

**REPUBLIC OF FIJI**

**ECONOMIC AND FISCAL UPDATE:  
SUPPLEMENT TO THE 2012 BUDGET ADDRESS**

*"Empowered Fijians and a Modern Economy"*



Ministry of Finance  
25 November 2011

## **FOREWORD**

The 2012 Supplement to the Budget Address provides an overview of Fiji's economic & financial performance and outlines Government's fiscal strategy for the medium term which focuses on fostering economic growth and achieving fiscal sustainability.

This report was compiled by the Ministry of Finance in consultation with relevant stakeholders from both the private and public sector. The update incorporates all the available economic and fiscal information as of November 2011.

The Economic and Fiscal Update spells out in more detail economic and financial policies underlying the 2012 Budget.



**Filimone Waqabaca**  
Permanent Secretary for Finance  
25 November 2011

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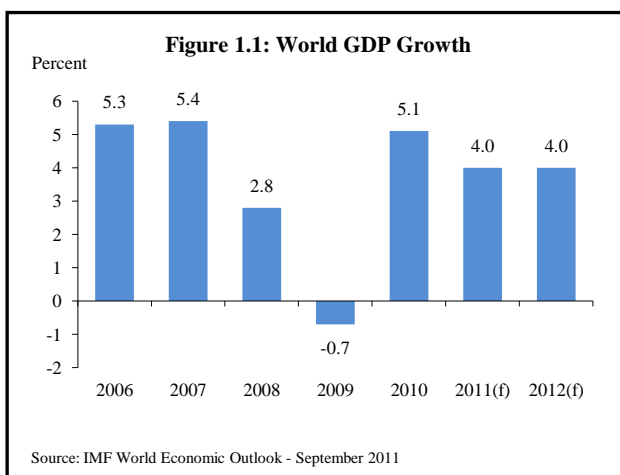
## CHAPTER 1: ECONOMIC PERFORMANCE AND OUTLOOK 2010-2014

### Introduction

- 1.1 This chapter provides an update on developments in the domestic economy against a backdrop of the current world economic outlook and economic prospects of Fiji's major trading partners.

### International Outlook

- 1.2 The global economic expansion has weakened amidst renewed financial instability in the Euro area and a slowdown in the United States (US) economy. The International Monetary Fund (IMF) recently revised the 2011 growth projection downwards to 4.0 percent, compared to a robust 5.1 percent expansion in 2010.
- 1.3 The combined effects of the tsunami in Japan, the oil price shocks emanating from the political crisis in the Middle East and North African (MENA) nations, spreading sovereign debt crisis in Europe, slow pickup in domestic demand in advanced economies, and inflationary pressures in key emerging economies underpinned the downward revision in global growth.
- 1.4 The uneven expansion in global activity is expected to widen further in 2011. The expansion in advanced economies is expected to slow to 1.6 percent from the 2.2 percent growth expected previously. Growth in emerging & developing economies (EDEs) is now expected to moderate to 6.4 percent this year, compared to the 6.6 percent expansion anticipated earlier. Inflationary pressures are expected to remain elevated in EDEs due to high food & energy prices and buoyant credit & asset price growth.



- 1.5 Downside risks to global growth prospects have also increased over the past quarter. These include fragile Government and banking sector balance sheets in advanced economies, weak and insufficient policy responses by authorities, vulnerabilities in EDEs, increased volatility in commodity prices and heightened geo-political tensions.

### **Fiji's Trading Partners**

- 1.6 In 2010, all our major trading partner economies recovered well following the global financial crisis. However, their expansion has slowed in 2011. Nonetheless, all of our major trading partner countries are expected to register positive growth this year, with the exception of Japan.
- 1.7 The Australian economy is projected to expand by 1.8 percent and 3.3 percent in 2011 and 2012, respectively. Recent economic indicators suggest that growth in Australia is becoming unstable as manufacturing and demand conditions have become subdued, due to the negative effects of the global slowdown and higher terms of trade as a result of a strong exchange rate.
- 1.8 Despite the earthquakes in 2010 and early this year, the New Zealand economy is expected to grow by 2.0 percent, led by reconstruction activity, a rebound in exports and increased tourism spending during the Rugby World Cup event. However, the slowdown in the global economy is expected to affect the exports sector via a reduction in commodity prices. Next year, the economy is envisaged to grow by 3.8 percent.
- 1.9 The US economy is expected to grow by 1.5 percent in 2011, after expanding by 3.0 percent in 2010. The slowdown this year is being led by lower confidence due to poor employment prospects, cutback in Government spending in light of mounting public debt and downward revision in credit ratings. In 2012, growth in the US is expected to expand by 1.8 percent.
- 1.10 The debt crisis has impacted growth prospects in the Euro-zone and has seen confidence plummet across the region. Policy initiatives by European authorities have so far been insufficient in containing the heightened financial and sovereign tensions. This year, the economy is expected to grow by 1.6 percent, while a slowdown to 1.1 percent is anticipated in 2012 due to the negative effects of Government austerity measures.

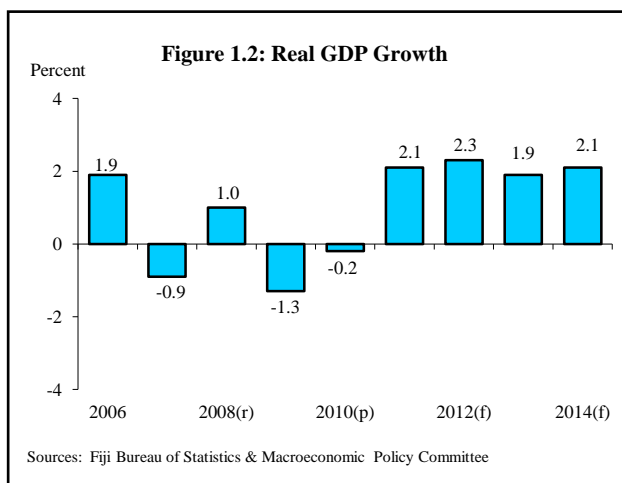
- 1.11 The Japanese economy is expected to contract by 0.5 percent as the earthquake, tsunami and the resulting nuclear disaster in March caused major supply-chain disruptions and curtailed the nation's trade and industrial output. However, a rebound in production and re-construction demand is expected to raise output from the third quarter of 2011. Re-construction spending is expected to see a rebound in growth to 2.3 percent in 2012.

### Domestic Outlook

- 1.12 The Fiji Bureau of Statistics (FBOS) recently released provisional Gross Domestic Product (GDP) data for 2010 and revised growth estimates for 2008 and 2009. In 2010, the domestic economy contracted by a marginal 0.2 percent, following a 1.3 percent contraction in 2009 and a 1.0 percent growth in 2008.

### Overview: 2011

- 1.13 The domestic economy is projected to grow by 2.1 percent this year, lower than the previous 2.7 percent growth projection in April. Growth in 2011 is expected to be driven by the agriculture, financial intermediation, transport, storage & communications, hotels & restaurants, real estate & business services, manufacturing, forestry, education, other community, social & personal service activities and the wholesale & retail sectors. In contrast, the public administration & defence, mining & quarrying, fishing, construction, health & social work and the electricity & water sectors are expected to contribute negatively towards overall growth.



- 1.14 Lower operational spending by Government underlies the contractions now envisaged for the public administration & defence and health & social work sectors. In addition, the contraction currently anticipated for the mining & quarrying sector is largely attributed to a substantial decline



in gold production up to September. Additional mining activities, particularly bauxite, have not been included in the current 2011 growth outlook.<sup>1</sup>

- 1.15 Recent industry data suggests lower-than-previously-envisaged output in the fisheries sector, due to the projected lower catches in the tuna for sashimi, canning and loining categories. Electricity production and consumption cumulative to September also fell on an annual basis by 4.6 percent and 2.5 percent respectively, contributing to the 1.0 percent contraction now projected for the electricity & water sector.
- 1.16 Broadly, the 2.1 percent growth this year is expected to be driven by the primary and service-oriented sectors. For primary industries, the agriculture sector is projected to drive growth this year, particularly non-cane crops, followed by livestock production and forestry. Strong growth in taro, fruit (particularly pawpaw) and vegetables underlie the positive contribution of the non-cane industry towards the 2011 growth outlook. Notably, cane production is envisaged to grow by 7.6 percent this year, after four consecutive years of contractions from 2007 to 2010.
- 1.17 In contrast, the anticipated contraction in the fisheries sector is expected to affect growth this year. Additionally, the delay in the completion of the Wairiki woodchip mill & port facilities underlies the lower-than-previously-anticipated growth projection for the forestry industry in 2011. In effect, the potential positive impact on pine production associated with the Wairiki facilities has been factored into the 2012 growth forecast.
- 1.18 For the services category, increased financial intermediation is expected to be a major contributor to this year's total output, followed by the hotels & restaurants and transport activities. The hotels & restaurants sector is expected to expand by 3.8 percent, driven by Tourism Fiji's projection of a 7.0 percent annual increase in visitor arrivals. In the first eight months of this year, visitor arrivals rose year-on-year by 8.4 percent.
- 1.19 The anticipated expansion in the transport sector is emanating from growth in the land transport, air transport and supporting & auxiliary services industries. Evidently, the projected growth in the air transport and supporting auxiliary services is attributed to higher visitor arrivals and increased cargo handling at the ports. In addition, the wholesale & retail sector is also envisaged to contribute positively, albeit marginally, towards the overall services category.

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<sup>1</sup> The Fiji Bureau of Statistics will include these mining activities from 2012, either within the current 2005 base or in a new GDP rebase to 2008.

- 1.20 As for industrial production, while sugar and certain non-food manufacturing categories are supporting the growth outlook for 2011, the contractions anticipated in the mining & quarrying, construction, clothing & footwear, other food industries and the electricity & water categories will have a negative impact on overall economic activity.

### **Overview: 2012**

- 1.21 For 2012, domestic economic growth is projected at 2.3 percent. This is expected to be largely underpinned by the manufacturing, agriculture, financial intermediation, real estate & business services, forestry, hotels & restaurants, fishing, mining & quarrying, construction, education, other community, social & personal service activities and the electricity & water sectors.
- 1.22 Looking at broad categories, the expected rebound in manufacturing activity, mining & quarrying and construction sectors, underpin the lead role that industrial activity is expected to play in 2012. The growth in non-cane agriculture, timber and fish production will increase activity in the natural resources sector. Pine and wood chip production is expected to increase once operations at the Wairiki woodchip mill and port commences in 2012.
- 1.23 The contractions expected for the communications, public administration & defence and health & social work sectors mean that the overall services category will provide less impetus towards growth in 2012, compared to 2011. Nevertheless, the hotels & restaurants sector is expected to perform better than expected, largely on account of the 703,000 tourists that are projected to visit Fiji in 2012.
- 1.24 Notably, the construction sector is predicted to grow by 3.7 percent next year, largely on account of an anticipated increase in public and private sector construction works, including the Housing Authority's Waila City and Nepani projects, the Public Rental Board projects (at Kalabu, Raiwaqa and Raiwai), the Lagilagi Housing project and the restoration work on the Grand Pacific Hotel.

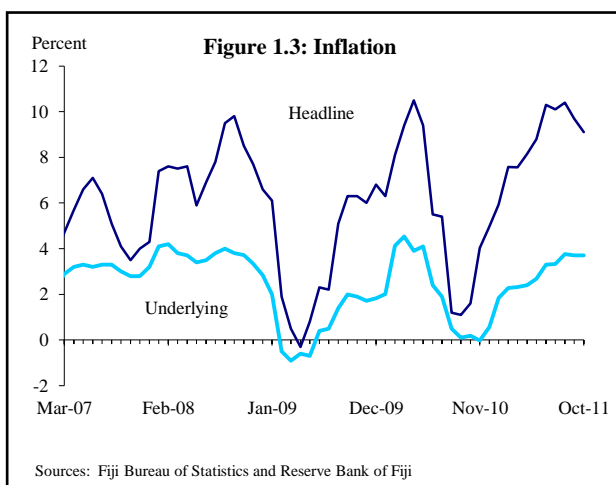
### **Overview: 2013 & 2014**

- 1.25 In 2013 and 2014, the economy is expected to grow by 1.9 percent and 2.1 percent, respectively.

- 1.26 Growth is expected to be broad based in 2013, with the exception of the public administration & defence and the health & social work sectors. The main drivers of economic activity are expected to be the agriculture, manufacturing and the financial intermediation sectors, while the wholesale & retail, hotels & restaurants, and the real estate & business services sectors are expected to contribute moderately to overall growth. Additionally, marginal contributions are envisaged from the forestry, fishing, mining & quarrying, transport, storage & communication, education, other community, social & personal service activities and the electricity & water sectors.
- 1.27 For 2014, economic growth is also expected to be broad based, with the exception of the public administration & defence, transport, storage & communication sector and the health & social work sectors. Increased activity in the agriculture, manufacturing, financial intermediation and mining & quarrying sectors is anticipated to drive economic activity in 2014.
- 1.28 Looking ahead, increased investment in our resource sectors, particularly mining, agriculture, forestry and fisheries should see Fiji's growth outlook improve in the medium-term.

## Inflation

- 1.29 Inflation peaked in April 2010 at 10.5 percent and stabilized to 5.0 percent at the end of the year. This compared with 6.8 percent in December 2009. Underlying inflation on the other hand, was 0.6 percent in December 2010 implying that movements in price levels were influenced mainly by one-off factors.



- 1.30 In October 2011, inflation was 9.1 percent. Prices rose across all categories on an annual basis, mainly reflecting the impact of the higher global commodity prices as well as the increase in the Value Added Tax

(VAT) rate to 15.0 percent and the electricity tariff rate restructure. Underlying inflation was recorded at 3.7 percent.

- 1.31 Inflation is expected to gradually subside to around 6.5 percent by year-end, largely underpinned by easing commodity prices, relatively weak global economic activity and weaker-than-expected domestic demand. The direct impact on inflation emanating from the electricity tariff rate restructure is also expected to subside.
- 1.32 In 2012, inflation is forecast at 3.5 percent, based on expectations of further easing in world crude oil and food prices, modest domestic economic growth and the weakening impact of the higher electricity tariff and VAT rate.
- 1.33 For 2013 and 2014, inflation is anticipated to subside to around 3.0 percent, based on the assumption of expected normalisation of food and oil prices.

### **Exports and Imports<sup>2</sup>**

- 1.34 In 2010, exports grew by 25.8 percent. The expansion was due to higher receipts from gold, fish, timber, mineral water and other domestic exports, which more-than-offset the decline in sugar and coconut oil. For 2011, exports are forecast to grow by 17.2 percent, based on anticipated higher earnings from re-exports, sugar, gold, molasses and timber.
- 1.35 Exports in 2012 are projected to grow by 3.1 percent. This is driven by higher earnings from re-exports, gold, timber, fish and other domestic exports. For 2013 and 2014, exports are forecast to grow by 8.9 percent and 3.6 percent, respectively. The strong performance in 2013 is expected to be broad based with increased earnings from all major exports categories. In 2014, increased export earnings from gold, timber, fruits & vegetables, mineral water, fish and other domestic exports is anticipated.
- 1.36 Imports grew by 22.9 percent in 2010. The growth was broad based and led mainly by higher payments for mineral fuels, chemicals, food & beverages, and manufactured goods.
- 1.37 In 2011, imports are expected to grow by 4.5 percent, largely underpinned by higher imports of machinery & transport equipment, food, mineral fuels, oils & fats and beverages & tobacco.

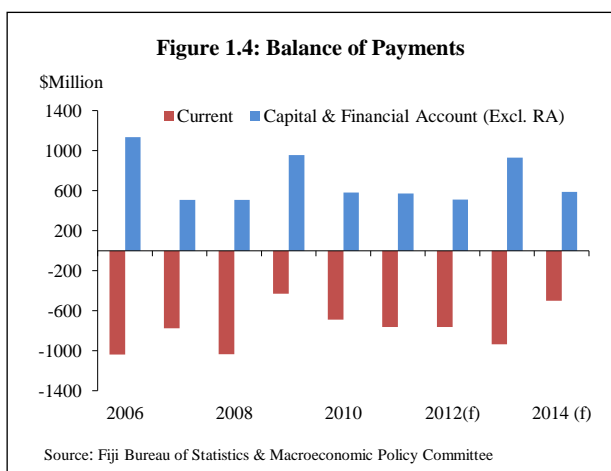
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<sup>2</sup> Excluding aircrafts.

- 1.38 Imports are now expected to rise by 3.0 percent in 2012. This is underpinned by higher imports of mineral fuel, food, chemicals and manufactured goods, which is expected to offset the decline in imports of machinery & transport equipment.
- 1.39 Imports are projected to grow by 4.6 percent and 1.8 percent in 2013 and 2014, respectively. Higher imports of food, mineral fuels and machinery & transport equipment are expected in 2013. The higher payment for food is attributed to the expected growth in tourism arrivals as well as higher inflation in our trading partners. In 2014, higher imports of mineral fuel, manufactured goods, chemicals and machinery & transport equipment are projected.

### Balance of Payments

- 1.40 The Current Account balance in 2010 widened to 11.2 percent of GDP. This is attributed to the deterioration in the Goods, Primary and Secondary Income Accounts, which more-than-offset the improvement in the Services Account. The balance in the Capital



& Financial Account (excluding reserves) fell to 9.5 percent of GDP, from 17.0 percent in 2009. However, there was an improvement in the overall balance as reserve assets increased by \$261.0 million. This was also a reflection of the high positive Errors & Omissions of \$365.0 million (equivalent to around 6.0 percent of GDP).

- 1.41 The Current Account balance is projected to widen further in 2011 due to the deterioration in the Primary Income Account, despite improvements in the Goods, Services and Secondary Income Accounts. However, as a percentage of GDP, the Current Account balance is expected to remain unchanged from 2010 levels. The balance in the Capital & Financial Account (excluding reserves) is expected to fall to 8.4 percent of GDP, largely due to the Government's repayment of the 2006 global bond and higher Other Investment Abroad. The overall balance is expected to improve by around \$303.0 million.

