantum of funding available for total development expenditure. Interestingly, despite the reduced spending on infrastructure development, there was still a slight underspend (represented by the orange segment) compared to what was allocated in the revised 2019 Budget.

Development Budget Expenditure (2016 – 2019)



Infrastructure is often considered to provide a 'double benefit' to the economy, initially int eh short-term as it stimulates activity and then via the longer-term benefits the new infrastructure provides. Social and economic infrastructure is essential to sustainable economic growth and poverty alleviation. Infrastructure links markets and people with all levels of an economy. This includes between rural local communities, between major cities and surrounding regions, and between domestic industries and global supply chains.

4 https://www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf

Key recommendation 3.1: Infrastructure Development: Clear vision for Strategic Infrastructure Development, quality infrastructure with the greatest economic and social returns and clear life-cycle approach to infrastructure development. This means, prioritising the Building Code legislation.

- **Strategic Infrastructure Investment Plan:** to stimulate activity in the recovery phase and improve core infrastructure to deliver lasting economic and social benefits. Many businesses believe that infrastructure development should be focused on the infrastructure providing the greatest returns to the economy (these economic and social benefits need to be assessed in terms of impact across the country, and the intertemporal benefits [benefits for future generations]). A lifecycle approach to infrastructure would assist with looking at the lifecycle of infrastructure before it is constructed and actively considering appropriate ongoing maintenance of infrastructure.

  It is also important to clearly communicate to business the Government's infrastructure focus to create a more informed environment. Early engagement with business helps business to consider how they will be impacted by the improved infrastructure and how to seize any related opportunities. For example, improved transport infrastructure across key nodes in different Provinces would help facilitate access to markets providing economic and social benefits.

- **Quality infrastructure** is vital to ensure appropriate returns to spending. Businesses noted the importance of quality infrastructure appropriate for the domestic settings (i.e. "we need high quality bridges and roads to withstand the wet-season and ensure builds are appropriate to the environment").

  o As a foundational step to ensuring quality infrastructure, SICCI would like to see Government prioritise work on the building code legislation and encourages active collaboration with industry.

- **Most businesses across all sectors surveyed, except micro-business, believed they would benefit from increased infrastructure projects in Solomon Islands**, either directly by taking part in infrastructure construction, or indirectly through increased business activity related to increased infrastructure work.

- **Enhanced Collaboration**: Infrastructure investment is expensive and cannot be done solely by SIG. To get the most out of infrastructure investment, the Government should be optimising the use of SIG resources by effectively engaging with development partners on a collaborate approach to the infrastructure growth focus.

Key recommendation 3.2: Infrastructure Development: Maximise local content and domestic returns from infrastructure development.

- It is vital that Government takes an active approach to ensuring the greatest benefits from infrastructure development are retained locally. Key themes to consider so that the benefits of infrastructure investment can be maximised:

  o Procurement to increase local content: Procurement processes should prioritise local business and MSMEs in tenders. Some countries prioritise local business in tenders under a certain monetary threshold. Likewise, local partnering and minimum local employee requirements can be a requirement for tenders given to foreign businesses – with specific requirements in relation to training and capacity development.

o Coordination with vocational educational programs – to ensure an appropriately qualified labour force.

o Targeted support for specific domestic gaps in suitable qualified and experienced highly-skilled labour – businesses in the construction sector have indicated that they struggle to employee appropriately qualified and experienced people for certain tasks.

o Sector capacity development – to improve opportunities for local businesses for construction and maintenance activity.

INVESTMENT STIMULUS – ACCELERATED DEPRECIATION

Key recommendation 3.3: I Investment stimulus via the tax system (accelerated depreciation) would encourage business to bring forward capital investment.

- These types of tax measures encourage a pull-forward of investment and while they are not immediate measures to help cash-flow, it would be encouraging activity in the recovery of COVID-19. A further benefit of accelerated depreciation is that it does not given away concessions, it simply pulls forward an expense which would otherwise be claimed over longer period (providing a greater benefit in terms of time-value of money).

- Accelerate depreciation would target capital assets under a certain threshold. Further data would be needed to define eligibility and do a costing of this proposal.

- Statistical work done of the accelerated depreciation and tax breaks used during the GFC in Australia found that companies increased their investment significantly in response to the tax breaks. As the tax break frees up additional cash flows by allowing the company to delay the taxation of income, such polices are more effective during downturns when financial constraints are more binding. There were also no indications of intertemporal substitution (simply a pull forward of investment), which provides more evidence for their use to stimulate additional investment.

- Many diverse countries are implementing these types of measures in the wake of Covid 19, including Australia, New Zealand, Taiwan, UAE, China, US, Canada, South Africa and Cook Islands.

TARGET SUPPORT TO GROWTH SECTORS

Key recommendation 3.4: Sector support should focus on specific barriers to different sectors, ensuring a level playing field for business and a long-term view of sector development.

- Targeted support to areas in the productive sector to support value-adding activities to ensure a good return to raw materials. While Government's effort to support base broadening is positive, interventions and support must focus on the barrier to growth and not create unlevel playing field for business.

- Business of all sizes and across different sectors have raised concerns that Government sometimes encourages an unlevel-playing field, either through discretionary exemptions that are provided to some businesses and not others, or by providing stimulus to part of a market and not others which distorts the allocation of resources.

- A long-term vision for industry development is also imperative. While there is effort placed on the development of infant sectors, business cautioned that little attention is often placed on the longer-term goals of development in the industry. For example, consideration of:

  - the characteristics of the market the goods are targeting,

  - where is the medium-term plan in relation to processing (and the associated capital, land and expertise), and

  - what is the vision for longer-term supply capabilities?

- Possible barriers to different industries, include:

  - Scale: where facilitating collective action by suppliers can provide benefits to all, such as in the cocoa industry where often single suppliers do not have enough produce to send a full container of goods, but many suppliers working together could share the costs of a container to access markets (PHAMA);

  - Market Access: are products unable to access overseas markets due to knowhow, lack of business connections, not meeting quality standards.

  - Infant industry: requiring additional support to increase business sustainability.

  - Knowledge and Expertise: New industries that support domestically sustainable industries (such as meat and poultry) may require additional expertise and support in the development phase.

  - Access to finance: preventing expansion.

- Timely advisory support to the private sector – to assist businesses to navigate and pivot their operations in the current environment. A focus of this support would be MSMEs. The SIG-SICCI Advisory Group is a platform that can be used for ongoing communication between the Government and the private sector on the strategy.