- 1.42 In 2012, the Current Account balance is projected to narrow to around 9.6 percent of GDP, underpinned by a higher surplus in the Services Account. The balance in the Capital & Financial Account (excluding reserves) is expected to fall to 7.1 percent of GDP, largely due to lower anticipated foreign borrowing by Government. The overall balance is expected to worsen by around \$180.0 million.
- 1.43 The Current Account balance is projected to widen in 2013 to around 11.6 percent of GDP, largely due to the deterioration in the Goods Account as a result of aircraft imports. The balance in the Capital & Financial Account (excluding reserves) is expected to rise to 12.3 percent of GDP, largely due to external borrowing by Air Pacific to finance its aircraft imports. Nonetheless, the overall balance is expected to improve by around \$55.0 million.
- 1.44 For 2014, the Current Account balance is projected to narrow to around 6.0 percent of GDP as a result of the improvements in the Goods and Services Account. The balance in the Capital & Financial Account (excluding reserves) is expected to fall to 7.4 percent of GDP, on account of lower Other Investments in Fiji. However, the overall balance is expected to improve by around \$80.0 million.

### **Monetary Policy**

- 1.45 Monetary Policy during 2011 continued to focus on safeguarding the twin objectives of low inflation and comfortable level of foreign reserves, while at the same time remaining accommodative towards growth.
- 1.46 Foreign reserves rose to a historic high level of \$1,651.7 million in August 2011. As at 31<sup>st</sup> October, foreign reserves holdings were around \$1,543.0 million, equivalent to 5.1 months of retained imports of goods and non-factor services.
- 1.47 Inflation slowed to 9.1 percent in October, after peaking at 10.4 percent in August, on account of the resurgence in oil and food prices in the first half of 2011.
- 1.48 In line with the accommodative monetary policy stance, the Reserve Bank reduced the Overnight Policy Rate (OPR) from 2.5 percent to 2.0 percent in February, followed by an additional reduction of 50 basis points in April to 1.5 percent. The OPR was further reduced by 100 basis points in November to 0.5 percent. The easing of monetary policy is expected to

create a low interest rate environment conducive to investment and growth.

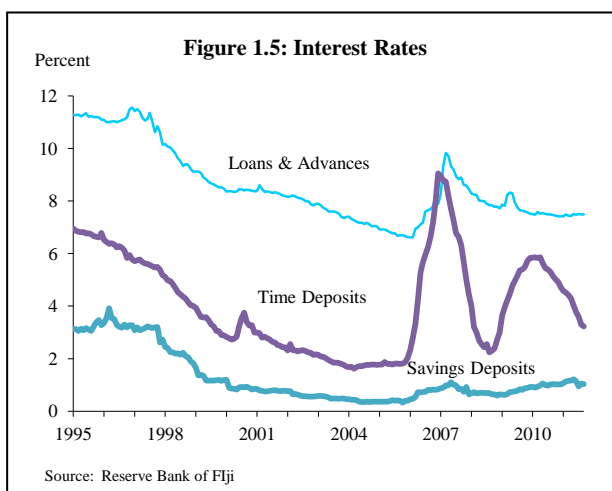
- 1.49 In addition, the Reserve Bank continues to engage in moral suasion by encouraging commercial banks to increase lending towards priority sectors in the economy. Following consultations with banks, a growth target of 10.0 percent of increased lending towards priority sectors was announced in July with a review to be undertaken in January 2012.
- 1.50 Looking ahead, the Reserve Bank will continue to closely monitor external and internal developments when assessing the domestic economic outlook and align policies accordingly to safeguard the twin objectives of monetary policy.

### Money and Credit

- 1.51 Growth in broad money (M2) accelerated further to 15.9 percent in September 2011, mainly supported by a further expansion in Net Foreign Assets (NFA). Growth in NFA rose due to higher foreign exchange earnings, weak import growth and Government's drawdown from the 2011 global bond issue.
- 1.52 However, domestic credit fell by 0.8 percent on an annual basis in September. This was on account of a significant decline in both claims on Government and claims on official entities, which was partly offset by a growth in private sector credit.

### Interest Rates

- 1.53 The high level of liquidity in the banking system continued to place downward pressure on commercial banks' deposit rates during the year to September 2011, when compared to the same period last year. The weighted average time deposit rate declined to 3.23 percent from 5.14 percent in September



2010, while the savings deposit rate remained unchanged at 1.04 percent. Similarly, money and capital market rates have all declined in September, when compared with the corresponding period last year.

- 1.54 However, the weighted average commercial bank outstanding lending rate rose by 2 basis points to 7.49 percent over the year in September. Interest rates are expected to remain low in the medium term in light of the excess liquidity in the banking system and the accommodative stance of the Reserve Bank.

### **Exchange Rates**

- 1.55 The Fiji dollar (FJD) appreciated over the year to October against the US dollar and the Euro by 5.7 percent and 4.2 percent, respectively. However, over the same period, the FJD depreciated against the Australian dollar by 3.4 percent, the New Zealand dollar by 2.8 percent and the Japanese Yen by 1.3 percent.
- 1.56 In October, the Nominal Effective Exchange Rate (NEER)<sup>3</sup> index recorded a marginal decline (0.3 percent) over the year, indicating an overall depreciation of the FJD against its major trading partner currencies.
- 1.57 The Real Effective Exchange Rate (REER)<sup>4</sup> index, however, rose on an annual basis by 5.2 percent in October 2011. The rise in the REER index indicates a loss in Fiji's international competitiveness against its major trading partners, mainly on account of the comparatively higher domestic prices.

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<sup>3</sup> The NEER is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weights in the basket. This index measures the overall movement of the Fiji dollar against the basket of currencies. An increase in this index indicates a slight appreciation of the Fiji dollar against the basket of currencies and vice versa.

<sup>4</sup> The REER index is the sum of each component of the NEER index, adjusted by the relative price differential between Fiji and each of Fiji's major trading partners. The index measures the competitiveness of the Fiji dollar against the basket of currencies. A decline in REER index indicates an improvement in Fiji's international competitiveness.



## CHAPTER 2: ROADMAP FOR DEMOCRACY AND SUSTAINABLE SOCIO -ECONOMIC DEVELOPMENT 2009-2014

### Introduction

- 2.1 This Chapter provides an overview of the “Roadmap for Democracy and Sustainable Socio-Economic Development 2009-2014”, progress of implementation thus far, and priority areas for 2012 and beyond.
- 2.2 The Roadmap provides an overarching framework for good governance, socio-economic development and national unity that will achieve Government’s vision of “*A Better Fiji for All*”. It encompasses various reforms and policies that are necessary for rebuilding Fiji into a non-racial, culturally vibrant & united, well governed and truly democratic nation that seeks progress and prosperity through merit-based equality of opportunity and peace.
- 2.3 The strategic priorities identified in the Roadmap are based on “*The Peoples Charter for Change, Peace and Progress*”, “*The Strategic Framework for Change*” and are aligned to the mandate handed down by His Excellency, the President in 2007.

### Implementation Progress

- 2.4 The implementation of the Roadmap is focused under three key themes, namely, Strengthening Good Governance, Economic Development and Socio-Cultural Development. Table 2.1 below provides an update on the progress of the implementation of the Roadmap in these key priority areas.

**Table 2.1 – Update on the Implementation of the RDSSED**

STRENGTHENING GOOD GOVERNANCE	ECONOMIC DEVELOPMENT	SOCIO-CULTURAL DEVELOPMENT
<p><b>Formulation of a New Constitution</b></p> <ul style="list-style-type: none"> <li>➤ Preliminary work has been undertaken to facilitate the formulation of the new Constitution.</li> <li>➤ Constitutional office will be set up in 2012.</li> </ul> <p><b>Electoral and Parliamentary Reform</b></p> <ul style="list-style-type: none"> <li>➤ Progressive work on</li> </ul>	<p><b>Maintaining Macroeconomic Stability</b></p> <ul style="list-style-type: none"> <li>➤ Balance of Payments position has improved significantly with marked increase in international reserves.</li> <li>➤ Deficit reduction plans is being implemented in order to reduce debt levels.</li> <li>➤ Continual focus on raising investment and inclusive</li> </ul>	<p><b>Reducing Poverty to a Negligible Level</b></p> <ul style="list-style-type: none"> <li>➤ Targeted social protection assistance continued in the form of family assistance allowance, food vouchers, bus fare subsidy and free text books for students.</li> </ul> <p><b>Making Fiji a Knowledge Based Society</b></p> <ul style="list-style-type: none"> <li>➤ Upgrading of schools and</li> </ul>

<b>STRENGTHENING GOOD GOVERNANCE</b>	<b>ECONOMIC DEVELOPMENT</b>	<b>SOCIO-CULTURAL DEVELOPMENT</b>
<p>electoral reforms to enable the conduct of elections in 2014.</p> <ul style="list-style-type: none"> <li>➤ Work progress includes registration awareness and establishment of voter registration centers.</li> <li>➤ Electronic Voter Registration will commence in 2012.</li> </ul> <p><b>Strengthening Law &amp; Justice</b></p> <ul style="list-style-type: none"> <li>➤ Reform of the Penal Code allows the prosecution of modern crimes.</li> <li>➤ Crimes Decree 2010 has provision to combat human trafficking.</li> <li>➤ The Legal Practitioners Decree 2009 and the establishment of a Legal Practitioners Unit augur well for ethical practices.</li> <li>➤ Adoption of the Domestic Violence Decree and Child Protection Services Decree.</li> <li>➤ Increased community policing, blue light programmes for schools, and Yellow Ribbon Project.</li> </ul> <p><b>Strengthening Accountability &amp; Transparency</b></p> <ul style="list-style-type: none"> <li>➤ Media Industry Development Decree will be implanted when conditions are conducive for the removal of Public Emergency Regulations.</li> <li>➤ The Fiji Independent Commission against Corruption is now fully operational.</li> </ul> <p><b>Ensuring Effective, Enlightened &amp; Accountable Leadership</b></p> <ul style="list-style-type: none"> <li>➤ Code of Conduct will be</li> </ul>	<p>growth.</p> <ul style="list-style-type: none"> <li>➤ Inflation driven mainly by external factors and is expected to moderate towards year end.</li> </ul> <p><b>Export Promotion / Import Substitution</b></p> <ul style="list-style-type: none"> <li>➤ More than 200 projects were implemented through the Demand Driven Approach (DDA) programme.</li> <li>➤ Facilitation of trade exhibition in Fiji and set up of new foreign missions.</li> </ul> <p><b>Making Land More Available for Productive &amp; Social Purposes.</b></p> <ul style="list-style-type: none"> <li>➤ The Land Use Bank has acquired land which is available for lease by investors.</li> <li>➤ Establishment of a National Land Register will strengthen monitoring of arable land.</li> <li>➤ A National Housing Policy is in place to assist in the provision of affordable housing.</li> </ul> <p><b>Enhancing Global Integration &amp; International Relations</b></p> <ul style="list-style-type: none"> <li>➤ Fiji has established new diplomatic relations with 18 countries and has recently joined the Non Aligned Movement (NAM).</li> <li>➤ Foreign missions inaugurated in Indonesia, Brazil and South Africa to promote trade and investment. Plans to set up missions in Korea and UAE in 2012.</li> <li>➤ Fiji hosted the Engaging with the Pacific Meet and</li> </ul>	<p>vocational training centers.</p> <ul style="list-style-type: none"> <li>➤ A new Assessment Framework has been implemented after the abolition of some external exams.</li> <li>➤ Continued provision of scholarships, free text books and bus fares.</li> </ul> <p><b>Improving Health Service Delivery</b></p> <ul style="list-style-type: none"> <li>➤ Strategies implemented to provide primary health services.</li> <li>➤ Non essential services are being outsourced.</li> <li>➤ Decentralising of health care services to rural and maritime areas.</li> <li>➤ A Child Health Policy has been developed.</li> <li>➤ Fiji has promulgated the HIV/AIDS Decree 2011.</li> </ul> <p><b>Developing a Common National Identity</b></p> <ul style="list-style-type: none"> <li>➤ The name of the country has been changed to Fiji.</li> <li>➤ Adoption of “Fijian” as a common name for all Fiji citizens with full recognition that the indigenous people are the iTaukei.</li> <li>➤ Strategies to promote shared national values and inter communal dialogue through education curriculum are being explored.</li> <li>➤ Schools with racially affiliated names have been changed to support multiculturalism.</li> </ul> <p><b>Developing an Integrated Development Structure at Divisional Level.</b></p> <ul style="list-style-type: none"> <li>➤ Rural and outer island</li> </ul>

<b>STRENGTHENING GOOD GOVERNANCE</b>	<b>ECONOMIC DEVELOPMENT</b>	<b>SOCIO-CULTURAL DEVELOPMENT</b>
<p>developed to promote a more visionary approach to leadership in Fiji.</p> <p><b>Enhancing Public Sector Efficiency, Effectiveness &amp; Service Delivery</b></p> <p>➤ The momentum of structural reforms to enhance efficiency in the public sector has progressed well. Further details in chapter 3.</p>	<p>the MSG Leaders meeting.</p>	<p>development has been strengthened through the Integrated Rural Development Framework (IRDF).</p> <p>➤ Establishment of Provincial and Divisional Development Boards.</p>

### **Key Focus Areas for 2012 and Beyond**

- 2.5 Work on the new Constitution that establishes a truly representative and transparent system of governance will commence by September 2012. A sum of \$450,000 has been allocated in the 2012 Budget. A Constitutional Office will also be established from next year.
- 2.6 Consultations with the various stakeholders on the drafting of the new Constitution will be extended beyond political parties. The process will include civil society, NGOs and the general public. Issues for discussion during consultations will include the size of the new parliament, the appropriateness of the bi-cameral system, the length of the term of office of a Government and the system of checks and balances.
- 2.7 The immediate focus will be in the development and adoption of a new electoral system. This will include provisions to ensure equal suffrage and equal opportunity for all voters regardless of race, gender or circumstance. A budgetary allocation of \$5.9 million is being provided to fund preparatory works for the general elections.
- 2.8 From 2012 to September 2014, Government will continue with its reform programmes in order to achieve the mandate of His Excellency the President and the Peoples Charter.

## CHAPTER 3: MEDIUM -TERM STRATEGY

### Introduction

- 3.1 Government's medium term fiscal strategy covers the three year period from 2012 to 2014 and is consistent with Government's key macro-economic targets as articulated in the People's Charter for Change, Peace and Progress and the Roadmap for Democracy and Sustainable Socio-Economic Development.
- 3.2 The medium term strategy aims to address some of the fundamental challenges that have impacted Fiji's economic performance in the recent past, which include:
- consistent low growth and investment levels;
  - slow implementation of structural reforms;
  - improving the efficiency and effectiveness of Government spending;
  - widening the revenue base;
  - debt sustainability, including management of contingent liabilities;
  - facilitating inclusive development; and
  - safeguarding against economic shocks.
- 3.3 In view of the emerging risks in the global economy, Government will take precautionary measures to ensure that both monetary and fiscal policy can respond effectively in the event of economic shocks.

### Medium Term Strategy

- 3.4 To this end, the fiscal strategy for the medium term aims to:
- i) Foster sustainable growth and investments; and
  - ii) Achieve fiscal sustainability.
- 3.5 *Sustainable Growth and Investments*: Government will commit resources to key sectors and industries that can generate quick returns over the short to medium term. At the same time, greater emphasis will be placed on fast-tracking key reforms to dismantle inherent bottlenecks and boost prospects for investments. In addition, Government will continue to provide the enabling infrastructure and environment to help generate new economic activity and investment.

- 3.6 *Fiscal sustainability*: Emerging global challenges such as the rising oil and commodity prices, natural disasters or adverse developments in economies of major trading partners could pose risks to the economy. Government must ensure that it is able to cushion the impact of such events.
- 3.7 With this in mind, Government over the medium term will continue to gradually reduce budget deficits which would in turn lower Government debt and provide the necessary fiscal space to safeguard the economy against adverse risks.

### **Key elements of a sustainable fiscal strategy**

- 3.8 The key elements of Government's medium-term fiscal strategy include:
- Achieving net deficits below 2.0 percent of GDP;
  - Maintaining both revenues and expenditures within the net deficit targets for the medium term;
  - Reducing debt as a share of GDP to a sustainable level;
  - Maintaining sound risk management practices;
  - Diverting resources to priority sectors to facilitate growth and investments;
  - Prioritising investment in infrastructure to support the delivery of Government services and foster economic & industry development; and
  - Improving the quality and effectiveness of expenditure.

### **Fiscal Targets**

- 3.9 The net deficit for the 2012 Budget is set at 1.9 percent of GDP, with revenue forecast at \$1,942.8 million and expenditure at \$2,077.9 million.

**Table 3.1: 2012 Fiscal Framework and Medium Term Targets**

	<b>2012 Budget (\$M)</b>	<b>2013 Target (\$M)</b>	<b>2014 Target (\$M)</b>
<b>Revenue:</b>	1,942.8	2,048.8	2,168.4
As a % of GDP	26.9	27.0	27.1
<b>Expenditure:</b>	2,077.9	2,162.6	2,288.4
As a % of GDP	28.8	28.5	28.6
<b>Net Deficit</b>	<b>135.1</b>	<b>113.8</b>	<b>120.0</b>
<b>As a % of GDP</b>	<b>1.9</b>	<b>1.5</b>	<b>1.5</b>
Debt	3,698.2	3,812.0	3,932.0
As a % of GDP	51.2	50.2	49.1
<b><i>GDP at Market Prices</i></b>	<b><i>7,223.7</i></b>	<b><i>7,588.1</i></b>	<b><i>8,001.4</i></b>

Source: Ministry of Finance

### Revenue Policy

- 3.10 The objectives of Government's revenue policies for the 2012 Budget are mainly to rejuvenate investments and reduce the cost of revenue collection. Also, an important part of revenue policy remains the recovery of arrears in the form of taxes, fees, fines and charges that are owed by corporate bodies and individuals. Debt recovery efforts by Fiji Revenue and Customs Authority (FRCA) and revenue collecting Government agencies will be strengthened in 2012.
- 3.11 In line with these broad policy goals, revenue measures in the 2012 Budget will focus on achieving the following objectives:
- support private sector investment, export development and value-adding activities with particular focus on resource-based sectors and industries;
  - strengthen compliance and simplify tax administration processes and procedures;
  - assist the private sector through timely processing and payment of VAT refunds; and
  - further review Government fees, fines and charges on cost recovery basis.
- 3.12 Chapter 10 highlights specific taxation and revenue policy measures of the 2012 Budget.

## **Expenditure Policy**

- 3.13 Government adopted a new approach for expenditure distribution in the 2012 Budget, which involved the allocation of expenditure ceilings or budget envelopes to each Ministry and/or Department. In determining the budget envelopes, consideration was given to the capacity and responsiveness of agencies to effectively implement budget programmes and activities.
- 3.14 This new approach has enabled prioritisation of funding to key sectors that contribute directly to national priorities. In this regard, expenditure in the 2012 Budget is directed towards programmes and activities that:
- create opportunities for growth, employment, income generation, facilitate investments and raise overall living standards;
  - provide essential services such as health, education and law & order;
  - provide basic infrastructure and utilities, mainly in isolated and economically depressed regions;
  - support the poor and underprivileged;
  - encourage self-help initiatives and SME development; and
  - support structural reforms.

## **Debt Policy**

- 3.15 Government's debt strategy for the medium term is focused on ensuring long-term sustainability of public debt through the adoption of prudent debt management strategies.
- 3.16 Government plans to reduce its total debt stock to sustainable levels over the medium term. To this end, the fiscal deficit will be gradually reduced in subsequent budgets and any issuance of new debt will be thoroughly assessed. This will reduce the need to borrow to finance the net deficit and enable the transfer of savings to finance capital expenditures or to repay debt.
- 3.17 Therefore, the objectives of Government's debt policy over the medium term are to:
- maintain a sustainable debt level in line with the broad macroeconomic conditions;
  - ensure that debt servicing costs are kept low and stable over time;
  - achieve optimum maturity structure of the debt portfolio;

- develop the domestic bond market with more focus on promoting transparency, secondary market trading, and investor diversification;
- minimise external debt exposure by strengthening risk assessment of foreign borrowings;
- pursue optimal financing mix; and
- manage contingencies<sup>5</sup> and the rate of default on loans of state-owned entities.

### **Structural Reforms**

3.18 Government will continue to pursue its programme for structural reforms in 2012. An update on the progress of structural reforms, as well as the focus for the medium term is provided in the ensuing paragraphs:

### **Civil Service Reforms**

3.19 Civil Service Reforms will continue in 2012 focusing on efficiency, productivity and capacity building. This is in line with the three key components of the civil service reform:

- (i) Human Resources Development;
- (ii) Productivity Management; and
- (iii) Organisational Management.

3.20 ***Human Resources Development:*** Government continues to provide in-house and external training to its workforce as part of human resources development. A total of 143 staff development courses have been conducted in 2011 which includes the outsourced training programmes and leadership trainings for the Senior Executive Services (SES). Service examinations continue to be facilitated and a total of 2,262 applicants have applied to sit for the exam this year.

3.21 In-Service sponsorships with local tertiary institutes have been allocated according to the National Priority Need Areas. In 2011, a total of 113 in-service scholarships were awarded, out of which 75 are new awards.

3.22 Pre-service scholarship is administered by the Public Service Commission (PSC), Multi Ethnic Affairs, and Ministry of iTaukei Affairs. For 2012, a sum of \$24.8 million has been allocated for local and overseas

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<sup>5</sup> Contingencies are debt owed by public enterprises, Government Commercial Companies and Commercial Statutory Authorities outside the central Government Budget system. Government is partially or wholly responsible for the settlement of these agencies debt should they default on the repayments of their loans.



scholarships, including leadership training. The number of fully funded overseas short-term trainings continues to increase.

- 3.23 As a new initiative, legislation is being developed for mandatory loan repayment to ease the recovery of loan from students that are sponsored under the student's loan scheme and PSC scholarships.
- 3.24 In line with the policy of outsourcing Government services, 5 training programmes were outsourced to external training providers this year and will continue in 2012.
- 3.25 **Productivity Management:** To promote productivity and efficiency in Government, awareness programmes on the Service Excellence Awards (SEA) will continue in 2012.
- 3.26 This year, a total of 30 agencies participated in the SEA. Participation from Government agencies and statutory authorities is expected to increase next year as the SEA process will become part of the Permanent Secretaries deliverables. The current SEA framework will also be reviewed in 2012.
- 3.27 **Service Charter:** The Service Charter is a written commitment by an agency to deliver outputs or services according to specified standards of quality. The introduction of Service Charters in all Ministries and Departments has been identified as a strategy for improving the quality of service in the Civil Service.
- 3.28 The Service Charter was launched in June this year and so far 15 ministries have developed their respective charters. In 2012, monitoring will be conducted on the implementation and adoption of service charters by agencies.
- 3.29 **Business Process Re-engineering (BPR):** To modernise the service, PSC in collaboration with the Information Technology and Computing Services (ITCS) will embark on business process re-engineering. Systems and processes will be reviewed and re-engineered to maximize the use of new technology and ICT solutions such as e-government and mobile network platforms. This is in line with the recommendations of Phase 1 of the Functional Review exercise which was conducted for the 5 large ministries.
- 3.30 **Organisational Management:** Government's mandate to reduce the number of staff establishment by 30 percent for the period 2009 – 2011

has been challenging. Ministries and Departments were encouraged to prioritise manpower needs by redeploying existing resources and trading off posts to avoid the creation of new positions. However, due to an influx of requests from Ministries/Departments for reinstatement of retiree positions, creation, extension, regularisation of project positions, and creation of new line positions– only a minor reduction was achieved.

- 3.31 *Functional Review Exercise:* This year, the first phase of the Review which targeted five large Ministries namely, Ministry of Education, Ministry of Health, Ministry of Works & Transport, Ministry of Public Utilities & Energy and the Ministry of Primary Industries was completed in April. The phased implementation of the outcome of the review exercise will be gradually implemented in 2012.
- 3.32 In 2012, five other ministries and departments namely, Ministry of iTaukei Affairs, Ministry of Provincial Development, Ministry of Finance, Ministry of Strategic Planning, National Development & Statistics and Department of Public Enterprises are earmarked for review. A sum of \$300,000 has been allocated for this purpose.
- 3.33 *Staff Establishment Audit:* The number of established positions for each Ministry and Department were uploaded to the payroll database to control payments for excess staff. The purpose of the audit is to provide an update on the status of the staff establishment and to closely monitor, evaluate and establish control measures, as well as develop a way forward for prudent management of the Staff Establishment. This exercise is jointly conducted with the Ministry of Finance.
- 3.34 *Office Accommodation:* An annual budget of \$22.8 million is provided for the rent of Government offices located in privately owned buildings. To realize cost savings and efficient use of Government funds, PSC will explore the possibility of accommodating Government offices in vacant Government quarters and premises, as well as ensure that rental payments are in line with market rates.
- 3.35 *Government Quarters:* In 2012, PSC will explore the viability of fully commercialising the management of Government quarters.

### **Public Enterprise Reforms**

- 3.36 Reform programmes for public enterprises focuses on improving service delivery, enhancing productivity and ensuring efficient and effective use of resources. The Department of Public Enterprise has mapped out

practical strategies for reforming the 21 corporate entities within its public enterprise portfolio. The progress of reforms for each entity is closely monitored to ensure that operations adopt corporate governance practices and internationally accepted standards.

- 3.37 *Fiji Maritime Safety Administration (FMSA)*: The establishment of the Maritime Safety Authority of Fiji (MSAF), as a Commercial Statutory Authority, is an essential part of reform within the maritime industry. The planned review of the Marine Act and other related legislations is essential for the harmonisation of all maritime laws and to ensure compliance with International Maritime Standards. The new Maritime Act should set the regulatory framework for monitoring maritime services which would in turn, enhance safety at sea and improve the efficiency of shipping services. Major achievements under the MSAF reorganisation include the establishment of the entity's organisational structure, and the appointment of the Chief Executive Officer and senior management who will be working with the Board of Directors to develop corporate strategies for the new entity.
- 3.38 *Fiji Meteorological Office*: The organisational structure for the Fiji Meteorological Office is currently being reviewed to determine the optimum human resource capacity required to provide meteorological services to the nation and the region. The review will also investigate the Office's adherence to World Meteorological Organisation standards.
- 3.39 *Department of Quarantine*: The Biosecurity Authority of Fiji (BAF) was established under the Biosecurity Promulgation in December 2008. This year saw the appointment of the Chief Executive Officer and senior management staff, as well as the introduction of new fees for quarantine services. The reorganisation will bring about general improvements to quarantine services and ensure compliance with international practices and standards. This should improve market access for commodity exports to overseas markets.
- 3.40 *Fiji Broadcasting Corporation (FBC) Ltd*: An extensive infrastructure upgrade was undertaken to remodel FBC House and establish a new television station as well as upgrade all its radio and television transmitters countrywide. FBC's investment in state-of-the-art communication technology will ensure that all Fijians have access to radio and television services, including those communities living in isolated regions. The new television station commenced broadcasting in November 2011.

- 3.41 *Fiji Electricity Authority (FEA)*: The restructure of the FEA will involve the separation of FEA's regulatory functions from its commercial arm. Deregulation of the energy sector will require the review of the Electricity Act and the conversion of FEA into a newly established commercial entity with both public and private ownership. Deregulation will promote competition and ensure the provision of efficient and affordable energy services to the general public.
- 3.42 Construction of the Nadarivatu Hydro Dam is expected to be completed in the first quarter of 2012. The new dam will complement the existing Monasavu dam and provide hydro-power to 80 percent of the nation, thus reducing the use of diesel-powered generators, and increasing investor interest in the sector.
- 3.43 *Fiji Hardwood Corporation Ltd*: The implementation of the Mahogany Industry Development Decree is being pursued under the guidance of the Mahogany Council. In June 2011, an inaugural log supply licence was issued to Sustainable Mahogany Industries Ltd with plans to further develop value added products in Fiji.
- 3.44 *Fiji Meat Industry Board (FMIB)*: Private sector participation is being sought for the purchase, management and expansion of value added abattoir products and services in Fiji.
- 3.45 *Housing Authority and Public Rental Board*: The feasibility of merging the two entities is being reviewed and implementation will proceed thereafter. The merger is expected to bring about significant synergies between the two entities which should result in an effective and efficient organisation.
- 3.46 *Post Fiji Ltd (PFL)*: Government is seeking private sector participation for the control and management of PFL services in Fiji.

### **Financial Management Reforms**

- 3.47 As part of ongoing efforts to move towards accrual accounting in 2015, Government will continue to work on improving its financial reporting, through the phased adoption of the cash basis International Public Sector Accounting Standards (IPSAS) in 2012. Implementation of the cash basis IPSAS will ensure that Government accounting processes and systems are on par with international standards.

- 3.48 The first cash basis IPSAS compliant Whole of Government Financial Statement has been prepared using the 2009 accounts and is awaiting finalisation by the Office of the Auditor General. Upon finalisation, Government will adopt this in preparing all future financial statements.
- 3.49 As part of the financial reform capacity building program, scholarships will be offered to Government officials to pursue accounting studies in local tertiary institutions from next year. Such training and up-skilling will ensure that the necessary skills are available within Government not only for a successful implementation of accrual accounting, but also to ensure its long-term sustainability.
- 3.50 *Centralisation of Payments at Whole of Government:* To enhance financial reporting, the Ministry of Finance is considering centralisation of payments for whole of Government. Whilst Ministries and Departments will continue to process Local Purchase Orders (LPOs), the actual payment of goods and services will be centralised at the Ministry of Finance. Government currently operates approximately 60 Drawings Accounts from which Ministries and Departments draw cheques.
- 3.51 This new arrangement will reduce the cost of printing cheques and better manage payments for all goods and services. In addition, the Ministry of Finance will also be able to control the high level of unrepresented cheque balances at the end of the year and ensure that bank reconciliations are updated on time. As a first step, the Ministry of Finance has adopted the Electronic Funds Transfer (EFT), as a mode of payment to its suppliers.
- 3.52 *Proposed Activities for 2012:* To further improve the effectiveness of Government's overall accounting system, the following activities are earmarked for 2012:
- To prepare the IPSAS compliant Whole of Government Financial Statements for future years;
  - Implementation of new National Standards for Cash Accounting across Government;
  - Continuation of FMR and FMIS training and capacity building programs; and
  - Continuation of Implementation of the Centralisation of Payments at Whole of Government.

## Land Reforms

- 3.53 The objective of the land reform programme is to open up access to land for development purpose, provide security of tenure and ensure equitable returns to land owners. This has been made possible through the promulgation of the Land Use Decree in 2010. The Land Bank initiative provides security of tenure to tenants by offering long-term leases of up to 99 years. It also provides landowners the opportunity to receive fair returns on land rentals at a maximum rate of 10.0 percent of the market value.
- 3.54 The Land Use Unit monitors leases issued under the Land Use Decree to ensure both lessees and lessors adhere to the terms and conditions of leases. Monitoring of leases is done in conjunction with other stakeholder agencies such as the Department of Agriculture and the Ministry of Local Government to ensure a holistic approach towards land development and investments.
- 3.55 Leasing under the Land Bank encompasses both native and state land but excludes freehold land. Landowning units can voluntarily lease their land to Government through the Land Bank, which then seeks potential investors to develop the land based on its optimal use. Registration of land in the Land Bank requires the consent of at least 60.0 percent of the members of the *mataqali* or landowning unit.
- 3.56 The Land Bank initiative has received favorable response from both landowners and potential investors this year. Designated lands span across various locations around the country and are available for various purposes including agriculture, tourism, beef farming and agro-forestry. A total of 7 leases have been issued to investors through the land bank. Two of these leases were issued to Aurum Exploration Fiji Limited (Bauxite mining in Bua) and Tengy Investment Limited (Cement factory in Lami).
- 3.57 Government will continue to promote the use of the Land Bank in 2012 through awareness programmes in villages and communities, and by facilitating infrastructure development in designated locations. Furthermore, the Department of Lands will be adequately resourced to cater for the increasing demand for Land Bank registration. A sum of \$6.0 million is allocated in the 2012 Budget to fund the land reform programme.

## **Sugar Industry Reforms**

- 3.58 Critical reforms are being pursued across various facets of the Sugar Industry. These reforms encompass institutional arrangements, cane production, harvesting and transport systems, as well as milling operations. The Sugar Taskforce Team is collaborating closely with the Fiji Sugar Corporation (FSC) and other stakeholders on the implementation of the sugar industry reform plan. The main focus of the plan is to turn the industry around into a viable and vibrant commercial entity within two to three years.
- 3.59 Approximately \$110.0 million was allocated in the 2011 Budget to support FSC and the Sugar Industry as a whole. Funds were used mostly to pay for FSC's maturing debt whilst the remainder was utilised as working capital. The FSC also undertook critical upgrading and maintenance works on all four sugar mills earlier this year. This resulted in a reduction in mill stoppages and improved overall crushing levels. FSC is expecting to crush around 2.0 million tonnes of sugar cane next year.
- 3.60 To reinforce current reform efforts, Government created a new Ministry for Sugar in June this year to be solely dedicated to spearheading the Sugar Industry Reform Programme. The Ministry will closely coordinate with all stakeholders to push forward the restructure of FSC and delve deeper into reforms at farm level.
- 3.61 An immediate reform task for 2012 is the review of FSC's organisational structure. This review should set the direction for re-organising FSC into a lean, efficient and cost-effective entity. Ultimately, the restructure should bring about significant cost-savings for FSC and Government, thus setting a solid platform for reforms to continue over the next few years. A sum of \$40.9 million is provided to FSC in the 2012 Budget.

## **Financial Sector Reforms**

- 3.62 As supervisor to all licensed financial institutions, including capital markets and the Fiji National Provident Fund (FNPF), the Reserve Bank, continues to ensure that appropriate financial supervision policies are in place to support a sound financial structure and safeguard the domestic financial system.
- 3.63 The revised Accountability and Disclosure Guidelines on Interest Rates, Fees and Charges for Banks and Insurance Supervision Policy on

Minimum Requirements for the Role of Insurance Actuaries in Fiji were finalised in 2011. Policies that are currently either in draft form or undergoing industry consultation include:

- Accountability and Disclosure Guidelines on Interest Rates;
- Fees and Charges for Credit Institutions;
- Anti Money Laundering requirements for Banks and Credit Institutions;
- Review of the Policy on Large Exposures for Banks and Credit Institutions; and
- Key Disclosure Requirements for Licensed Insurers.

- 3.64 *Financial Systems Development:* Microfinance has become increasingly recognised as a vital part of the financial system. In 2010 and 2011, the Reserve Bank partnered with financial sector stakeholders and organised microfinance expositions around the country to publicise financial services and available financing facilities.
- 3.65 The Financial Inclusion agenda driven by the National Financial Inclusion Taskforce (NFIT) aims to extend financial services to 150,000 unbanked people in Fiji by 2015.
- 3.66 The Reserve Bank, through the NFIT and technical assistance from the Pacific Financial Inclusion Program's, has embarked on a three year project aimed at introducing financial literacy in the Fiji school curriculum, from Class 1 to Form 6 by 2013.
- 3.67 *Capital Markets Development:* Fiji's capital markets continue to lack the depth and width necessary for a vibrant and effective capital markets. As the regulator and policy maker, the Reserve Bank in partnership with other relevant Government agencies is working towards strategies and programmes that will increase the number of investors, issuers and products in the capital markets. To this end, an inter-agency committee has been set-up to address these issues.
- 3.68 *Superannuation:* The reform of the FNPf continued in 2011 with the drafting of the proposed Retirement Savings Decree to replace the current FNPf Act. This is in line with a comprehensive investment rehabilitation programme, and an overhaul of the Fund's information system and other key processes and procedures.
- 3.69 Long-term sustainability continues to be one of the major issues faced by the Fund. Actuarial valuations conducted in 2010 and 2011 have



provided a basis of re-calculating the annuity rates to be paid to ensure the long-term sustainability of the Fund. Changes to the current annuity rates are being proposed in the new legislation to be approved in 2011.