(4) FUNDAMENTAL REPORMS TO CREATE A BETTER BUSINESS ENVIRONMENT

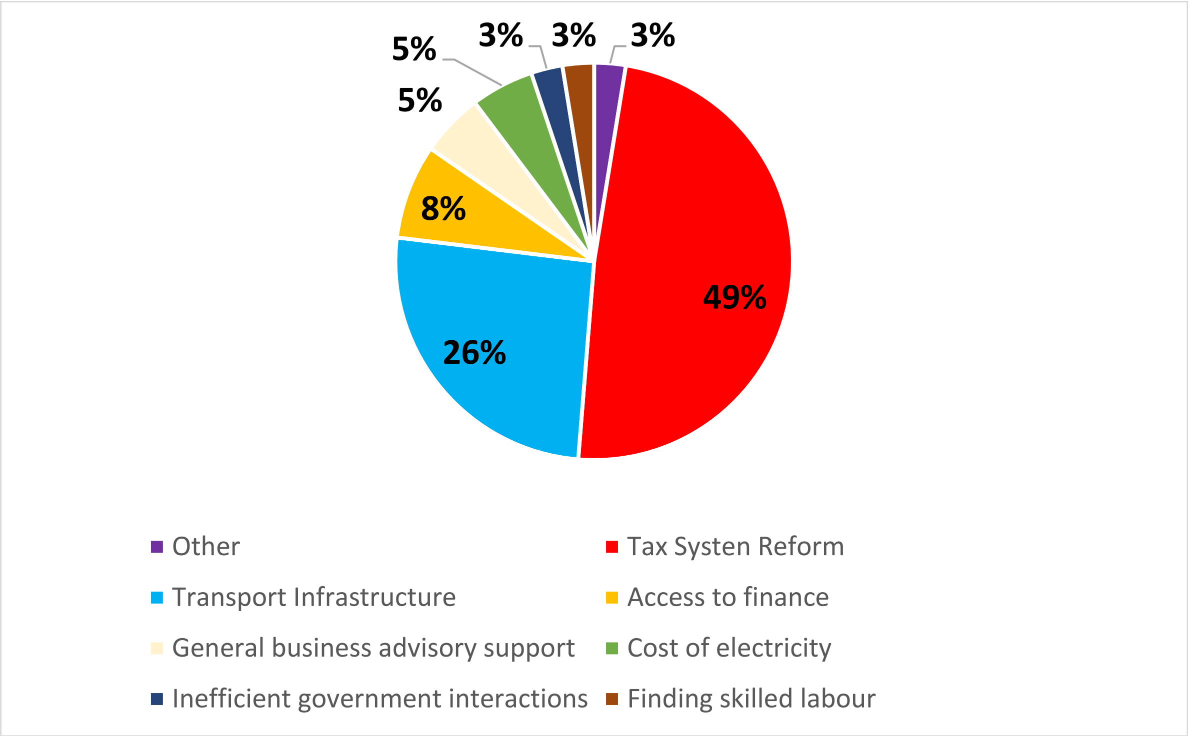
- While there have been some improvements over the last 15 years to aspects of the business environment (such as the ease of starting a business), many businesses indicated that the general business environment in which business operates has undergone little change.

    - Some businesses specifically highlighted that there is little tangible progress on key reforms (i.e. tax reform was announced in 2017 and little has been achieved since, despite it being a 2-year process); the creation of an unfair-playing field was noted across many sectors and general non-responsiveness of Government officials was also noted.

- Nearly half of all businesses surveyed (49%) identified the Tax System as the biggest impediment to business. Tax System Reform is vital to improve the business environment. Transport infrastructure was ranked second highest, with a further 26% of businesses ranking it as the biggest impediment to business.

- Once reviewing all answers by business, tax reform and transport infrastructure development were the two major reforms identified. Access to finance and general business advice were both highlighted as other key barriers to business, particularly by smaller business (employees under 50 employees).

The Tax System is the biggest impediment to business
(top ranking impediment by all businesses surveyed)



Key recommendation 4.1: Tangible action on tax reform in 2021, with collaboration and consultation with the Private Sector.

- Comprehensive tax reform – to create and deliver a fair, simple and broad-based tax system. Tax reform is long overdue. Reforming the tax system will be an important driver to improving the business environment settings and stimulating private sector growth.

- The current tax structure in Solomon Islands constrains economic growth and limits the pace of development. The current tax system imposes a very high tax burden when compared to other Pacific countries (with tax revenue accounting for 32 per cent of GDP in 2016) and the structure of the tax system is outdated, inefficient, complex, expensive to administer and anti-competitive.

- The tax system imposes high compliance costs on taxpayers and encourages unproductive tax avoidance and evasion activities. Moreover, it does not actively support growth - for example, it does not systematically support exports and instead relies upon distortionary exemptions for exporting industries.

- The inherent weaknesses in the tax system will only be exacerbated over the medium term by the expected challenges likely to put mounting pressure on the current tax system. The likely dramatic decline in logging exports (currently accounting for around 22 per cent of total tax revenue), the implementation of free trade agreements and increase in exemptions which further erode the tax base in the coming years, all add impetus to the need for tax reform.

Regional Comparison of tax regimes

Country	Resident Company Tax Rate	Non-resident Company Tax Rate	Top marginal tax rate and threshold level in USD	Tax Free threshold	Tax Paid on USD $15,000
PNG	30%	48%	42% - K250,000 (70,000USD)	12,500 (USD 3558)	$3639
Solomon Islands	30%	35%	40% - SBD$90,080 (10,809USD)	30,080 (USD3753)	$3550
Samoa	27%	27%	27% - SAT 25,000 (10,000USD)	15,000 (6000)	$2150
Cook Islands	20%	28%	30% - $80,000 (57,600USD)	12,800 (USD9214)	$1366
Tonga	25%	25%	25% - $60,000 (25,800USD)	10,000 (4344)	$1262
Fiji	28%	28%	20% - $50,000FJ (24,500USD)	30,000	$54

Key recommendation 4.2: Clear guidance from Government on the overarching plan for improvements in **transport infrastructure** across Solomon Islands (where, what, when) and active coordination with development partners to ensure optimisation of SIG resources and progress aligned to national priorities.

- See broader points made about infrastructure development in general (recommendation 3.1 & 3.2).

Other core reforms include:

- Financing Growth (improving access to finance) – Access to finance is a key constraint to SME growth, it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries.
- There is a strong link between access to finance and business growth, and, in turn, growth in employment and incomes.[5] DBSI provides an opportunity for more innovative financing options that are more suited to the Pacific (such as movable assets as collateral and peer-to-peer lending) to drive economic diversity and sectors with future growth potential. Interestingly, no businesses surveyed had accessed funding from DBSI.

- Of the businesses surveyed, access to finance is mostly an issue for small business (less than 25 employees), this would also likely be associated with a higher proportion of 'informality' associated with small business.

  - Of the businesses currently exporting products, access to finance was only a "core" issue for smaller businesses (less than 25 employees).
  - For businesses wanting to export, but not currently exporting, the main barrier to exporting was "gaining access to markets", rather than access to finance.

- Reduced cost of electricity – Solomon Islands faces some of the highest electricity costs in the Pacific and there needs to be a review of the SIEA tariff. SIEA was required by legislation to submit an application for the non-fuel base tariff to the Ministry of Mines, Energy and Electrification by 1 October 2020.

[5] World Bank - https://www.worldbank.org/en/topic/smefinance

Attachment A

Key themes from the SICCI Business-Wide Survey:

- **Business environment:**
    - Just over 70% of business felt that business environment would either stay the same or deteriorate in the next 6 months.
    - In terms of the Budget 2021 and Government's Policy Reprioritisation – there was a general lack of knowledge by business on what the clear growth strategy by the Government – which could then be used to allocate appropriate funding in the budget.
- **Information from Government:**
    - Most business felt they received adequate information from the Government related to Covid-19 and businesses were supportive of Government's efforts so far in terms of controlling the border and the health impacts of Covid-19.
    - Communications around the forward strategy would be appreciated by business (i.e. what are the plans around opening the borders or participating in Pacific travel bubbles and associated work related to ensuring capacity to maintain Covid-free as borders open).
- **Employees:**
    - Other than large businesses, those exporting goods and services reduced their employee by around 30% due to Covid-19.
    - Employee reduction were experienced in high impacted sectors, such as tourism and hospitality, but apart from sector impacts, most employee reductions occurs in small business (business with less than 25 people).
    - Most businesses, regardless of size, struggle to employ skilled employees.
        - 2/3rds of responses indicated that they struggle to employ experienced employees and businesses interviewed indicated that they struggled to find appropriate qualified employees. While a significant amount of money is spent on overseas educations, there seems to continue to be significant shortages in skills in certain areas.
- **Cash-flow:**
    - Although business performance has been mixed and highly dependent on the sector in which the business is operating, a majority of responses indicated that they are in a worse cash-flow position than 6 months ago.
    - The interviews with businesses indicate a wide variety of business situations across the economy, highly dependent on their respective business sectors.
        - Tourism related business have been severely impacted by Covid-19. Further, tourist operators that cannot easily replace their international market with domestic tourism options, have been significantly impacted and will struggle to 'hold-on' if borders remain closed throughout 2021.
        - Alternatively, business in the agriculture sector (while impacted by the increased costs of doing business during the pandemic) seem to have been relatively shielded from significant Covid-19 impacts. Limited commodity price volatility has supported this outcome.

- Of all responses, most interactions with Banks over the last 12 months have been to increase overdrafts, relax repayment terms and get financing to pay business expenses. Only two larger businesses (with Government affiliations) accessed finance for infrastructure/capital works in the past 12months.

- **Access to finance:**
  - Access to finance is mostly an issue for small business (less than 25 employees). This would also likely be associated with a higher proportion of 'informality' associated with small business.
  - Of the businesses currently exporting products, access to finance was only a "core" issue for smaller businesses (less than 25 employees).
  - For businesses wanting to export, but not currently exporting, the main barrier to exporting was "gaining access to markets", rather than access to finance.

- **Economic Stimulus Package (ESP):**
  - Very few businesses accessed payments under the ESP. Of all responses, other than Government-related entities, around 10% of responses accessed payments under the ESP (4 businesses), and the payments were mostly for rental relief.
  - No-one surveyed had accessed funding from DBSI.
  - Business expressed a general lack of support via the stimulus package, other than tariff relief.

- **Most businesses benefited the most from Tariff reductions – Port** (this related to all business, regardless of size).
  - 44% indicated that the Tariff reductions by Ports – provided the most benefits under the ESP. And it was identified as providing the most benefits or ranked second by around 80% of all responses.
  - 33% indicated that the Tariff reductions by SIEA – provided the most benefits under the ESP.
  - 15% indicated that the relief from Banks – provided the most benefits under the ESP.

- **Key issues with the ESP relates to how the benefits were targeted.**
  - Purpose: Transitional relief to alleviate pressure on struggling businesses to support continuity and reduce potential job loss/market disruption verses support for new industry and new ventures to diversify the economic base.
  - Sectors Targeted: Sectors most impacted and hit worst by the Covid-19 verses other sectors.
  - Businesses Target: Current business to support business continuity and avoid mass market disruption and job loss verses start-ups/new ventures.

- To broaden the economic base, there needs to be more work done on the long-term goal. For example, encouraging infant industries now, is one thing. But what about the vision for down-stream processing.
  - Policy decisions/support seems to be short-sighted with minimal longer-term planning of development. Such as, processing opportunities, packing opportunities, what markets are being targeted, what is the long-term vision with supply.

- **Fundamental Reforms:**

  - **Strong need for tangible progress on core reforms to improve the business environment.**

  - While there are been some improvements over the last 15 years to aspects of the business environment (such as ease of starting a business), the general environment in which business operates has changed little. There is little tangible progress on key reforms (i.e. tax reform was announced in 2017 and little has been achieved since, despite it being a 2-year process); the creating of an unfair-playing field was noted across many sectors and general non-responsiveness of Government officials was noted.

  - Nearly half of all businesses surveyed (49%) identified the Tax System as the biggest impediment to business and therefore Tax System Reform is vital to improve business environment. Transport infrastructure was ranked second highest, with a further 26% of businesses ranking it as the biggest impediment to business.

  - Access to finance and general business advice were both highlighted as other key barriers to business, particularly by smaller business (employees under 50 employees).

  - Many businesses noted that the financial performance of many SOEs (large profits being made) and relatively high cost of utilities significantly dampened private sector growth.
    - A manufacturer noted that it had the highest electricity costs across all world-wide operations and that was double the electricity costs/kwh of the next expensive place, being PNG.

- **Infrastructure:**

  - Most businesses felt they would benefit from increased infrastructure activity – except the microsegment (less than 5 employees).

  - Key themes related to infrastructure:

    - Government needs to be clear of its intention with infrastructure development across the country.
    - Infrastructure should be adequately assessed for economic and financial analysis, with infrastructure development prioritising projects with the greatest returns to the country.
    - Need quality infrastructure – highlights the need for a building code and good quality buildings. Whole life cycle infrastructure. Honiara roads were used as an example – significant cost to business (waiting times, poor quality creating business costs from breakage).
    - Infrastructure projects should be focused on achieving the greatest domestic multipliers – local content. (restricting certain bids to only local suppliers), extending the capacity of the sector by requiring local partnerships on larger builds.

Attachment B

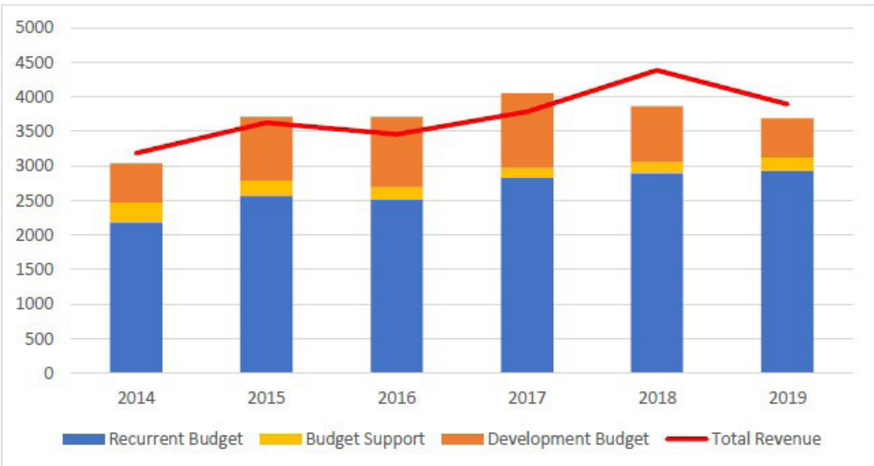
Budget Analysis - SICCI and EASI

Budget 2021: Strong need for a step-change in Budget focus and execution

- The Recurrent Budget has been consistently growing, while the Development Budget has expanded and contracted depending on the overall expenditure envelope.

- The fiscal positions took an expansionary stance from 2015 – 2017, with expenditure outpacing revenue collections during those years, as the cash balance (fiscal buffer) went from $880m in 2014 to $20m in 2020.

Chart 1: Budget Expenditure and Revenue Profile (2014 – 2019)



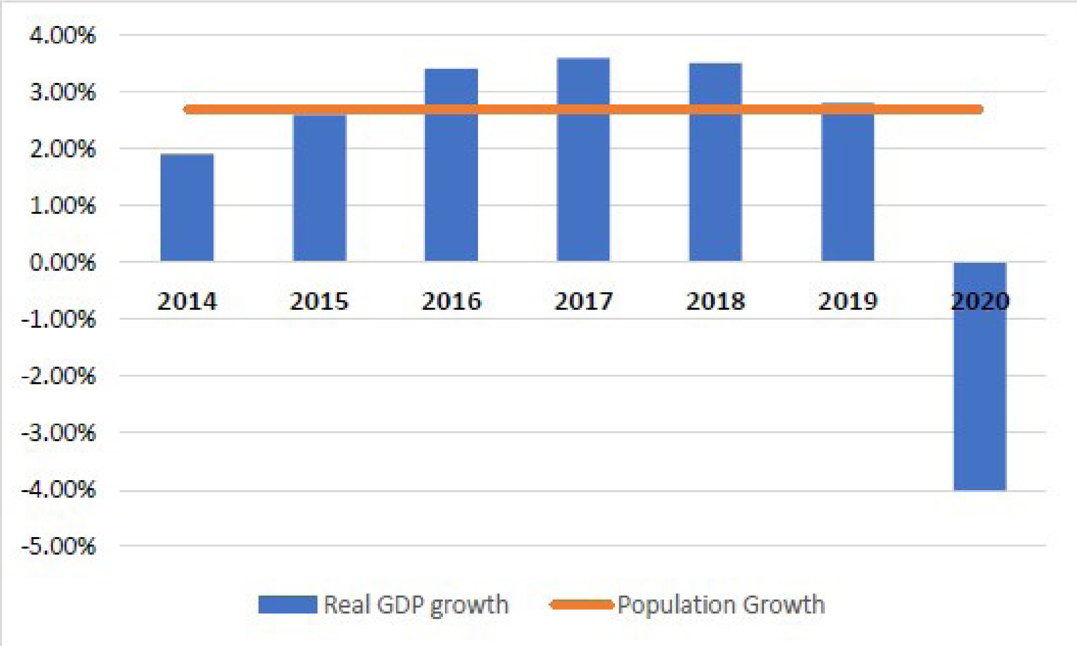
SIG – Final Budget Outcome 2014 - 2019

- The Solomon Islands Government in final budget documents acknowledged that the expansionary fiscal policy undertaken over recent years has provided little growth benefit.