- 3.70 The investment rehabilitation programme initiated in 2010 has been instrumental in the turnaround noted in the performance of Natadola Bay Resort Limited (NBRL) resulting in a write-back of \$29.5 million in the Fund's financial accounts this year. The Fund has also made a conscious decision of maintaining its stake in the Momi Bay Project, with the intention to complete the project and appoint a hotel operator.
- 3.71 In view of the systemic importance of the institution, RBF has closely monitored the Fund this year, as part of its off-site supervision. The Reserve Bank and the Fund conducted monthly prudential consultations, with major developments in the Fund reported to the Reserve Bank Board. The Reserve Bank is scheduled to conduct an on-site examination of the FNPF before the end of 2011.
- 3.72 Plans to explore the possibility of deregulating the superannuation industry, as a component of financial sector reform, including moves to put in place separate superannuation legislation are still currently under review.
- 3.73 As part of its responsibilities under the Insurance (Amendment) Act 2003, the Reserve Bank continues to conduct routine and targeted onsite and offsite examinations, as part of a risk-based supervisory framework for the FNPF.
- 3.74 *Small and Medium Enterprise Credit Guarantee Scheme:* To promote both SME and economic growth, Government will establish a Small and Medium Enterprise Credit Guarantee Scheme (SMECGS) in 2012. The Scheme will be managed by the Reserve Bank and is expected to improve private sector lending to SMEs.
- 3.75 *Export Assistance and Import Substitution:* In November 2010, the Reserve Bank of Fiji extended the eligibility list on its Import Substitution and Export Finance Facility to include renewable energy for import substitution funding. Over 50.0 percent of the \$40.0 million Facility has been utilised to date. The Reserve Bank will continue to work closely with stakeholders to enable more businesses to benefit from this Facility.
- 3.76 *Export Proceeds Monitoring:* The Reserve Bank's Export Proceeds Monitoring Unit (EPMU) works to ensure that all export proceeds are

repatriated to Fiji as required under the Exchange Control Act. Since its inception in 2010, the EPMU has reconciled \$1.3 billion of an initial \$1.4 billion in un-reconciled export proceeds.

- 3.77 In addition to the above, the Reserve Bank in partnership with the FRCA, has sought technical assistance to develop transfer pricing legislation and policies. The collaborative effort will assist in ensuring that export proceeds are properly repatriated back into the country to support our balance of payments position.
- 3.78 *Exchange Control:* The Reserve Bank has reviewed exchange controls in light of the healthy level of foreign reserves (Table 10 of Appendices). Increases in delegated limits on foreign currency payments will come into effect from January 2012. These changes are expected to attract foreign investment and promote growth.
- 3.79 *Financial Intelligence Unit & Anti-Money Laundering Measures:* The FIU is responsible for formulating, implementing and enforcing measures to protect Fiji's financial system from money laundering and other financial fraud activities.
- 3.80 Since its establishment, the FIU has introduced a number of important measures to further strengthen Fiji's anti-money laundering framework. These measures include:
- the full implementation of the Financial Transactions Reporting (FTR) Act and Regulations;
  - an enhanced intelligence development framework with networking in relation to the on-going Suspicious Transaction Reporting requirements;
  - strong national coordination between relevant agencies ,driven by the National Anti-Money Laundering Council; and
  - strong networking with foreign counterparts through the signing of various bilateral information sharing arrangements.
- 3.81 In 2012, the FIU plans to further improve financial institutions' compliance with the requirements of the FTR Act and to work with the Reserve Bank in supervising and enforcing compliance of financial institutions with the FTR Act.
- 3.82 The FIU also plans to work towards further enhancing national coordination between Government agencies. A key component of this is to work with stakeholder law enforcement agencies to improve the

effectiveness of the investigation and prosecution of money laundering related financial fraud offences. Efforts will also be made to engage further with foreign counterparts through the establishment of formal arrangements for exchanging information and technical assistance.

- 3.83 The FIU will also continue to contribute to anti-money laundering efforts and programs at a regional and international level to ensure that Fiji is complying with relevant international standards.

## CHAPTER 4: GOVERNMENT'S FISCAL POSITION

### Introduction

- 4.1 This chapter discusses Government's fiscal position for 2010, the expected fiscal outturn for 2011 and the projected fiscal performance for 2012. The chapter begins with an overview of the 2010 and 2011 Budgets, before discussing the main components of the 2012 Budget.

### 2010 Revised Budget

- 4.2 '*Strengthening the Foundation for Economic Growth and Prosperity*' was the theme of the 2010 Revised Budget. With a net deficit target of 3.5 percent of GDP, the 2010 Budget was focused on mitigating the impact of the global financial crisis and maintaining macroeconomic stability.
- 4.3 Total Government expenditure (excluding principal payments) for 2010 stood at \$1,668.7<sup>6</sup> million whilst, total revenue amounted to \$1,537.8<sup>7</sup> million. Consequently, a net deficit of \$130.8 million or 2.1 percent of GDP was posted in 2010.

### 2011 Budget

- 4.4 With a theme of "*Enhancing Economic Growth and Inclusive Development*", the 2011 Budget aims to stimulate investment and growth across all spectrums of the economy.
- 4.5 The net deficit target for the 2011 Budget was set at \$216.0 million or 3.5 percent of GDP<sup>8</sup>. This projection is based on total expenditure of \$1,961.7 million (VAT incl.) and total revenue of \$1,745.7 million.
- 4.6 Aggregate revenue for 2011 has been revised downward to \$1,723.6 million (VAT incl.) whilst expenditure (excluding principal repayments) is expected to remain at budget level of \$1,961.7 million (VAT incl.). The lower than expected outturn for revenue is due to the delay in sale of Government assets worth \$40.2 million.
- 4.7 Based on these adjustments, the net deficit for 2011 is now expected to increase slightly to \$238.1 million. Despite this increase, the net deficit as a proportion of GDP<sup>9</sup> will remain at 3.5 percent.

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<sup>6</sup> VAT Inclusive.

<sup>7</sup> VAT Inclusive.

<sup>8</sup> 2011 Nominal GDP forecast of \$6,177.3 million as at November 2010.

<sup>9</sup> Revised 2011 Nominal GDP of \$6,835.6 million as at November 2011.

## 2012 Budget

- 4.8 Table 4.1 below summarises Government's cashflow position for the period 2010-2012. The net cashflow position is the difference between total revenue and total expenditure. The table also illustrates the net financial outturn for both operating and investing activities.

**Table 4.1 Statement of Cash-flows, 2010-2012**

	2010	2011(R)	2012(B)
<b>Receipts</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Direct Taxes</b>	426.3	451.4	<b>477.4</b>
<b>Indirect Taxes (excl. Govt. VAT)</b>	828.5	1,040.8	<b>1,190.7</b>
<i>VAT</i>	<i>447.0</i>	<i>548.1</i>	<i>608.1</i>
<i>Customs</i>	<i>350.4</i>	<i>345.4</i>	<i>366.7</i>
<i>Service Turnover Tax</i>	<i>30.6</i>	<i>37.5</i>	<i>57.0</i>
<i>Water Resource Tax</i>	<i>0.5</i>	<i>34.8</i>	<i>37.8</i>
<i>Departure Tax</i>	<i>0.0</i>	<i>62.0</i>	<i>94.1</i>
<i>Stamp Duty</i>	<i>0.0</i>	<i>12.3</i>	<i>17.7</i>
<i>Fish Levy</i>	<i>0.0</i>	<i>0.7</i>	<i>2.3</i>
<i>Telecommunication Levy</i>	<i>0.0</i>	<i>0.0</i>	<i>2.0</i>
<i>Credit Card Levy</i>	<i>0.0</i>	<i>0.0</i>	<i>3.0</i>
<i>Third Party Insurance Levy</i>	<i>0.0</i>	<i>0.0</i>	<i>2.0</i>
<b>Fees, Fines &amp; Charges</b>	138.9	93.5	<b>87.5</b>
<b>Sales Revenue</b>	0.05	0.3	<b>0.0</b>
<b>Grants in Aid</b>	8.9	7.7	<b>18.0</b>
<b>Dividends from Investments</b>	29.3	29.2	<b>27.4</b>
<b>Reimbursement &amp; Recoveries</b>	8.7	12.7	<b>13.0</b>
<b>Other Revenue &amp; Surpluses</b>	48.1	36.1	<b>31.9</b>
<b>Total Operating Receipts</b>	<b>1,488.6</b>	<b>1,671.7</b>	<b>1,845.9</b>
<b>Payments</b>			
Personnel	564.1	566.8	<b>594.0</b>
Transfer Payments	296.3	335.1	<b>352.8</b>
Supplies and Consumables	144.0	163.6	<b>184.5</b>
Purchase of Outputs	51.9	48.3	<b>62.8</b>
Interest	213.6	270.4	<b>263.1</b>
Other Operating Payments	10.3	8.4	<b>5.2</b>
<b>Total Operating Payments</b>	<b>1,280.3</b>	<b>1,392.6</b>	<b>1,462.4</b>
<b>Net Cashflows from Operating Activities</b>	<b>208.3</b>	<b>279.1</b>	<b>383.5</b>
As a % of GDP	<i>3.4%</i>	<i>4.1%</i>	<i>5.3%</i>
<b>Receipts</b>			
Sale of Government Assets	0.0	0.2	<b>34.9</b>
Interest from Bank Balance	0.5	0.4	<b>0.4</b>
Interest on Term Loans and Advances	0.0	0.0	<b>0.5</b>

	<b>2010</b>	<b>2011(R)</b>	<b>2012(B)</b>
Return of Surplus Capital from Investment	0.0	0.0	<b>0.0</b>
<b>Total Investing Receipts</b>	0.5	0.6	<b>35.8</b>
<b>Payments</b>			
Loans	2.6	1.0	<b>1.0</b>
Transfer Payments	174.1	304.4	<b>269.7</b>
Purchase of Physical Non-Current Assets	163.0	212.4	<b>283.7</b>
<b>Total Investing Payments</b>	339.7	517.8	<b>554.4</b>
<b>Net Cashflows from Investing Activities</b>	(339.2)	(517.2)	<b>(518.6)</b>
<b>As % of GDP</b>	-5.6%	-7.6%	<b>-7.2%</b>
<b>Net (Deficit)/Surplus</b>	(130.8)	(238.1)	<b>(135.1)</b>
<b>As % of GDP</b>	-2.1%	-3.5%	<b>-1.9%</b>

Note: The 2010, 2011 and 2012 fiscal targets in this table will not match with comparable figures in the other tables or Budget documents.

Source: Ministry of Finance

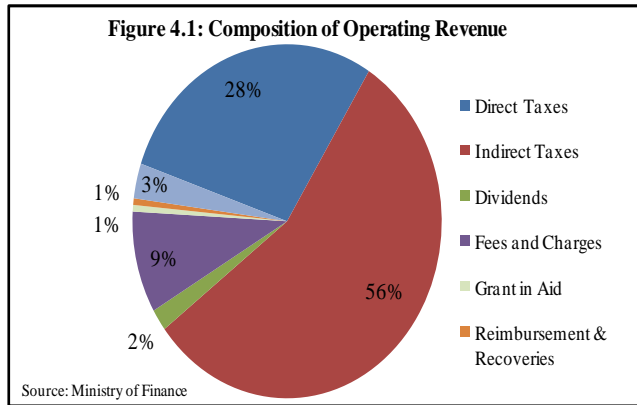
- 4.9 Table 4.1 above, shows the actual cashflow outturn for 2010, which was derived from the 2010 Accounts and Finance Report. The cashflow projection for 2011 shows revised revenue figures based on actual collections up to October 2011, as well as previous years revenue performances. Expenditure, on the other hand, had been maintained at budgeted levels.
- 4.10 Revenue projections for 2012 take into account the impact of economic growth and new policy measures on total revenue collections. Expenditure projections are based on allocations in the 2012 Budget.

### **Operating Receipts**

- 4.11 Government's operating revenues are made up of the following major components:
- Direct Taxes (Corporate Taxes, PAYE, Dividend Withholding Tax, Capital Gains Tax and Others);
  - Indirect Taxes (VAT & Customs Duties);
  - Service Turnover Tax;
  - Water Resource Tax;
  - Departure Tax;
  - Stamp Duty;
  - Fees, Fines, Charges & Penalties;
  - Sales Revenue;
  - Dividend from Investments;

- Grants in Aid;
- Reimbursement & Recoveries; and
- Other Revenue and Surpluses.

4.12 Figure 4.1 shows the composition of operating revenue in 2010. Indirect taxes contribute largest share of revenues at 55.7 percent of total operating revenues, followed by direct taxes which contribute around 28.6 percent. Other non-tax



revenues such as: fees, fines, charges and penalties; dividends from investment; grants in aid; reimbursement and recoveries; and other revenue and surpluses, make up the remaining balance of 15.7.

### **Direct Taxes**

4.13 Direct taxes comprise of corporate tax, PAYE tax, dividend withholding tax, capital gains tax and other minor taxes.

4.14 The revised forecast for direct tax in 2011 stands at \$451.4 million or 5.9 percent above the 2010 outturn of \$426.3 million. This positive performance is attributed to higher receipts expected from Corporate and PAYE taxes.

4.15 In 2012, direct taxes are estimated to total \$477.4 million, \$26.0 million or 5.8 percent above this year's collections. The increase is largely due to higher collections anticipated in corporate taxes. Although the corporate tax rate will be reduced from 28.0 percent to 20.0 percent in the 2012 Budget, its full impact will not be realised until 2013.

### **Indirect Taxes**

4.16 Indirect taxes comprise of VAT collections, Service Turnover Tax, Water Resource Tax, Departure Tax, Stamp Duties, Fish Levy Fees and revenue from Customs Duties comprising of fiscal, excise, import & local excise, export duties and miscellaneous customs fees and charges.

- 4.17 The revised forecast for indirect tax collections in 2011 is expected to exceed collections in 2010 by \$212.3 million or 25.6 percent. Collections in 2012 are projected at \$1,190.7 million, an increase of \$149.9 million over the 2011 forecast.
- 4.18 VAT receipts for 2010 amounted to \$447.0 million and collections for 2011 are expected to reach \$548.1 million. The increase is largely due to the upward revision in the VAT rate in the 2011 Budget, from 12.5 percent to 15.0 percent.
- 4.19 In 2012, VAT collections are expected to surpass 2011 receipts by \$60.0 million or 11.0 percent. The optimistic VAT outturn for 2012 emanates from an expected increase in consumption spending due to the reduction in the PAYE tax rates and the 3.0 percent salary adjustment for civil servants.
- 4.20 Total customs duty receipts accumulated to \$350.4 million in 2010. For 2011, receipts are expected to reduce to \$345.4 million due to an increase in customs tariff concessions. A large part of these concessions are related to large infrastructure projects and new business investments. The projected collection for 2012 is \$366.7 million, \$21.3 million above the revised forecast for 2011.
- 4.21 2010 collections for each category of customs duties are shown below:
- Fiscal Duty (\$238.2 million);
  - Excise Dues (\$80.9 million);
  - Export Duty (\$9.5 million);
  - Import Excise Duty (\$20.2 million); and
  - Miscellaneous Fees (\$4.7 million).
- 4.22 In 2011, fiscal duty is projected at \$234.5 million whilst the forecast for 2012 is set at \$247.3 million.
- 4.23 Excise dues in 2012 are anticipated to amount to \$80.4 million, a slight increase from the expected outturn of \$75.6 million, this year. Excise duties are levied mainly on “sin goods” such as cigarettes and alcohol.
- 4.24 For import excise duty, collections are anticipated to accumulate to \$22.7 million in 2011, followed by a marginal increase to \$23.6 million in 2012. This category of customs duty is charged mainly on luxury and white goods (home appliances etc).



- 4.25 Export duty receipts are estimated to amount to \$6.0 million in 2011, whilst the forecast for 2012 is \$6.4 million. Collections for 2012 are expected to be driven by the anticipated increase in exports of gold and other minerals.
- 4.26 2010 receipts for other categories of indirect taxes are shown below:
- Hotel Turnover Tax (\$30.6 million);
  - Departure Tax (\$40.0 million); and
  - Water Resource Tax (\$0.5 million);
- 4.27 Hotel Turnover Tax (HTT) receipts in 2011 are anticipated to surpass the 2010 outturn by \$6.9 million. This is largely attributed to the buoyant growth in visitor arrivals and higher hotel occupancy levels.
- 4.28 In 2012, HTT will be renamed Service Turnover Tax (STT) and will be expanded to capture other tourism related services such as:
- rental car operators;
  - in-bound tour operators;
  - events management operators;
  - recreation, entertainment and cinema operators;
  - bars and night-clubs;
  - bistros, coffee shops & restaurants with annual gross turnover of \$1.5 million and above;
  - All water sports, underwater activities, skydiving, hot air balloon rides, river safaris, aircraft rides including helicopters with annual gross turnover in excess of \$300,000; and
  - home stay operators.
- 4.29 The new service tax is expected to generate around \$57.0 million in 2012.
- 4.30 Water resource tax is also expected to perform buoyantly in 2011, with receipts projected to surpass collections in 2010 by \$34.3 million. The positive outturn is underpinned by the increase in water tax rates in 2011. Water resource tax collections for 2012 are forecast to reach \$37.8 million.
- 4.31 The administration of Departure Taxes was moved from Air Ports Fiji Limited (AFL) to the Fiji Revenue & Customs Authority (FRCA) in 2011. The revised forecast for Departure Tax receipts in 2011 stands at \$62.0 million compared to collections of \$40.0 million in 2010. In 2012, collections are anticipated to increase further to \$94.1 million. The

improved collection stems from the increase in departure tax charge from \$100 to \$150.

- 4.32 Also, in 2011, FRCA took over the administration and collection of stamp duties from the Ministry of Justice. Stamp duty receipts for 2011 are expected to reach \$12.3 million and receipts for 2012 are projected to increase further to \$17.7 million. The higher outturn in 2012 is expected to be driven by efficient collections.
- 4.33 In 2011, Government imposed a new levy of \$350 per tonne on fish that is transshipped abroad without any local value addition. Anticipated receipts from this levy are expected to amount to \$0.7 million in 2011 and \$2.3 million in 2012.
- 4.34 In 2012, Government will introduce the following new levies, which will be collected by the respective vendors and remitted to FRCA on a monthly basis:
- (i) Telecommunication Levy (\$2.0 million);
  - (ii) Credit Card Levy (\$3.0 million); and
  - (iii) Third Party Insurance Levy (\$2.0 million).

#### **Fees, Fines, Charges and Penalties**

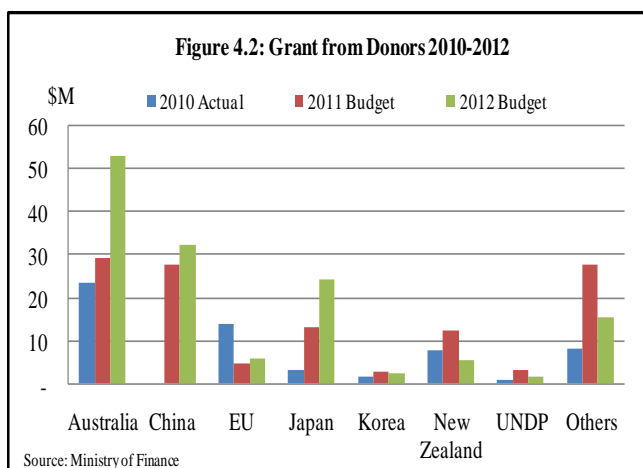
- 4.35 Fees, fines, charges and penalties include collections from revenue items such as water rates, sale of passports and court fines. Around \$138.9 million was collected from fees, fines and charges in 2010 and collections for 2011 are estimated to reduce to \$93.5 million. The reduction is primarily due to the transfer of stamp duties from the fees, fines and charges category to indirect taxes.
- 4.36 Receipts for fees, fines and charges in 2012 have been budgeted at \$87.5 million, \$6.0 million below collections anticipated in 2011.

## Sales Revenue

- 4.37 There are two components of sales revenue. The first component records sales between Government agencies<sup>10</sup> whilst the second, records proceeds from sales of goods or services to parties outside Government.
- 4.38 Sales revenue of \$45,407 was recorded in 2010 and around \$285,946 is expected in 2011. No sales revenue is forecast for next year.

## Grants in Aid

- 4.39 Grants in aid are recorded either as cash grants or aid-in-kind. Since Government operates under a cash accounting system, only cash donations are recorded in the Cashflow Statement.



- 4.40 Government received \$8.9 million in cash grants in 2010. In 2011, cash grants are forecast at \$7.7 million whilst the amount expected for 2012 is projected to increase to \$18.0 million.
- 4.41 Listed below are major sectors and projects expected to be funded through cash and aid-in-kind in 2012:

### Education – \$39.1 million

- Australia-Pacific Technical College (AusAID)
- Australian Development Scholarship/Australian Regional Development Scholarship (AusAID)
- Training and Scholarship Programme for Civil Servants (Korea, JICA & Others)
- Australia Aid on Future Support to Education Sector (AusAID)
- Education Programme (UNICEF)
- Human Development ICT Project (JICA)

<sup>10</sup> That is, it shows collections received by a Government agency for goods or services rendered to other Government departments.

### **Health – \$33.9 million**

- Fiji Health Sector Improvement Programme (AusAID)
- Relocation & Construction of New Navua Hospital (China)
- Assistance for Construction of New Nacavanadi Nursing Station - Gau (NZAID)
- Assistance for Malaria/ HIV/ Aids Programme (Global Fund)
- Assistance from World Health Organisation
- In-Service Training for Community Health Nurses (JICA)
- Health Programme Assistance for NCDs/ HIV and Aids (SPC)
- Reproductive & Adolescent Health Programmes (UNFPA)

### **Infrastructure – \$17.1 million**

- Fencing of Government House (China)
- Somosomo Mini Hydro Scheme Project (China)
- Solar Home Systems in Rural Areas (PEC Fund-Japan)
- Water Desalination Plants (PEC Fund-Japan)
- Water Reservoir – Labasa Hospital Water Project (NZAID)

### **Local Government & Environment Programmes - \$9.4million**

- East Asia Climate Change Partnership (Korea)
- Promotion of Regional Initiatives on Solid Waste Management (JICA).
- Rehabilitation of Lami Dump (EU)
- Support for Informal Settlements (NZAID)

### **Agriculture & Fisheries - \$23.1 million**

- Vegetable & Fruit Cultivation Support (Taiwan)
- Sustainable Land Management (UNDP)
- Mushroom Technology Demonstration (China)
- Pacific Horticultural & Market Access (AusAID)
- Sugar Reform Social Mitigation Programme (EU)

### **Others Sectors – \$17.4 million**

- Civil Society Support for Social Services and Economic Opportunity (NZAID)
- Financial Inclusion (AusAID)
- Disaster Management Reinforcement Programme (JICA)
- Child Labour Project & Decent Work Programme (ILO)
- Assistance for Child Protection Programme (UNICEF)
- Australian Civil Society Support Programme (AusAID)
- Assistance to Telecom Authority of Fiji (World Bank)

## **Dividends from Investment**

- 4.42 This category records dividend receipts from net profits of Government Commercial Companies and Commercial Statutory Authorities, such as ATH, AFL, Air Pacific and FINTEL.
- 4.43 Total dividend receipts for 2010 amounted to \$29.3 million. In 2011, Government expects to receive dividend revenues of \$29.2 million whilst \$27.4 million is forecast for 2012.

## **Reimbursement and Recoveries**

- 4.44 Reimbursement and recoveries include revenues from:
- (i) contributions for capital projects;
  - (ii) reimbursed funds for Government services; and
  - (iii) refund of Government contributions for overseas peacekeeping duties.
- 4.45 Around \$8.7 million was collected from reimbursement and recoveries in 2010. Collections are anticipated to increase in 2011 to \$12.7 million due to higher contributions for overseas peacekeeping missions (MFO<sup>11</sup> and UN International Peacekeeping Mission - IRAQ). Anticipated reimbursements in 2012 are expected to increase further to \$13.0 million.

## **Other Operating Revenue and Surpluses**

- 4.46 Other operating revenue and surpluses include earnings from the following sources:
- Rent of Government property;
  - Surplus from Government agencies;
  - Commission revenue; and
  - Other miscellaneous revenue.
- 4.47 Collections from other revenue and surpluses amounted to \$48.1 million in 2010. Receipts are expected to decline to \$36.1 million in 2011 and \$31.9 million in 2012.

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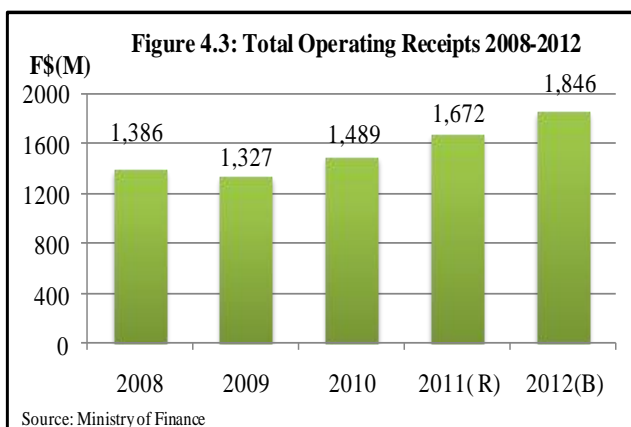
<sup>11</sup> Multinational Force and Observers.

## Total Operating Revenue

4.48 At the end of 2011, Government expects collections from operating revenues to accumulate to \$1,671.7 million. This is \$183.1 million or 12.3 percent more than the amount collected in 2010.

4.49 The relatively higher collection in 2011 is underpinned by buoyant performances in VAT, PAYE Tax, Departure Tax, Water Resource Tax, and Hotel Turnover Tax.

4.50 For 2012, total operating revenue receipts are expected to amount to \$1,845.9 million, an increase of \$174.2 million over collections expected this year. The optimistic outturn for 2012 is driven by new revenue policy measures in the 2012 Budget (refer to Chapter 10 for the complete list of new policy measures).

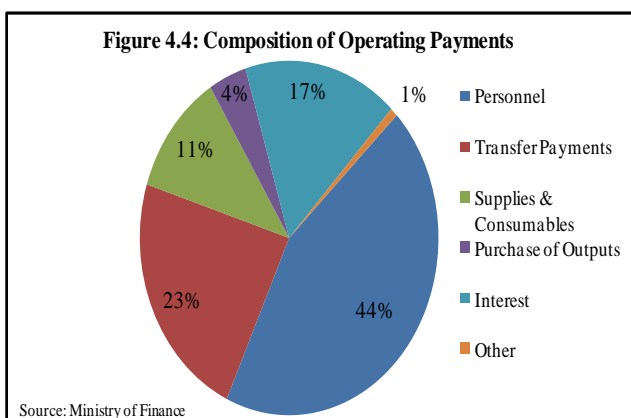


4.51 Figure 4.3 illustrates the performance of operating revenues over the period 2008 to 2012.

## Operating Payments

4.52 The main components of operating expenditure are:

- Personnel payments;
- Transfer payments;
- Supplies and consumables;
- Purchase of outputs;
- Interest payments; and
- Other operating payments.

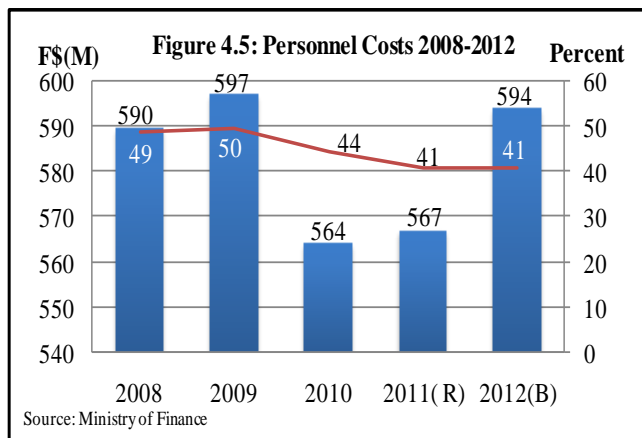


4.53 Personnel costs comprised the largest component of operating expenditures in 2010 accounting for 44.1 percent of total recurrent spending (Figure 4.4). Transfer payments accounted for 23.1 percent, followed by interest payments at 16.7 percent and supplies and consumables at 11.3 percent. Purchase of outputs and other operating payments make up the remaining 4.9 percent.

### Personnel Costs

4.54 Personnel costs comprise of the salaries and wages of civil servants (Established Staff and Government Wage Earners).

4.55 A summary of expenditure on personal emoluments since 2008 is shown in Figure 4.5. Personnel



costs as a percentage of total operating expenditure averaged at around 45.0 percent over the period 2008-2012.

4.56 Spending on salaries and wages are expected to accumulate to \$566.8 million in 2011, an increase of \$2.7 million over 2010 payments.

4.57 Personnel costs for 2012 have been budgeted at \$594.0 million, an increase of \$27.2 million over the 2011 Budget. The increase emanates from the 3.0 percent adjustment to wages and salaries of civil servants.

### Transfer Payments

4.58 Transfer payments comprise mainly of cash grants and transfers made to external entities. Social welfare payments and pensions are two examples of such payments.

4.59 Total transfer payments in 2010 amounted to \$296.3 million. This is expected to accumulate to \$335.1 million in 2011 and further increase to \$352.8 million in 2012.

4.60 Table 4.2 below highlights major operating grants and transfers for 2012:

**Table 4.2: Major Grants (SEG 6)**

<b>Activity</b>	<b>Allocation(\$M)</b>
Water Authority of Fiji – Operating Grant	46.0
FRCA Grant	37.0
USP Operating Grant	36.6
Fiji National University – Operating Grant	24.0
University of Fiji	3.0
Family Assistance Scheme	15.0
Bus Fare Assistance	12.0
Land Transport Authority – Operating Grant	11.4
iTaukei Scholarships	10.0
Food Voucher Programme (Existing Scheme)	8.6
Food Voucher Programme (Expanded Scheme)	4.0
FICAC – Operating Grant	8.1
Fee Free Education Classes 1-8	7.6
Grant to Fiji’s Servicemen’s After Care Fund	6.9
Multi – Ethnic Scholarship	5.5
Care & Protection Programme Allowance	4.4
PSC Training & Scholarship Grant	4.0
Grant to Tourism Fiji	3.0
Maritime Safety Authority of Fiji – Operating Grant	2.9
FSM Scholarship Grant	2.6
Overseas Scholarship Scheme	2.6
Form Three – Tuition Fees	2.7
Form Four – Tuition Fees	2.3
Form Five – Tuition Fees	2.2
Form Six – Tuition Fees	2.3
Form Seven – Tuition Fees	1.5
iTaukei Affairs Board Grant	2.0
Public Service Broadcast (TV)	1.8
Public Service Broadcast (Radio)	1.1
Commerce Commission	1.8
Shipping Franchise Subsidy Scheme	1.5
Grant to Telecommunication Authority of Fiji	1.5
Biosecurity Authority of Fiji – Operating Grant	1.3
Teacher Salary Grant for Early Childhood Education	1.3
TPAF Levy	1.2
Subsidy Naboro Landfill	1.2
MSG Contribution	1.1
Provincial Councils	1.0
Public Rental Board Subsidy	1.0
Investment Fiji	1.1

Source: Ministry of Finance



## Supplies and Consumables

- 4.61 Supplies and consumables are inputs that are used by Government agencies in the production of public goods and services. They relate to costs associated with travel, communications, maintenance, operations, and the purchase of goods and services.
- 4.62 In 2010, purchase of supplies and consumables amounted \$144.0 million. Spending in this category is expected to increase to \$163.6 million in 2011 whilst the budget for 2012 is set at \$184.5 million.

## Purchase of Outputs

- 4.63 Purchase of outputs relate to special expenditures unique to a Ministry or Department, such as special projects, functional reviews or training for staff.
- 4.64 The total amount spent by Ministries and Departments on special outputs amounted to \$51.9 million in 2010. Spending in 2011 is anticipated to reach \$48.3 million, a decline of \$3.6 million over 2010. In 2012, Government expects to spend around \$62.8 million on special outputs.
- 4.65 Table 4.3 below illustrates major allocations for Purchase of Outputs in the 2012 Budget:

**Table 4.3: Major Purchase of Outputs (SEG 7)**

Activity	Allocation (\$M)
Electronic Voter Registration	5.9
Development of Constitution	0.5
Review of Civil Service Human Resource Structure	0.3
Ministry of Health- Outsourcing	2.5
Establishment of Fiji Embassy- United Arab Emirates	1.4
Establishment of Fiji Embassy- South Korea	1.1
Integrated Human Resource Programme	1.5
National Employment Centre	1.1
Mediation Services & Employment Relations Tribunal	1.0
Workmen's Compensation	1.0
Integrated National Poverty Eradication Programme	0.3
Fiji Volunteer Scheme	0.4
Anti-Corruption Activities	0.3
Employment and Unemployment Labour Force Survey	0.2
Youth Capacity Building and Training Programme	0.4

Activity	Allocation (\$M)
Fijian Made and Buy Fijian Campaign	0.5
National Export Strategy	1.0
'One-Stop-Shop Concept' Programme	0.1
Fiji Agriculture Statistic System	0.6

Source: Ministry of Finance

### Interest Paid

- 4.66 Interest payments of \$213.6 million were recorded at the closure of the 2010 accounts. In 2011, Government anticipates interest payments to rise to \$270.4 million, \$56.8 million or 26.6 percent above the 2010 payment. Interest payments are expected to decline to \$263.1 million in 2012.

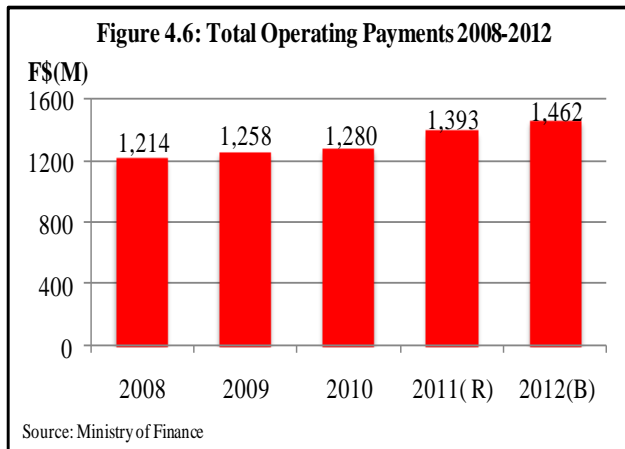
### Other Operating Payments

- 4.67 Other operating payments are those miscellaneous expenditures associated with debt repayments. Miscellaneous payments amounted to \$10.3 million in 2010 whilst the revised forecast for 2011 stands at \$8.4 million. For 2012, a total of \$5.2 million is expected.

### Total Operating Payments

- 4.68 Total operating payments in 2010 amounted to \$1,280.3 million, equivalent to 79.0 percent of total expenditure.

- 4.69 The revised forecast for operating expenses in 2011 is \$1,392.6 million, an increase of \$112.3 million compared to 2010. Interest payments, transfer payments and supplies & consumables are expected to contribute to the higher spending in 2011.