    - From 2014 to 2015, total spending increased by 21 percent or $669 million, however most of this increase went to rural areas towards highly discretionary spending in constituencies.

- Government resource allocation skewed towards addressing the social than the economic aspect of its policy objectives.

Chart 2: Real GDP Growth v Population Growth (%)



- Real GDP Growth in recent years has been lacklustre and, given the high population growth rate, is not sufficient to ensure sustained improvements in living standards.

  o Round log exports have started decreasing from peak export volumes in 2018 and due to the unsustainable practices, presents a significant vulnerability to the economy.

  o Drops in fish catch in 2020 due to fish migration outside the Exclusive Economic Zone have highlighted the volatility of activity and associated revenues from natural resources.

  o The drop in economic activity since 2017 was due to a slowdown in trade in line with sluggish investment trends. Likewise, commodity price volatility also contributed to an overall decline in domestic consumption and private-sector investment.

- Recent analysis by the Economics Associate of Solomon Islands, indicates that the spending under the Economic Stimulus Package (ESP) would be likely to do little by way of stimulating the economy due to the low level of spending and it being thinly spread across various initiatives.

- In the past, the IMF has underscored the importance of:

  o boosting revenues,
  o strengthening tax compliance, and
  o containing spending.

The Budget should be focused, ensuring tangible progress of priority reforms

- SICCI does not support increased complexity in the business environment or the increased transaction costs to doing business.

- SICCI wants to see targeted priority reforms that are actively progressed and given priority in terms of financing, priority on the legislative agenda and progress milestones reached throughout 2021.

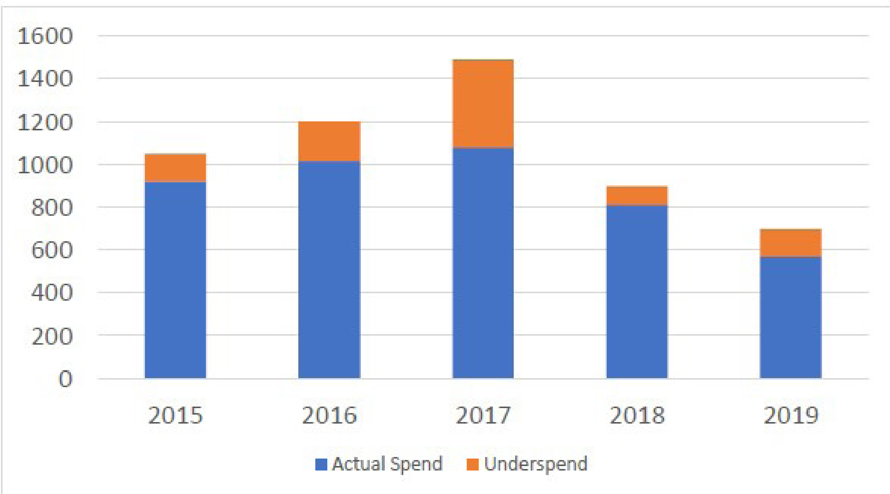
  - For example, SICCI would like to see concrete progress on tax reform and consultation to get genuine insights from business.
  - SICCI would like to see a Solomon Islands building code prioritised in 2021.
  - Despite priority reforms being labelled as a ‘priority’ for many years, little concrete actions have been achieved.
  - At times limited resourced are thinly spread and if everything is a priority nothing is progressed.

Active Budget management would reduce underspends and ensure projects are on-track

- Actively managing priority reforms and initiatives would reduce underspends. The development expenditure, other charges and donor support all consistently have underspends, while payroll is consistently over budget.

  - Even in 2019 when the Development Expenditure was the lowest in recent times (around $700m budgeted), there was still a 18% underspend.

Chart 3: Development Budget Expenditure
(Actual expenditure and underspends; $M)



SOURCE: Final Budget Outcomes, SIG

Improvements in the quality of Government sending

- Good quality spending that is focused on providing efficient services, stimulating activity, and providing core infrastructure for economic and social development.

  - The IMF has emphasized that spending priorities need to be better aligned with the National Development Strategy.

- There is strong need to improve the way the budget is executed to ensure better quality spending, particularly in this tight fiscal environment.

  - Recurrent expenses account for 88% of the total expenditure in 2019. Plus the Development Budget is mostly recurrent in nature, with large portions highly discretionary and poorly executed.

- Ministry of Education and Human Resource Development (MEHRD) accounted for a significant portion of recurrent spending. Overseas training (scholarship) accounted for 36% of MEHRD's spending on goods and services. This is particularly important because money that is spent on overseas training means money going into other economies (tuition paid in other countries and stipend spent in other economies).

  - There is likely significant room to achieve better quality spending when it come to overseas training. Many business struggle to find appropriately qualified employees, yet significant expenditure goes to overseas training. A review of the quality of this spending is needed.

- In recent years much of the development budget has been recurrent in nature and not provided the growth and development benefits.

- Further, the Development Budget is traditionally poorly managed and needs a dramatic overhaul. A more focused approach to funding in the Development Budget would assist in ensuring accountability and monitoring.

  - In 2017, out of 91 programs implemented in the Development Budget, none reached its targets. The 2017 Final Budget Outcome highlights the dire situation:

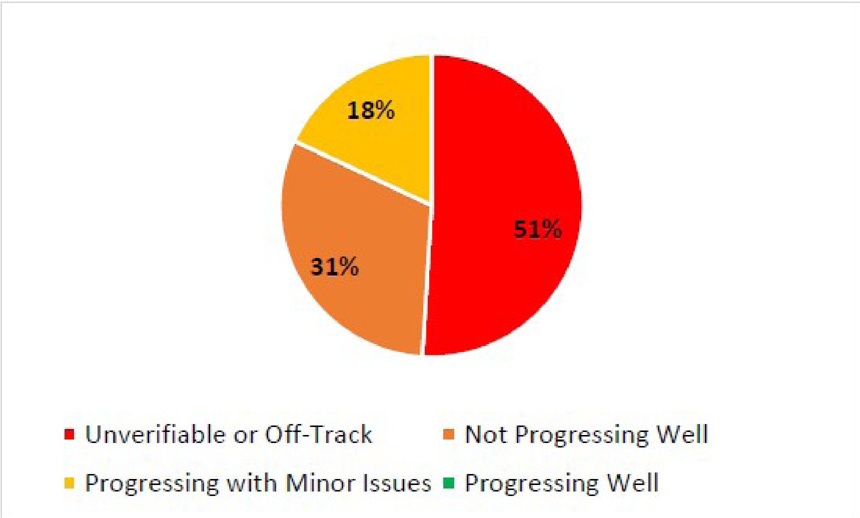
"Many Ministry programs did not implement their outputs because they spent the allocation on unplanned activities not in their approved work plans.

The review found that almost half of the ongoing projects continue to use SIG development budget with no clear evidence of achievement and progress towards target indicators.