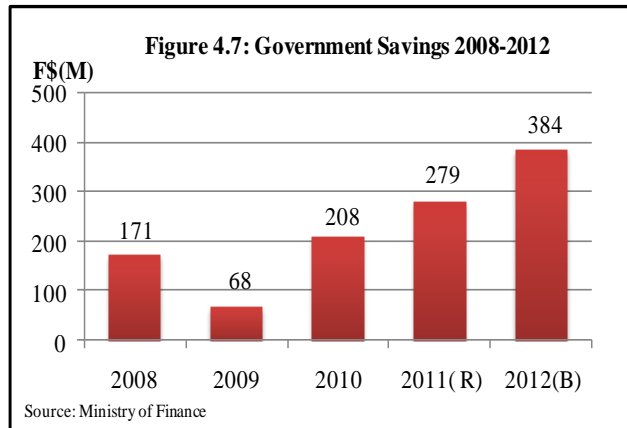


- 4.70 The budget for operating expenditure in 2012 is \$1,462.4 million, \$69.8 million higher compared to this year. This increase is driven mainly by

higher spending on personnel emoluments, supplies and consumables and transfer payments.

### Government Savings

4.71 Government savings is the difference between operating revenue and operating expenditure. Government savings over the period of 2008-2012 are shown in Figure 4.7.



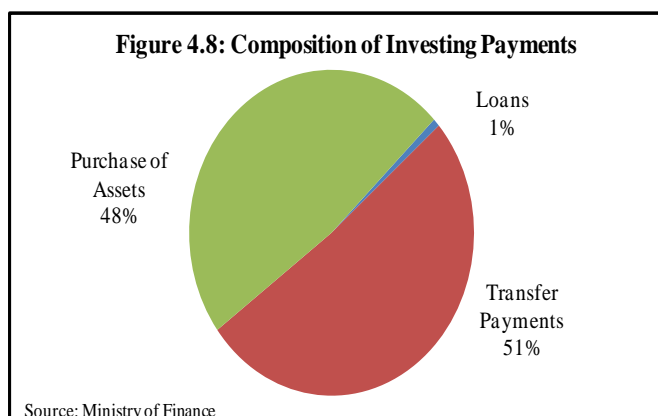
4.72 In 2010, Government posted savings of \$208.3 million equivalent to 3.4 percent of GDP. Savings of \$279.1 million or 4.1 percent of GDP is expected this year.

4.73 For 2012, Government expects to achieve an operating surplus (savings) of \$383.5 million.

### Government Investing Receipts

4.74 Total investing receipts consist of: sale of Government equities; interest from bank balances; repayment of term loans; and return of surplus capital from investment.

4.75 Total investing receipts amounted to \$0.5 million in 2010. A slight increase to \$0.6 million is expected for 2011; however in 2012, the amount collected is expected to substantially increase to \$35.8 million. The higher outturn for 2012 stems from expected sales of Government assets worth \$34.9 million.



The higher outturn for 2012 stems from expected sales of Government assets worth \$34.9 million.

## Government Investing Payments

4.76 Figure 4.8 shows the composition of investing payments in 2010, which comprises of:

- Loans<sup>12</sup>;
- Transfer payments; and
- Purchase of physical non-current assets.

### Loans

4.77 Around \$2.6 million was disbursed as loans to tertiary students in 2010. For 2011 and 2012, a total of \$1.0 million is projected.

### Transfer Payments

4.78 Capital transfer payments refer to grants and transfers for capital purposes.

4.79 Expenditures on capital grants and transfers amounted to \$174.1 million in 2010. This is expected to increase to \$304.4 million in 2011 and \$269.7 million in 2012.

4.80 Table 4.4 below displays some of the major capital transfers in the 2012 Budget:

**Table 4.4: Major Transfer Payments (SEG 10)**

Activity	Allocation(\$M)
Biosecurity Authority of Fiji	2.2
Central Coordinating Agency for Roads	4.6
Disaster Rehabilitation Fund	1.0
Divisional Development Projects & Upgrading of Rural Roads	11.2
Drainage Subsidy	2.0
FEA Subsidy	3.5
Dairy Development Programme	2.0
Fiji National University	4.0
FRCA Capital Grant	3.8
Water Authority of Fiji- Capital Grant	40.5
Housing Assistance to First Home Buyers	10.0
Land Transport Authority Capital Grant	3.0

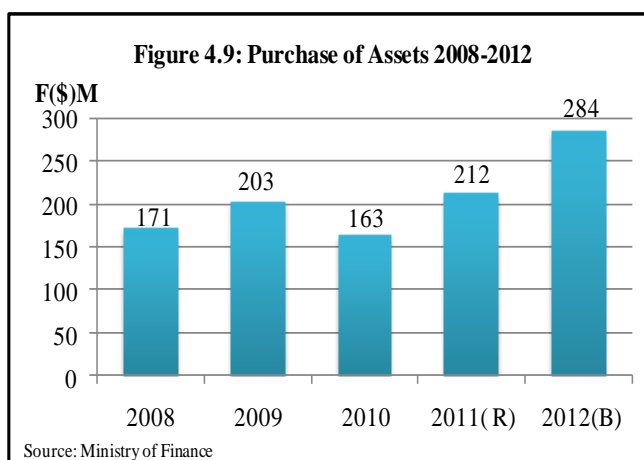
<sup>12</sup> As percentage of Total Investing Payments

Activity	Allocation(\$M)
National Fire Authority	1.0
Northern Development Programme	1.0
Rural & Outer Island Development Programme	1.8
Rural Electrification Projects	10.0
Rural Housing Assistance	1.0
Self- Help Projects	1.0
Grant for Medium Enterprise Development	3.0
Tourism Fiji Marketing Grant	23.5
Committee on Better Utilization of Land (CBUL)	6.4
Upgrading of Rural Roads	5.5
Cyclone Tomas Housing Rehabilitation- Phase 3 Completion	1.8
Construction of Infant Schools (ECE-Classes 1-3)	1.4
HART & Sustainable Rural Housing Income Generating Project	1.1
Land Bank Investment	5.0
South Pacific Fertilizers Ltd - Subsidy	5.0
Cane Quality Payment	1.0
Grant to Airports Fiji Ltd - Upgrading of Labasa Airport	1.9
Other Rural Airstrips	1.0
Maritime Safety Authority of Fiji	2.0
FDB Subsidy Grant to all Citizens of Fiji	4.0
Fiji Sugar Cane Growers Loan - FDB	3.9
Rice Development Programme	1.0
Fiji Sports Council Grant	3.0
Fiji Sugar Corporation – Financial Restructure	40.9

Source: Ministry of Finance

## Purchase of Physical Non-Current Assets

4.81 This category reflects Government spending on physical assets and capital construction. It records mainly investments in infrastructure projects such as roads, schools and hospitals.



4.82 Figure 4.9 shows the trend of Government investments over the period 2008-2012.

- 4.83 In 2010, Government invested around \$163.0 million in physical non-current assets. The revised forecast for 2011 is projected at \$212.4 million, reflecting an increase of \$49.4 million or 30.3 percent above 2010 investments.
- 4.84 Government investments for 2012 are expected to amount to \$283.7 million. Some of the major investments for 2012 are highlighted in Table 4.5 below.

**Table 4.5: Major Purchase of Physical Non-Current Assets (SEG 8 and 9)**

<b>Activity</b>	<b>Allocation(\$M)</b>
Periodic Maintenance (Roads and Bridges)	14.0
Drainage and Flood Protection	7.0
Vehicle Leasing Scheme	8.4
Denarau Bridge	8.0
Fiji Road Upgrading Project III (Waito/Wailotua)	4.5
Road Rehabilitation Works	6.0
Supply of Pavement Materials (New Roads & Bridges)	5.0
Resealing Contract (New Roads & Bridges)	5.0
Mid-Point Port, Naduri -Vanua Levu	5.0
Storm Damages	4.0
Construction of Suva Remand Center	4.0
Grid Extension- Seaqqa/Dreketi	3.7
Upgrading of Outer Island Jetties- Rabi & Qarani	3.5
Upgrading & Replacement of Bridges	3.0
Upgrading and Maintenance of Urban Hospital & Institutional Quarters	3.0
Purchase of Replacement Vessels	3.0
Bio-Diesel Implementation	2.7
Road Upgrading Suva/Nausori Corridor	2.5
Ratu Dovi/Kings Road/City Trunk Route	2.5
Port Denarau Dredging Works	2.1
Extension of Lautoka High Court	2.0
Kula Patrol Boat - Life Extension Programme	2.0
Somosomo Hydro Power Project	1.0
Upgrading of Nadi/Lautoka Highway	2.0
Purchase of Plant and Machinery (New Roads & Bridges)	2.0
Upgrading of Laucala Bay Weather Office	1.8
Upgrading of Nadi/Nausori Conventional Radars	1.8
Upgrading of Non-Cane Access Roads	1.5
Upgrading of Existing Non-Cane Access Roads	1.5
Maintenance and Upgrading of Schools & Institutional Quarters	1.5

Activity	Allocation(\$M)
Upgrading of Rural Roads	1.5
Water Shed Management	1.5
Bio-Medical Equipment- Urban Hospital	1.5
Livestock Rehabilitation Programme	1.5
Routine and Special Upgrading of Public Building	1.5
Repair and Upgrading of Public Buildings	1.0
Magnetic Resonance Imaging	1.4
Urban & Rural Laboratories	1.0
Export Promotion Programme	1.0
Food Security Programme	1.0
Fiji Government ICT Infrastructure Upgrade	1.0
Fiji Government Application System	1.0
Squatter Upgrading & Resettlement	1.0

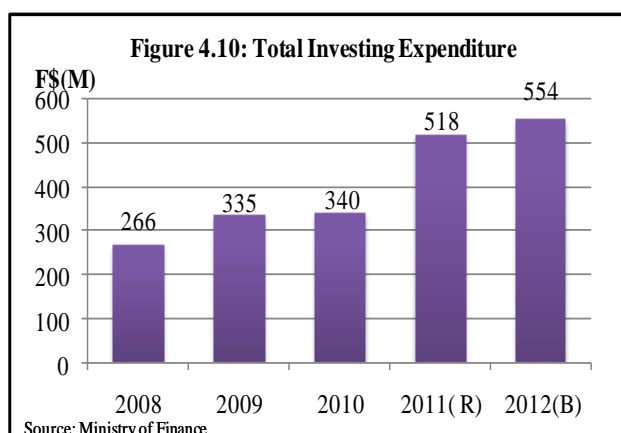
Source: Ministry of Finance

### Total Investing Payments

4.85 Total investing payments in 2010 accumulated to \$339.7 million, comprising 21.0 percent of total expenditure.

4.86 Investing payments are anticipated to increase to \$517.8 million in 2011 due to

an increase in transfer payments and purchase of physical non-current assets. Payments in 2012 are anticipated to reach \$554.4 million.

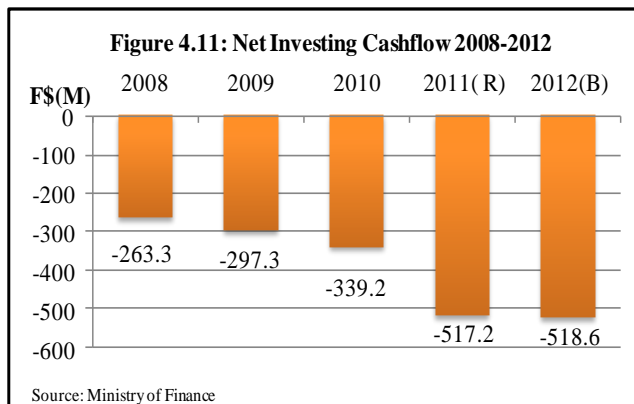


4.87 Figure 4.10 shows the trend of total investing payments since 2008.

### Net Cash Flows from Investing Activities

4.88 The net investing cashflow position represents the variance between Government investing revenues and investing payments.

4.89 Figure 4.11 shows the net cash flows from investing activities from 2008 to 2012.



4.90 A net investing deficit of \$339.2 million was posted by Government in 2010. For 2011 and 2012,

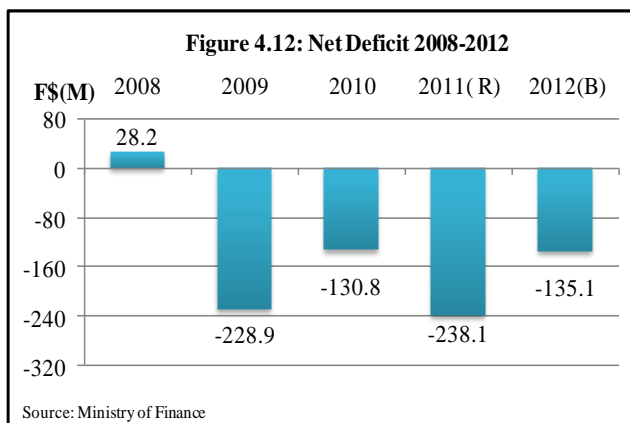
Government expects to incur net investing deficits of \$517.2 million and \$518.6 million, respectively.

### Net Deficit

4.91 The net cash flow position (net deficit or surplus) is the difference between total revenues and total expenditures.

4.92 The net-cashflow position is an important indicator of Government's fiscal performance for the financial year.

4.93 Figure 4.12 shows Government's actual financial performance over the period 2008-2012.



4.94 Government recorded a net deficit of \$130.8 million or 2.1 percent of GDP in 2010. A net deficit position of \$238.1 million or 3.5

percent of GDP is expected for 2011. For 2012, Government plans to achieve a net deficit target of \$135.1 million equivalent to 1.9 percent of GDP.



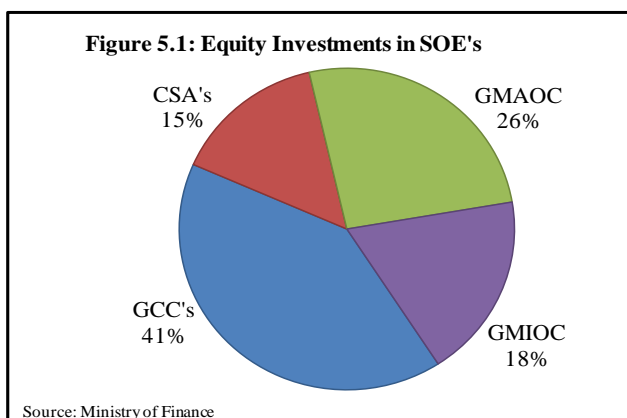
## CHAPTER 5: GOVERNMENT'S BALANCE SHEET

### Introduction

- 5.1 This chapter discusses the key components of Government's Balance Sheet, covering assets and liabilities. Under its current cash accounting system, Government continues to strive for prudent administration and management of its investments such as equities and liabilities that include treasury bills, sovereign and development bonds, external loans and guaranteed facilities. Liabilities consist of Government's debt stock and contingent liabilities.

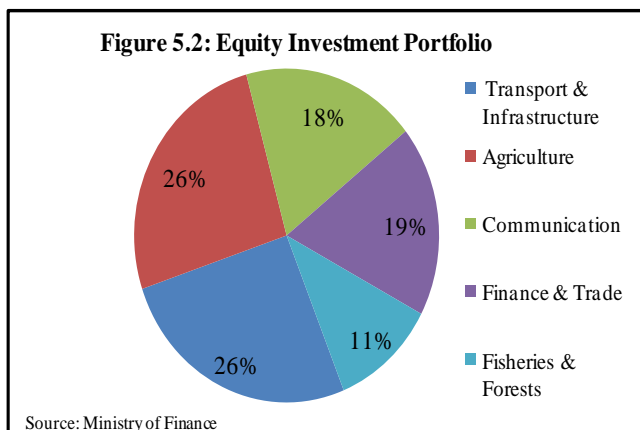
### Government Equity Investment

- 5.2 Equity investments in State Owned Entities (SOEs) represent a significant component of Government's Balance Sheet. It is imperative that SOEs generate adequate returns which can be channeled to priority sectors of the economy.



- 5.3 Government has equity investments in approximately 27 SOEs. Of these, Government Commercial Companies (GCC) account for 41.0 percent while Government Majority Owned Companies (GMAOC) make up 26.0 percent. Government Minority Owned Companies (GMIOC) constitute 19.0 percent followed by Commercial Statutory Authorities (CSA) accounting for the remaining 15.0 percent.
- 5.4 As shown in Figure 5.2, the Agriculture, Transport & Infrastructure sectors account for 26.0 percent of the total portfolio. The Communication sector and Finance & Trade sector accounts for 18.0 percent and 19.0 percent, respectively. The Fisheries & Forestry sector accounts for the remaining 11.0 percent.

5.5 Table 5.1 reflects the SOEs shares and sector allocations. It excludes newly restructured departments such as Biosecurity Authority of Fiji (BAF), Maritime and Safety Authority of Fiji (MSAF), Water Authority of Fiji (WAF) and the Rewa Cooperatives Company Limited (RCCL).