A number of planned activities under the programs are beyond the capacity of the implementing line ministries per program to implement. As a result, more than 90 per cent planned activities are not implemented, and this continues to be repeated annually".

o In 2017, 51% of the Development Budget spending (approximately SBD$550m) was categorised as either unverifiable or off-track and needing management attention. A further 31% (SBD$334m) was identified as showing poor progress.1

Chart 4: Development Budget Execution 2017



Source: SIG Final Budget Outcome 2017

Development spending to focus on projects that provide the most economic and social returns to enhance sustainable and inclusive economic growth

- Much of recent development budget spending has been recurrent in nature. Chart 5 highlights that crucial capital spending on infrastructure – key to improving the business environment and integral to productivity – is only allocated 13% in the Development Budget in 2019.

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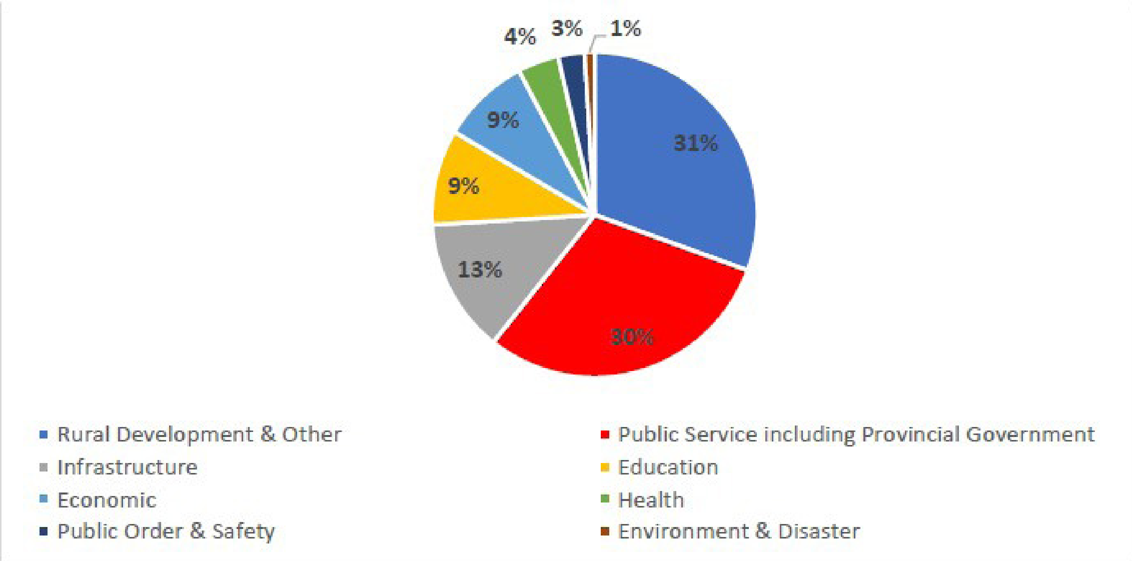
1 SIG Final Budget Outcome, 2017; Ministry of Development Planning & Aid Coordination. Development Budget 2017 Implementation Report. March 2018. Honiara

Chart5: Development Budget Components 2019



Ensuring more efficient recurrent spending, including stemming the unsustainable growth in payroll

- There was a rapid growth in payroll over recent years which needs to be managed into the future. A review of the mandate of ministries may led to a prioritisation of activities.

    o Given the fixed nature of payroll, it is alarming that payroll increased from 27% of total expenditure in 2017 to 30% in 2019. However, when compared to domestic sourced revenue (which has been on a downward trajectory since 2018) the increase in payroll become more alarming.

- Revenue growth has slowed down in recent years while expenditure pressures remain elevated. As a percentage of GDP, total revenue collection remained broadly flat between 2008 and 2020, on average, but has fallen since 2018. This provides a measure of government's ability to raise revenue from the what the country can produce.

    o Comparing payroll to domestic sourced revenue provides a good insight into the sustainability of payroll growth, as domestic sourced revenue (revenue from IRD, CED and other ministries) is revenue that the Government has more control over.

Chart 6: Proportion of payroll to Domestic Source Revenue (2014 - 2019)

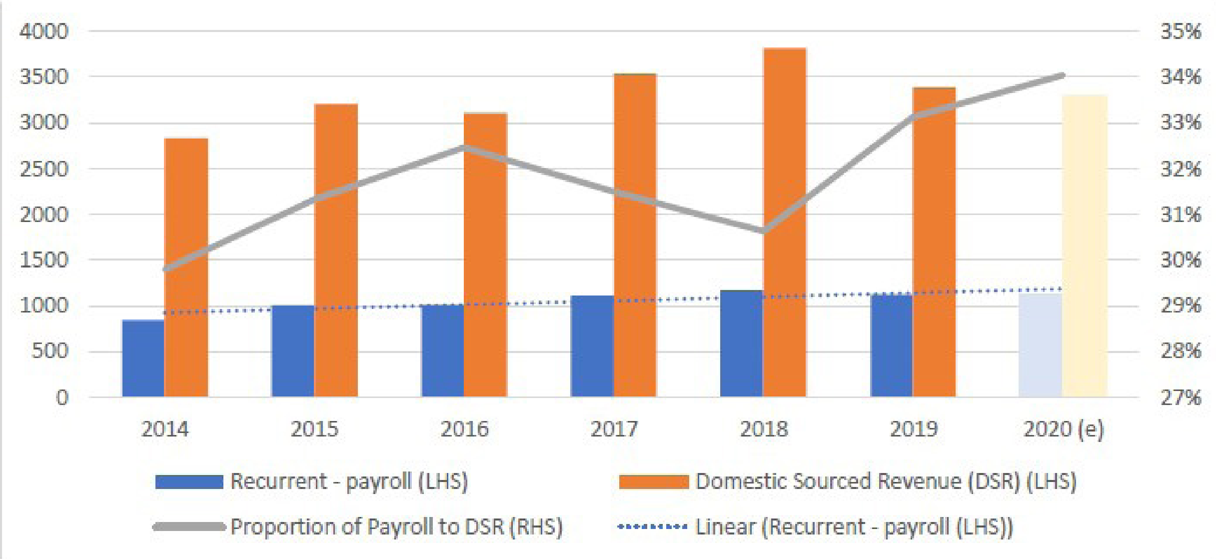
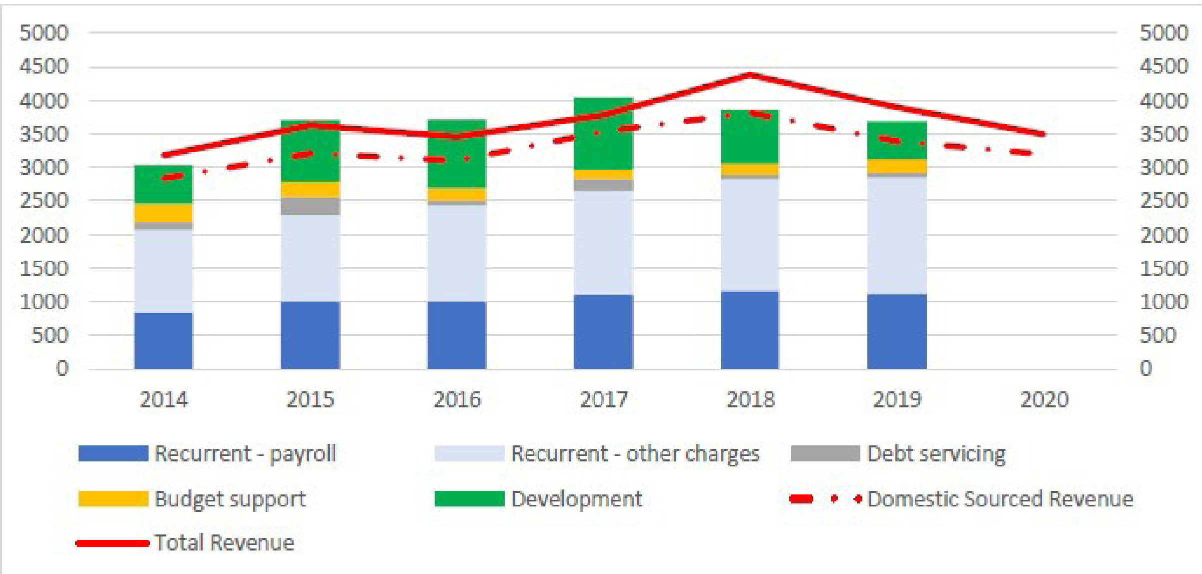
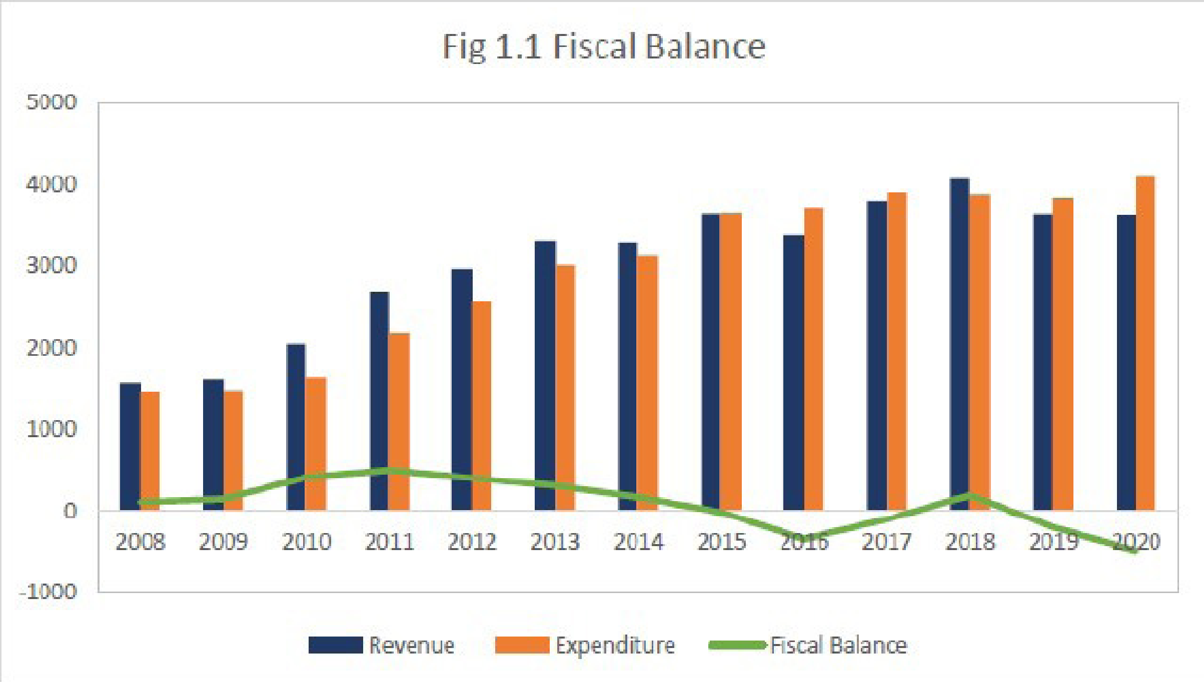