**Table 5.1: State Owned Entities Shares and Portfolio Allocations**

	State Owned Entities	Govt Shares	Sector/Portfolio
<b>Government Commercial Companies (GCC)</b>			
1	Airports Fiji Limited (AFL)	100	Transport & Infrastructure
2	Fiji Broadcasting Corporation Limited (FBCL)	100	Communication
3	Fiji Hardwood Corporation Limited (FHCL)	100	Fisheries & Forests
4	Fiji Ports Corporation Limited (FPCL)	100	Transport & Infrastructure
5	Fiji Public Trustee Corporation Limited (FPTCL)	100	Trade & Finance
6	Food Processors Fiji Limited (FPFL)	100	Agriculture
7	Post Fiji Limited (PFL)	100	Communication
8	Rewa Rice Limited (RRL)	100	Agriculture
9	Unit Trust of Fiji (UTOF)	100	Trade & Finance
10	Viti Corporation Company Limited (VCCL)	100	Agriculture
11	Yaqara Pastoral Company Limited (YPCL)	100	Agriculture
<b>Commercial Statutory Authority (CSA)</b>			
1	Housing Authority of Fiji (HA)	100	Trade & Finance
2	Public Rental Board of Fiji (PRB)	100	Trade & Finance
3	Fiji Meats Industry Board (FMIB)	100	Agriculture
4	Fiji Electricity Authority (FEA)	100	Transport & Infrastructure
<b>Government Majority Owned Companies (GMAOC)</b>			
1	Air Pacific Limited (APL)	51.0	Transport & Infrastructure
2	Air Terminal Services Limited (ATS)	51.0	Transport & Infrastructure

3	Fiji International Telecommunications Limited (FINTEL)	51.0	Communication
4	Fiji Pine Limited (FPL)	99.8	Fisheries & Forests
5	Fiji Sugar Corporation Limited (FSC)	68.0	Agriculture
6	Pacific Fishing Company Limited (PFCL)	98.0	Fisheries & Forests
7	Copra Millers Fiji Limited (CMFL)	94.0	Agriculture
<b>Government Minority Owned Companies (GMIOC)</b>			
1	Air Fiji Limited (AFL)	11.5	Transport & Infrastructure
2	Amalgamated Telecom Holding Limited (ATH)	35.0	Communication
3	Daily Post Limited (DPL)	44.7	Communication
4	Fiji Television Limited (FTL)	14.0	Communication
5	Pacific Forum Line Limited (PFL)	23.0	Transport & Infrastructure

Source: Ministry of Finance

- 5.6 In accordance with Government's Public Enterprises Act 1996, both the Ministry of Finance and the Ministry of Public Enterprises have equal shareholding interests in GCCs and CSAs. Both agencies have acknowledged the need to actively monitor compliance, financial returns and operational improvements.

### **Government Reform Programmes**

- 5.7 The operations of the Fiji Investment Corporation Limited (FICL) have been successfully transferred to the Fiji Development Bank Nominees Limited (FDBNL). In addition, the Kalabu Tax Free Zone (KTFZ) has been successfully transferred from Investment Fiji to the Ministry of Finance. Government's immediate plan is to divest KTFZ.
- 5.8 Government continues to assist SOEs facing financial difficulties. FSC is undergoing structural reforms for a period of 2 years, from 2011 to 2012. The Sugar Taskforce has been tasked to monitor and advise Government on the progress of the Sugar Industry Reform Framework.
- 5.9 CMFL and RRL are the two entities that are earmarked for reform in the short term. It is anticipated that these reforms will enable these SOEs to become more viable and profitable and in turn improve returns to Government.

## Equity Investment Performance

5.10 Generally, there have been mixed results on the Return on Asset (ROA) and Return on Equity (ROE) of Government's investments in SOEs.

**Table 5.2: Average<sup>13</sup> (ROA/ROE) by Sector**

Sector:	2008 (%)		2009 (%)		2010 (%)	
	ROA	ROE	ROA	ROE	ROA	ROE
<b>Agriculture</b>	-7.4	66.13	-2.06	-10.74	-0.25	-34.70
<b>Communication</b>	9.2	157.19	4.98	18.61	4.11	11.56
<b>Fisheries &amp; Forests</b>	-1.2	-2.08	0.95	1.47	-	-
<b>Transport &amp; Infrastructure</b>	1.32	3.03	-2.00	105.21	2.82	3.19
<b>Trade &amp; Finance</b>	4.70	180.84	-0.53	12.29	7.71	9.16

Source: Ministry of Finance

5.11 The agriculture sector recorded negative returns in 2010. This was driven by the negative performances of FSC and RRL. However, there were improved returns from YPCL, FPFL and FMIB. Due to the positive performances of ATH, FBC and FTV, the communication sector recorded the highest returns.

5.12 Both the Transport & Infrastructure and Trade & Finance sectors recorded reasonable returns in 2010. AFL, FPCL and ATS contributed positively to the performance of the Transport & Infrastructure sector. Despite its non commercial obligation, FEA performed reasonably well. In the Trade & Finance sector, both UTOF and FPTCL achieved high returns whilst PFL recorded negative returns in 2010.

**Table 5.3: Average (ROA/ROE) by Government Shareholding**

Type:	2008 (%)		2009 (%)		2010 (%)	
	ROA	ROE	ROA	ROE	ROA	ROE
<b>GCC</b>	2.5	3.3	-0.4	0.1	4.6	8.2
<b>CSA</b>	-14.2	327.8	4.3	25.5	5.3	9.1
<b>GMAOC</b>	-4.3	11.0	-0.2	104.0	-3.0	-38.9
<b>GMIOC</b>	0.7	1.2	-0.5	-2.1	0.7	1.0

Source: Ministry of Finance

<sup>13</sup>**Note:** The average analysis is conducted for information purposes to determine sectors that generate most returns and vice-versa. However, it is important to note that each company within these sectors will have different earnings, asset and equity base.

- 5.13 As depicted in Table 5.3 above, the negative returns from GMAOC in 2010 is attributed to the unsatisfactory financial performances of FSC and FINTEL. Out of the 11 GCCs, 9 performed reasonably well in 2010 whilst RRL and PFL recorded negative returns. The 4 CSAs which include FEA, FMIB, HA and PRB achieved positive returns. Government also received reasonable returns from its 2 GMIOCs, namely ATH and FTV.

### Dividend from Government Investments

**Table 5.4: Dividends by Sector**

Sector:	2008 \$M	2009 \$M	2010 \$M
<b>Agriculture</b>	-	1.1	-
<b>Communication</b>	11.9	16.0	3.8
<b>Fisheries &amp; Forests</b>	-	-	-
<b>Transport &amp; Infrastructure</b>	3.3	4.0	5.2
<b>Trade &amp; Finance</b>	-	0.8	3.2
<b>Total</b>	15.2	21.9	12.2

Source: Ministry of Finance

- 5.14 In 2010, the Communication, Transport & Infrastructure and Trade & Finance sectors remitted a total of \$12.2 million in dividends to Government. Dividend payments have been fluctuating over the last 3 years due to mixed performances of SOEs.

**Table 5.5: Dividends by Shareholding**

	2008 \$M	2009 \$M	2010 \$M
<b>GCC</b>	3.1	5.6	7.9
<b>GMAOC</b>	6.6	4.4	0.5
<b>GMIOC</b>	5.5	11.9	3.8
<b>Total</b>	15.2	21.9	12.2

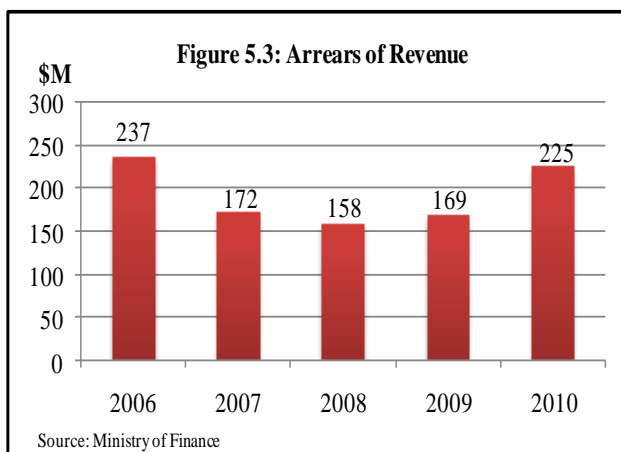
Source: Ministry of Finance

- 5.15 From a shareholding perspective, GCC (AFL & FPCL) and GMIOC (ATH & FTV) contributed 96.0 percent of the total dividends received in 2010.

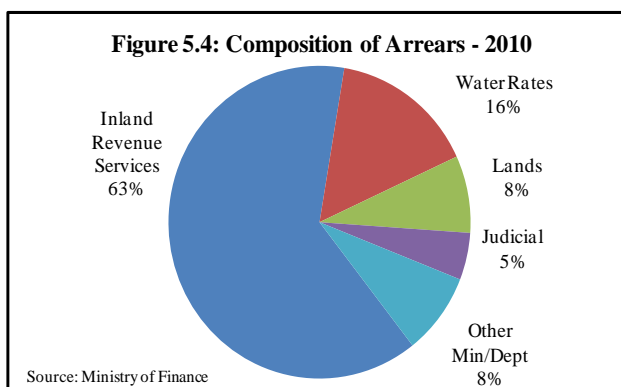
## Arrears of Revenue

5.16 Arrears of revenue represent monies owed to Government for the provision of goods and services. This comprises of unpaid taxes, fees, fines, charges and penalties.

5.17 As depicted in Figure 5.3, the total arrears of revenue as at 31<sup>st</sup> December 2010 rose significantly by \$56.1 million or 33.2 percent from the preceding year.



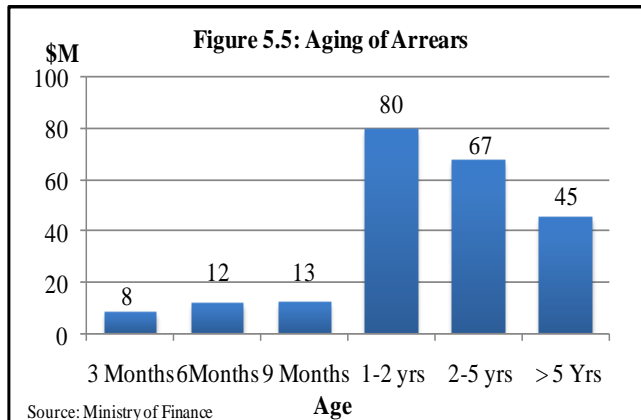
5.18 A significant portion of outstanding revenue is derived from unpaid taxes, particularly from personal income tax, corporate tax and VAT, which accounted for 63.0 percent of total arrears. Apart from tax arrears, \$34.8 million is owed to Government in the form of unpaid water rates, \$17.9 million in uncollected crown lease rentals and \$10.9 million in judicial or court fees, fines and charges.



5.19 In 2010, Income Tax and VAT arrears increased by \$53.6 million, which has been mainly attributed to unresolved audit cases. Arrears of water rates recorded a 5.0 percent decline over the year, land rentals a 2.0 percent increase and judicial fines rose by less than 1.0 percent.

5.20 Figure 5.5 highlights that \$45.4 million or 20.0 percent of the total arrears are over 5 years whilst \$67.3 million or 30.0 percent are aged between 2 to 5 years. Current debts and those less than 2 years account for 50.0 percent of total arrears.

5.21 Agencies are reviewing their costs recovery procedures and are allocating resources accordingly in an effort to reduce the arrears of revenue. The setting up of debt recovery teams in the various agencies will assist in recovery efforts.



### Government Debt

- 5.22 A key focus for Government in the medium term is to ensure Government financing requirement is fully met and debt is maintained at sustainable levels. To achieve this objective, Government is focused on reducing fiscal deficits, developing and maintaining an efficient market for Government securities and prepaying expensive loans.
- 5.23 The financing of the fiscal deficit was facilitated through the issuance of bonds and treasury bills. Government bonds were mostly taken up by the FNPF and insurance companies. Treasury bills, which are short term in nature, were in demand from commercial banks and other non credit financial institutions to manage their short-term liquidity positions.
- 5.24 An underlying objective of Government is to keep floatation consistent in order to develop the domestic capital market and encourage greater participation of small to medium investors such as private individuals, provincial councils and retailers.
- 5.25 The domestic money market is the major source of financing for Government. The demand for Government bonds and treasury bills has increased due to excess liquidity in the financial system.

**Table 5.6: Total Government Debt Stock (\$Million)**

	2007	2008	2009	2010	2011 (Sept)
<b>Domestic Debt</b>	2,337.8	2,411.0	2,605.0	2,834.7	2,718.7
<b>External Debt</b>	397.0	476.0	527.2	548.5	806.7
<b>Total Debt</b>	2,734.8	2,887.2	3,132.2	3,383.2	3,525.4
<b>Percent increase/ (decrease)</b>	(4.4)	5.6	8.5	8.0	4.2
<b>Debt (% of GDP)</b>	49.9	50.5	55.6	55.6	51.5

Source: Ministry of Finance

- 5.26 As shown in Table 5.6, Government's total debt stock as at September 2011 stood at \$3.5 billion or 51.5 percent of GDP. The total debt stock was \$3.4 billion in 2010, equivalent to 55.6 percent of GDP. This compares with \$3.1 billion in 2009, equivalent to 56.6 percent of GDP. Over the year, nominal debt stock rose by 8.0 percent in 2010.

### Domestic Debt Stock

- 5.27 Domestic debt stock refers to the sum of outstanding domestically issued treasury bills and bonds at any given time. On an annual basis, domestic debt increased by \$229.7 million or 8.8 percent in 2010 to a total of \$2.8 billion.

**Table 5.7: Government's Domestic Debt Stock [\$Million]**

	2006	2007	2008	2009	2010	2011 (Sept)
Bonds	2,277.8	2,196.2	2,346.3	2,505.1	2,759.3	2,662.8
Treasury Bills	145.7	141.6	64.7	99.9	75.4	44.5
<b>Total Domestic</b>	<b>2,423.5</b>	<b>2,337.8</b>	<b>2,411.0</b>	<b>2,605.0</b>	<b>2,834.7</b>	<b>2,718.7</b>
<b>Domestic Debt to GDP (%)</b>	<b>45.1</b>	<b>42.6</b>	<b>42.1</b>	<b>46.2</b>	<b>46.6</b>	<b>39.8</b>

Source: Ministry of Finance

- 5.28 As depicted in Table 5.7, total outstanding domestic debt at the end of September 2011 stands at \$2.7 billion, which is \$116.0 million below the December 2010 level. Domestic debt in 2011 is expected to remain below the 2010 level due to the issuance of the global bond this year.
- 5.29 The FNPF continues to be the leading creditor holding 76.0 percent of total Government bonds. The balance is taken up by other institutional investors such as the Insurance Sector (10.0 %), RBF (5.0%), Commercial



Banks (4.0 %) and other Non Bank Financial institutions & individuals (5.0%).

### Domestic Interest Rates

- 5.30 In 2010, interest rates for both short and long term debt instruments rose during the year. The increase was due to high borrowing requirements by Government and Statutory bodies. This year, the yield on both short term and long term securities fell for the first nine months. This was due to surplus liquidity in the banking system which resulted in institutional investors competing for Government debt instruments. The interest rate on 91 days Treasury Bills as at September 2011 stood at 1.1 percent and the 15 years bond rate at 5.8 percent.

**Table 5.8: Interest Rates on Government Domestic Securities (%)**

Maturity	Sep 2010	Dec 2010	Mar 2011	Jun 2011	Sept 2011
28 days	3.28	3.23	2.95	1.35	<b>1.05</b>
56 days	3.60	3.45	2.95	1.60	<b>1.13</b>
91 days	3.00	3.84	3.40	1.50	<b>1.10</b>
3 years	-	-	2.90	2.90	<b>2.60</b>
15 years	9.00	8.99	8.00	7.00	<b>5.80</b>

Source: Ministry of Finance

### External Debt

- 5.31 Government's external debt level continued to increase over the years with the disbursed outstanding balance totaling \$548.5 million or 9.4 percent of GDP at the end of 2010. This is an increase of 4.0 percent when compared to 2009 levels and is mainly attributed to disbursements for on-going projects funded by the Asian Development Bank (ADB) and EXIM Bank of China.
- 5.32 As at September 2011, external debt stood at \$806.7 million, equivalent to 11.8 percent of GDP, representing an increase of \$258.2 million or 47.0 percent over the 2010 level. The major increase was attributed to the Global Bond of US\$250 million issued in March this year.

**Table 5.9: Government External Disbursed Outstanding Debt**

	2007	2008	2009	2010	2011 Sept
External DOD Central Govt.	397.0	476.0	527.5	548.5	806.7
Total External Debt Service of which:	<b>39.3</b>	<b>33.3</b>	<b>45.6</b>	<b>41.3</b>	<b>323.1</b>
o/w Principal Payment	17.1	12.5	21.2	17.6	280.2
o/w Interest Payments	22.2	20.8	24.4	23.7	42.9
External Debt to GDP Ratio (%)	<b>7.2</b>	<b>8.3</b>	<b>9.4</b>	<b>9.0</b>	<b>11.8</b>
Ext Debt Service as % age of Export of goods & services	1.4	1.0	1.0	1.0	n.a

Source: Ministry of Finance

- 5.33 External debt servicing reduced to \$41.3 million in 2010. While external debt to GDP dropped slightly to 9.0 percent, the external debt service to export ratio remains unchanged at around 1.0 percent. External debt servicing increased to \$323.1 million as at September 2011 as a result of the 2006 Bond settlement.

### Debt Composition

- 5.34 Table 5.10 shows the distribution of Government's external debt stock. At the end of 2010, borrowing through the 2006 global bond (JP Morgan) accounted for 49.8 percent of total external debt followed by multilateral and bilateral lenders at 32.7 percent and 17.5 percent, respectively.

**Table 5.10 External Debt stock (\$Million) by Creditors**

	2007	2008	2009	2010
Bilateral	37.4	53.6	68.9	96.2
Multilateral	126.9	157.8	169.0	179.2
Global Bond	232.7	264.6	289.3	272.9
<b>Total External Debt</b>	<b>397.0</b>	<b>476.0</b>	<b>527.2</b>	<b>548.5</b>

Source: Ministry of Finance

- 5.35 In terms of currency composition, the bulk of external debt is denominated in US dollars (79%), followed by the Japanese Yen (10.3%), Chinese Yuan (9.4%) and the Euro (1.0%).

### Interest Rates

- 5.36 In 2010, the fixed interest rate on external debt was 2.0 percent while the variable interest rate was around 3.5 percent. Concessional loans from EXIM Bank of China attract fixed interest rates while multilateral lenders charge variable rates based on the US-Libor market rate.

## Loans Prepaid in 2010

- 5.37 Government aims to reduce its debt stock in the medium term and one of the strategies is to prepay expensive debts.

**Table 5.11: Prepayment in 2010**

Loan	Currency	Payment (FJD)
2005 ADB Alternative Livelihood	USD	972,934.78
1979 NLTB/NLDC	EUR	781,962.05
1979 Vanua Levu Road	EUR	2,476,213.18
<b>Total External Loan Prepaid</b>		<b>4,231,110.01</b>

Source: Ministry of Finance

- 5.38 The redemption of the three loans resulted in a reduction of external debt stock by \$4.23 million in 2010 including savings on interest costs.