Chart 7: Components of Budget Expenditure and Revenue (2014 – 2019)



Economic Association of Solomon Islands - Charts

SIG Fiscal Overview (2008 - 2020)



Total revenue and expenditure have increased substantially since 2008 in nominal terms. Both revenue and expenditure more than doubled from their 2008 level to $3.6 billion and $4.1 billion respectively in 2020. However, as share of GDP, total revenue growth remained relatively flat at just over 30% of GDP whilst expenditure expanded from 27 % of GDP in 2008 to 33% in 2020.

The government run budget surpluses between 2008 and 2015. These reflected several factors including strong revenue collections, fiscal discipline and capacity constraints across implementing ministries which inhibited implementation of key infrastructure projects. Triggered by cash flow issues in 2016, the government begin to draw down its cash reserves to finance budget deficits in the latter years except in 2018 when the government recorded a budget surplus. In nominal terms, revenue growth has slowed down in recent years, while expenditure pressures remained elevated eroding fiscal buffers built in earlier years.

Revenue trend: 2008-2020

Government revenue has increased substantially from $1.6 billion in 2008 to a record $4. 1 billion in 2018 and has since continued to decline, sitting at $3.6 billion in 2020. Strong revenue growth between 2010 and 2013 mirrored higher log receipts, mining revenues and large donor grants related to the Regional Assistance Mission to the Solomon Islands. Revenue also grew notably between 2016 and 2018 but has since fallen. Donor grants received has fallen since the departure of RAMSI, with the slowdown partially offset by strong collections in nontax revenue proceeds from mainly fishing licence fees.

Tax revenue, the largest share of total revenue, averaged 78% between 2008 and 2020. Non-tax revenue, contributed an average of 11% to total revenue over the same period driven by proceeds from fishing license fees. Grants constituted 12%, on average, to total revenue. As percentage of GDP, total revenue growth averaged 33%

Expenditure Trend: 2008-2020

Total expenditure increased from $1.5 billion in 2008 to $4.1 billion in 2020. Between 2008 and 2020, recurrent spending accounted for 86% of total expenditure, on average, while development related spending constituted the remaining 14% of the total expenditure envelop. The total recurrent spending is dominated by the Ministry of Education, Human Resource Development (MEHRD).

As a share of GDP, total expenditure increased from a trough of 24% of GDP in 2010 to a record 35% of GDP in 2015. This period is characterised by buoyant economic activities driven by the log receipts, mining operations and substantial donor budget support which revenue collections and fund public expenditure.

Between 2008 and 2020, payroll and goods and services together accounted for around 88% of the total recurrent budget. The Ministry of Education and Human Resources, a proxy for the education sector, accounted for the biggest slice of the recurrent spending envelop.

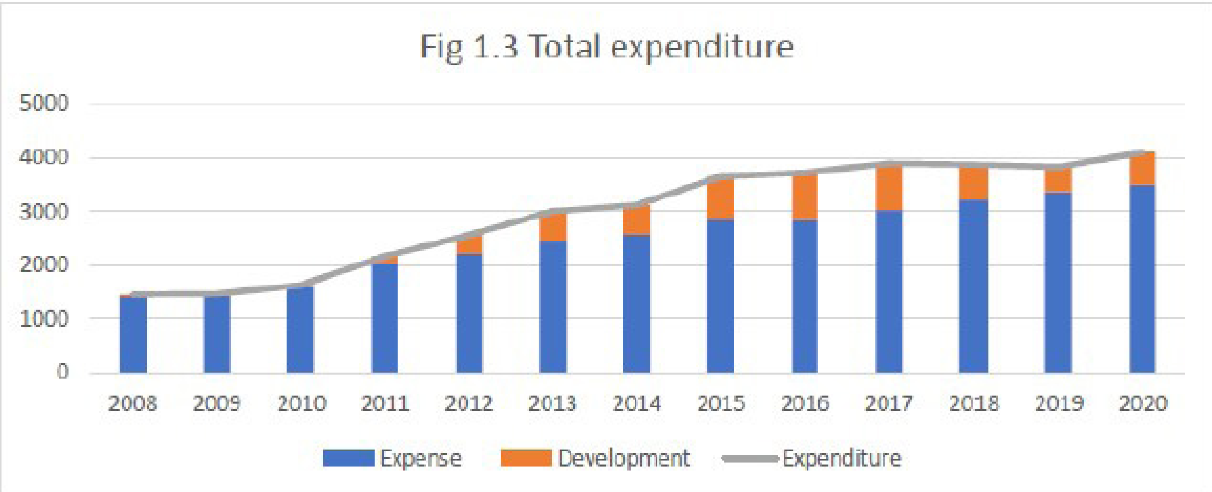


Fig. 1.4 Goods and Services outlays by ministry: 2013-2019 average

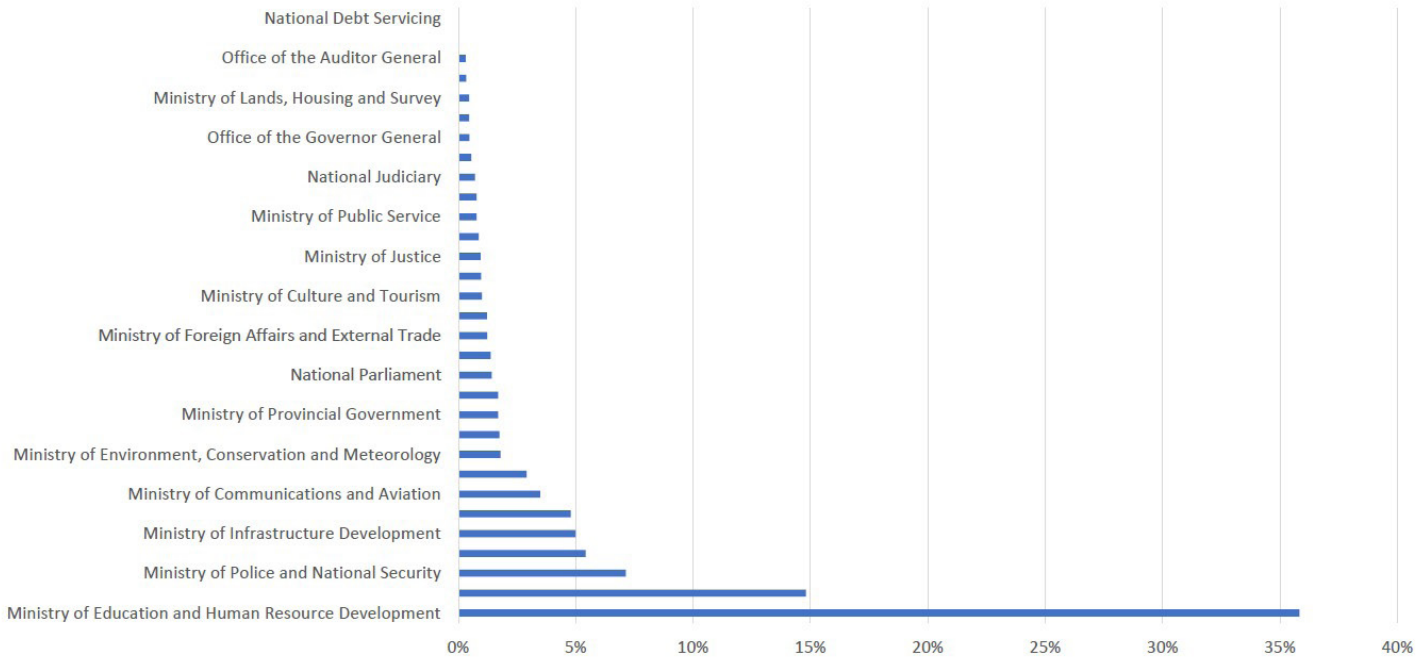
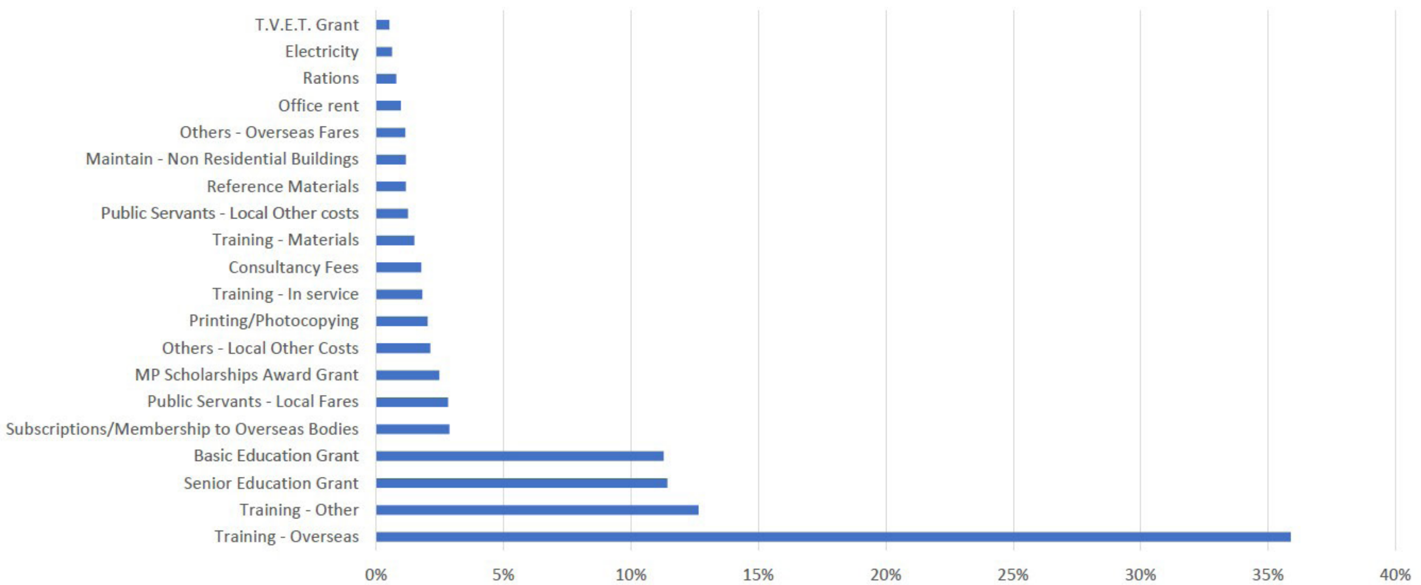


Fig. 1.5 Ministry of Education spending by account description: 2013-2019 average



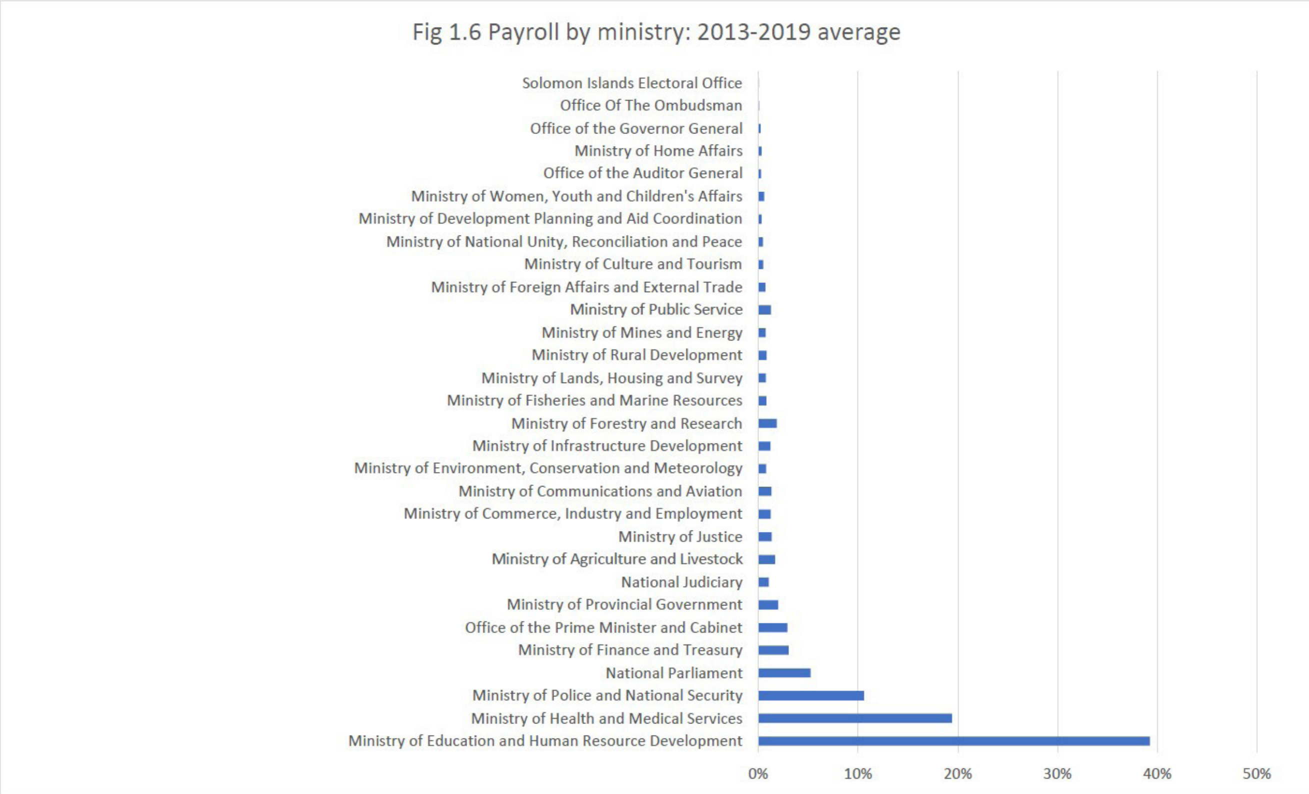


Fig 1.6 Payroll by ministry: 2013-2019 average
Solomon Islands Electoral Office
Office Of The Ombudsman
Office of the Governor General
Ministry of Home Affairs
Office of the Auditor General
Ministry of Women, Youth and Children's Affairs
Ministry of Development Planning and Aid Coordination
Ministry of National Unity, Reconciliation and Peace
Ministry of Culture and Tourism
Ministry of Foreign Affairs and External Trade
Ministry of Public Service
Ministry of Mines and Energy
Ministry of Rural Development
Ministry of Lands, Housing and Survey
Ministry of Fisheries and Marine Resources
Ministry of Forestry and Research
Ministry of Infrastructure Development
Ministry of Environment, Conservation and Meteorology
Ministry of Communications and Aviation
Ministry of Commerce, Industry and Employment
Ministry of Justice
Ministry of Agriculture and Livestock
National Judiciary
Ministry of Provincial Government
Office of the Prime Minister and Cabinet
Ministry of Finance and Treasury
National Parliament
Ministry of Police and National Security
Ministry of Health and Medical Services
Ministry of Education and Human Resource Development
0%
10%
20%
30%
40%
50%

Fiscal tables for reference

Government Revenue

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	**1565**	**1611**	**2046**	**2668**	**2964**	**3316**	**3289**	**3636**	**3378**	**3797**	**4068**	**3633**	**3616**
Taxes	1230	1320	1592	2045	2282	2498	2521	2664	2637	2963	3280	2942	2656
Taxes on income, profits, and capital gains	*436*	*529*	*623*	*683*	*773*	*908*	*834*	*955*	*927*	*1064*	*1038*	*1006*	918
Taxes on property	*9*	*12*	*15*	*17*	*21*	*24*	*24*	*29*	*31*	*37*	*42*	*41*	42
Taxes on goods and services	*328*	*344*	*407*	*543*	*549*	*583*	*642*	*585*	*569*	*615*	*689*	*657*	605
Taxes on international trade and transactions	*457*	*436*	*547*	*802*	*939*	*983*	*1021*	*1094*	*1109*	*1248*	*1511*	*1237*	1090
Grants	**202**	**142**	**280**	**434**	**432**	**497**	**410**	**436**	**299**	**319**	**317**	**213**	**516**
Other revenue	**133**	**149**	**174**	**189**	**250**	**321**	**358**	**535**	**443**	**515**	**471**	**477**	**444**
							Percentage of total Revenue						
Revenue													
Taxes	**79%**	**82%**	**78%**	**77%**	**77%**	**75%**	**77%**	**73%**	**78%**	**78%**	**81%**	**81%**	**73%**
% of total tax													
Taxes on income, profits, and capital gains	*35%*	*40%*	*39%*	*33%*	*34%*	*36%*	*33%*	*36%*	*35%*	*36%*	*32%*	*34%*	*35%*
Taxes on property	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*2%*
Taxes on goods and services	*27%*	*26%*	*26%*	*27%*	*24%*	*23%*	*25%*	*22%*	*22%*	*21%*	*21%*	*22%*	*23%*
Taxes on international trade and transactions	*37%*	*33%*	*34%*	*39%*	*41%*	*39%*	*40%*	*41%*	*42%*	*42%*	*46%*	*42%*	*41%*
Grants	**13%**	**9%**	**14%**	**16%**	**15%**	**15%**	**12%**	**12%**	**9%**	**8%**	**8%**	**6%**	**14%**
Other revenue	**9%**	**9%**	**9%**	**7%**	**8%**	**10%**	**11%**	**15%**	**13%**	**14%**	**12%**	**13%**	**12%**

Government Expenditure

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Expense	**1417**	**1422**	**1605**	**2032**	**2208**	**2467**	**2573**	**2860**	**2848**	**3025**	**3221**	**3362**	**3497**
Compensation of employees	492	548	653	717	771	891	952	1067	1151	1248	1322	1393	1468
Use of goods and services	776	720	810	1059	1128	1100	1176	1198	1460	1580	1547	1644	1591
Interest	46	31	24	23	18	15	13	12	11	14	10	20	25
Subsidies	0	0	0	0	0	2	0	20	25	33	30	33	22
Grants	81	79	80	118	156	228	183	161	90	84	210	91	129
Social benefits	8	6	18	9	15	16	37	101	38	32	53	47	55
Other expense	15	39	20	107	120	215	210	302	72	35	48	133	208
Development	**41**	**49**	**30**	**137**	**355**	**542**	**551**	**795**	**876**	**877**	**656**	**473**	**607**
Fixed assets	39	48	26	134	343	533	541	756	864	856	638	458	578
Nonproduced assets	2	1	4	3	12	9	9	39	13	21	18	15	29
Expenditure	**1459**	**1471**	**1635**	**2169**	**2563**	**3009**	**3123**	**3655**	**3724**	**3902**	**3877**	**3834**	**4104**
Budget Deficit/Surplus	**106**	**140**	**411**	**499**	**401**	**307**	**166**	**-19**	**-346**	**-105**	**191**	**-202**	**-488**
					Percentage of Recurrent Expense								
Expense	**97%**	**97%**	**98%**	**94%**	**86%**	**82%**	**82%**	**78%**	**76%**	**78%**	**83%**	**88%**	**85%**
Compensation of employees	35%	39%	41%	35%	35%	36%	37%	37%	40%	41%	41%	41%	42%
Use of goods and services	55%	51%	50%	52%	51%	45%	46%	42%	51%	52%	48%	49%	45%
Interest	3%	2%	1%	1%	1%	1%	1%	0%	0%	0%	0%	1%	1%
Subsidies	0%	0%	0%	0%	0%	0%	0%	1%	1%	1%	1%	1%	1%
Grants	6%	6%	5%	6%	7%	9%	7%	6%	3%	3%	7%	3%	4%
Social benefits	1%	0%	1%	0%	1%	1%	1%	4%	1%	1%	2%	1%	2%
Other expense	1%	3%	1%	5%	5%	9%	8%	11%	3%	1%	1%	4%	6%
					Percentage of Development Spending								
Development	**3%**	**3%**	**2%**	**6%**	**14%**	**18%**	**18%**	**22%**	**24%**	**22%**	**17%**	**12%**	**15%**
Fixed assets	95%	98%	87%	98%	97%	98%	98%	95%	99%	98%	97%	97%	95%
Nonproduced assets	5%	2%	13%	2%	3%	2%	2%	5%	1%	2%	3%	3%	5%

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