## Loan Funded Projects Completed in 2010

- 5.39 The E-Government project was the first concessional loan funded by the EXIM Bank of China with US\$20.0 million. The loan was fully disbursed in December 2010 in line with the signed agreement. One of the vital components of the loan is the provision of equipment and technological infrastructure for the Government Data Centre and this has been successfully completed.

## Contingent Liabilities

- 5.40 A Contingent liability is a fiscal obligation of Government which has not materialized but could have implications on Government's financial resources and fiscal position if realized.
- 5.41 Table 5.12 reflects the contingent liabilities outstanding between 2006 to September 2011. As at 31 December 2010, the balance was \$1.8 billion, equivalent to 29.0 percent of GDP. When compared to 2009, contingent liabilities decreased by \$163.9 million or 8.0 percent.

**Table 5.12: State Guarantees and Contingent Liabilities**

	2007 \$m	2008 \$m	2009 \$m	2010 \$m	2011 Sept
Fiji Development Bank	415.2	347.1	358.7	322.9	253.5
Fiji Electricity Authority	156.1	235.8	354.3	346.4	349.0
Fiji Harwood Corporation	12.8	12.6	13.2	17.2	17.4
Fiji National Provident Fund	873.3	874.0	866.0	758.3	973.2
Fiji Pine Limited	11.9	11.9	8.1	8.4	9.9
Fiji Sugar Corporation	32.7	65.2	140.3	121.9	116.0
Housing Authority	106.5	90.2	87.0	86.0	93.70
Fiji Sports Council	1.4	1.6	1.4	1.1	0.9
Fiji Ports Corporation Limited	41.4	43.6	40.3	41.5	39.0
Fiji Broadcast Cooperation Ltd	-	-	11.9	14.2	18.4
Others	15.6	14.9	11	9.7	8.0
International Subscriptions	51.7	58.3	63.1	63.1	63.1
Total	1,718.6	1,755.2	1,955.3	1,791.4	1,942.2
<b>Contingent Liability to GDP</b>	<b>31%</b>	<b>31%</b>	<b>35%</b>	<b>29%</b>	<b>28%</b>

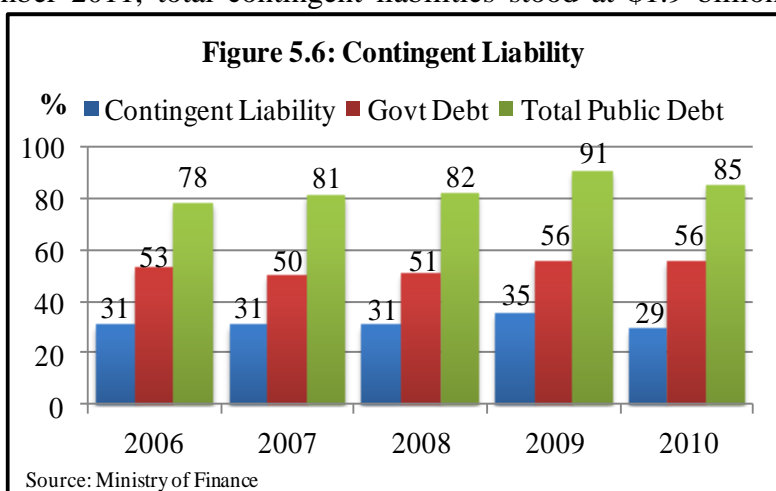
Source: Ministry of Finance

5.42 In 2009, total guarantee outstanding increased as a result of additional guarantees provided to FSC for its borrowings and FEA for the China Development Bank (CDB) loan to fund the Nadarivatu Hydro-Power Electricity Project.

5.43 At the end of 2010, total contingent liabilities were equivalent to 29.0 percent of GDP. When combined with Government debt, the average total public debt to GDP ratio for the five year period was 83.1 percent.

5.44 As at September 2011, total contingent liabilities stood at \$1.9 billion, equivalent to 28.0 percent of GDP, an increase of \$151.0 million compared to 2010.

5.45 Contingent liabilities continue



to pose significant risks to Government. Measures have been undertaken to keep contingent liabilities at a sustainable level over the medium term. For monitoring purposes, the Ministry of Finance conducts quarterly visits, and financial & debt sustainability analysis on guaranteed entities. In addition, a new Guarantee Policy is being formulated with the objective of minimizing risks to Government's fiscal position.

## **CHAPTER 6: POVERTY ALLEVIATION AND RURAL DEVELOPMENT**

### **Introduction**

- 6.1 The incidence of poverty is one of the fundamental challenges that all economies must address. Government in this regard, has and will continue to ensure that measures to protect the poor are maintained and strengthened in order to provide all citizens particularly the disadvantaged, a reasonable standard of living.
- 6.2 Government is also dedicated to growing the economy so that the benefits of economic development are shared amongst all communities. Inclusive economic growth is therefore the key to poverty reduction.
- 6.3 To this end, Government will continue to take an integrated approach towards poverty alleviation. Apart from ensuring income security, resources will be committed to providing the poor with access to infrastructure and essential services.
- 6.4 The Household Income and Expenditure Survey (HIES) Report revealed an overall decline in the incidence of poverty in Fiji from 35.0 percent in 2002-2003 to 31.0 percent in 2008-2009.
- 6.5 The report showed that while urban poverty declined from 28.0 percent to 19.0 percent, rural poverty increased slightly from 40.0 to 43.0 percent.
- 6.6 The report also revealed disparity in the incidence of poverty among the four divisions. The Northern division recorded the highest incidence at 48.0 percent, followed by the Eastern and Western divisions at 38.0 percent and 33.0 percent, respectively. The Central division recorded the lowest incidence at 21.0 percent based on the 2008/09 HIES.

### **Social Protection and Poverty Alleviation Initiatives**

- 6.7 In 2012, Government will continue to fund the following targeted poverty alleviation programmes:
- 6.8 *Welfare Graduation Programme:* This programme aims to engage the poor in income generating activities through the provision of start-up capital. Citizens requiring assistance under this programme are assessed on income levels and include recipients of the Family Assistance Scheme and the Care & Protection Allowance programme. In 2010, the program

was extended to ex-prisoners, youths and families of fire victims. Government is moving away from the direct “handout” approach to one that empowers individuals to become self sustainable. In 2012, a sum of \$600,000 has been allocated for this programme.

- 6.9 *Family Assistance Scheme (FAS)*: An allowance of \$60-\$100 per month is given to destitute families who are unable to support their daily needs. Those eligible for this assistance include, the elderly (65 years and over), the permanently disabled and chronically ill persons. In 2011, Government partially transited to an e-payment system facilitated by the Westpac Banking Corporation. Around 24,000 recipients will benefit from this scheme. The scheme will receive a budgetary allocation of \$15.0 million in 2012.
- 6.10 The Ministry of Social Welfare, Women and Poverty Alleviation (MSWWPA) will strengthen the administration of the scheme to only support deserving recipients. Review teams have been deployed to certain parts of the country to ascertain genuine cases.
- 6.11 In 2011, the Ministry signed an agreement with the National Employment Centre to provide training to FAS recipients with the intention of placing them in the formal job sector.
- 6.12 *Food Voucher Programme*: This scheme was introduced in 2010 as an additional social protection measure. This year, the programme was extended to cover the elderly (over 70 years and not receiving any form of government assistance), pregnant mothers who attend rural health clinics and families with children who attend schools in remote rural areas. A sum of \$12.6 million has been budgeted for the scheme in 2012.
- 6.13 *Care and Protection Allowance(C&P)*: Families and guardians providing support to orphans and abandoned children are provided monthly cash grants by the Government to assist in the provision of essential needs. C&P allowance is also extended to institutional homes which provide supportive services to deprived children. An allocation of \$4.4 million is provided for the programme in 2012.
- 6.14 *Grants to Voluntary Organisations*: Registered NGOs which support the Department of Social Welfare in poverty eradication activities are also given direct funding assistance by Government. For 2012, Government has provided a budgetary allocation of \$200,000 towards this initiative.

- 6.15 *Women's Plan of Action:* Government in collaboration with NGOs implement projects that aim to enhance social and economic empowerment of women. The budgetary allocation for 2012 has been increased to \$550,000 for this programme. In addition, a sum of \$96,000 is provided for the construction of Women Resource Centres.
- 6.16 *Free Bus Fare for school students:* The scheme was introduced in 2010 to provide transportation assistance to school children with family income threshold below \$15,000. The initiative assists in reducing the cost of education for financially disadvantaged students, increasing access to education and increasing overall school attendance, particularly in remote localities. This subsidy will continue in 2012 with an allocation of \$12.0 million.
- 6.17 To ensure efficient and cost effective administration of the scheme, an e-ticketing system will be introduced next year to allow students under the bus fare scheme to use smart cards or e-tickets to pay their fares.
- 6.18 *Concessionary Bus Fare for the Senior Citizens and the Disabled Persons:* Senior citizens and disabled persons have been granted bus fare concession from January 2011. Senior citizens with golden ID cards are given 50 percent fare concession while disabled persons with red ID cards can travel for free.
- 6.19 Furthermore, Government also provides discounted taxi fares to senior citizens, disabled persons as well as FAS recipients holding social welfare ID cards. The recipients would be entitled to a 20.0 percent discount for a traveling distance of up to 20 kilometers.
- 6.20 *Commerce Commission Price Regulation:* In order to protect consumers, price controls on basic food items, fuel, pharmaceuticals, and hardware will continue. Price control measures will continue in 2012 on a range of essential items. Government will consider price liberalisation on assurance of sufficient competition in the market to keep prices competitive.
- 6.21 *Electricity subsidy:* With rising energy costs, Government will continue to subsidise electricity for residential customers using less than 75 kWh and schools using up to 200 kWh per month. In 2012, Government has allocated \$3.5 million for this subsidy.
- 6.22 *National Housing Policy (NHP):* Government is committed to providing equitable access to affordable and quality housing to all citizens. The



NHP launched in 2011, provides a clear strategic direction to facilitate the development of the housing sector. A sum of \$174,000 has been allocated towards this initiative in 2012.

- 6.23 *Housing Assistance:* The Housing Authority’s Wailea City project is currently underway. A sum of \$10.0 million has been provided in the 2012 Budget to assist first home buyers purchase homes in Wailea City.
- 6.24 *Sustainable Rural Housing Income Generating Project:* Due to the rise in informal settlements in Fiji, Government will facilitate the resettlement of squatter dwellers and engage them in income generating agricultural activities. Through a strategic partnership between relevant stakeholders, the program would provide inhabitants training on farming skills and house construction. A sum of \$500,000 has been provided for the project in 2012.
- 6.25 In addition, the Asian Coalition of Housing Rights (ACHR) has provided assistance for the upgrading of squatter settlements in various towns and cities around the country. Government has also committed \$500,000 towards this project.
- 6.26 The table below sets out Government’s assistance towards poverty alleviation programs in 2012.

**Table 6.1: Government Assistance for Poverty Alleviation: 2011 – 2012**

	<b>2011 Revised (\$M)</b>	<b>2012 Budget (\$M)</b>
<b>Department of Housing</b>		
Squatter Upgrading & Resettlement Programme	1.5	2.0
HART	1.0	0.6
National Housing Policy	-	0.17
Sustainable Rural Housing Income Generating	-	0.5
<b>Strategic Planning, National Development &amp; Statistics</b>		
Northern Development Programme	1.0	1.0
<b>Public Service Commission</b>		
Multi-Ethnic Scholarships	5.5	5.5
<b>Education</b>		
Bus Fare Subsidy	12.0	12.0
<b>Social Welfare</b>		
Food Voucher Program	11.0	12.6
Welfare Graduation Program	0.6	0.6
Capital Grant to Voluntary Organisations	0.2	0.2

	<b>2011 Revised (\$M)</b>	<b>2012 Budget (\$M)</b>
Family Assistance Scheme	15.0	15.0
Care and Protection Allowance	4.4	4.4
Women's Plan of Action	0.3	0.55
<b>Labour</b>		
National Employment Centre(NEC)	1.0	1.1
<b>Office of the Prime Minister</b>		
Integrated National Poverty Eradication	0.3	0.3
<b>Miscellaneous</b>		
Housing Assistance to first home buyers	10.0	10.0
FDB-Subsidy Grants to All Citizens	2.5	3.98
Students Loan Scheme	1.0	1.0
FDB – Interest Subsidy (Northern Division Projects)	0.5	0.55
FEA Subsidy	3.5	3.5

Source: Ministry of Finance

- 6.27 *Integrated National Poverty Eradication Programme (INPEP)*: The programme aims to improve and empower the poor and disadvantaged to graduate out of poverty. In 2011, an assessment was conducted on 12 pro-poor programs within the INPEP to gauge the progress of programme objectives. The programme will continue to receive budgetary support of \$300,000 in 2012.
- 6.28 *National Employment Centre (NEC)*: the NEC Decree sets the framework for harmonising Government's employment creation policies and programmes. The NEC endeavours to boost employability by providing best skills training, counseling services and practical attachments in various industries and work places. A budgetary support of \$1.1 million has been allocated in 2012 towards this initiative.

### **Rural and Outer Island Development**

- 6.29 The development of rural and outer islands is important for alleviating the high incidence of poverty in rural areas. It is also critical in addressing the rural to urban drift that is mainly attributed to disparity in employment, income and the availability of basic infrastructure. This has prompted Government to strengthen its commitment in improving living standards in these areas.

- 6.30 In this regard, Government will continue to provide and improve infrastructure in the rural areas including access to essential services such as education, health care, basic utilities and financial services. Support for tourism related activities through appropriate policy measures will encourage further development and improve living standards.
- 6.31 *The Integrated Rural Development Framework (IRDF)*: Under this framework, Divisional Commissioners play a significant role in directing and coordinating development at the divisional level. This improves the delivery of Government services to the rural areas through improved coordination amongst relevant stakeholders.
- 6.32 In terms of planning and decision making, Provincial Development Boards (PDB) and Divisional Development Boards (DDB) have been established in the four divisions. In 2012, a total of \$11.2 million has been provided for all Divisional development projects.

**Table 6.2: Rural & Outer Island Development Programs: 2011 – 2012**

	2011 Revised (\$M)	2012 Budget (\$M)
Grant to CATD <sup>14</sup>	0.5	0.53
Agriculture Extension services	0.25	0.4
Maintenance of Completed Irrigation Scheme	0.3	0.5
Drainage & Flood Protection	4.0	7.0
Watershed Management	0.3	1.5
Grant to Self-Help Projects	1.0	1.0
Divisional Development Projects	5.6	5.73
Rural Housing Assistance	1.0	1.0
Upgrading of Rural Roads <sup>15</sup>	1.8	1.5
Upgrading of Existing Cane Access Roads	1.8	1.5
Upgrading of Non Cane Access Roads	1.8	1.5
Upgrading of Outer Island Jetties	3.0	8.5
Upgrading of Outer Island Stations	0.12	0.12
Rotuma Island Development Programme	0.05	0.05
Rural Electrification Project	3.7	10.0
Renewable Energy Projects	1.5	6.13
Fiji Groundwater Assessment and Development Project on small Islands	0.1	0.1
Dental Equipment for Sub-Divisional Hospitals	0.3	0.3
Biomedical Equipment for Sub-Divisional Hospitals	-	0.3

<sup>14</sup> Center for Appropriate Technology & Development

<sup>15</sup> Budget allocation under Ministry of Works and Transport

	<b>2011 Revised (\$M)</b>	<b>2012 Budget (\$M)</b>
Fiji Road Upgrading Project (FRUP)	39.0	22.5
Rural Laboratories	-	1.0
Rural Health Centres	0.7	4.48
Shipping Franchise Scheme	1.5	1.5
Upgrade and Purchase of Government Shipping Vessels	3.4	3.5
Other Rural Water Supply <sup>16</sup>	2.4	3.8
Upgrading of Rural Airstrips	4.7	1.2
Rural Postal Services	0.1	0.3
Banking Services for Non-Economical Rural areas	0.1	0.1
Rural Sporting Facilities	-	0.15
Rural & Outer Island Agriculture Development Programme	1.5	1.75

Source: Ministry of Finance

- 6.33 To ensure improved performance in rural and outer island development, partnership with NGO's and community based organisations will be strengthened to complement Government's outreach to remote areas.

<sup>16</sup> Allocation is part of Water Authority of Fiji's budget for 2012.

## CHAPTER 7: PRIORITY ECONOMIC SECTORS

- 7.1 Government's strategy to revive growth over the medium term entails channeling resources to key priority sectors that have the potential to generate quick returns and trigger economic spin-offs.
- 7.2 Recognising the need to grow Fiji's economic base, Government will continue to focus on developing the major resource based sectors as well as those sectors that can directly support employment and poverty alleviation.

### Agriculture

#### Overview

- 7.3 Agriculture continues to play an integral part in Fiji's overall development. It provides food and income security, promotes community development in rural areas and is an important source of foreign exchange earnings.
- 7.4 The performance of the sector continues to be challenged by a combination of factors, such as vulnerability to natural disasters, incursion of pest and diseases, inadequate infrastructure, high production and transportation costs, poor husbandry practices, market deficiencies and limited access to finance by farmers.

#### Non-Sugar

- 7.5 The non sugar agricultural sector over the years has shown a promising trend. The main commodities' that constitute this sector are root crops (dalo, cassava, yams, sweet potato and yaqona), tropical fruits (pineapple, pawpaw and mango), vegetables, spices, coconut products and livestock.
- 7.6 In terms of GDP, the non-sugar agriculture sector had an average contribution of 7.5 percent over the period 2005-2010.

**Table 7.1: Agricultural Production 2007-2012**

Domestic Production (tonnes)	2007 (a)	2008 (a)	2009 (a)	2010 (a)	2011 (f)	2012 (f)
Papaya	9,091	7,265	2,446	2,190	2,300	2,414
Ginger	3,110	2,488	2,787	2,338	2,455	2,578
Cassava	61,379	55,773	42,332	51,690	54,275	56,988
Dalo	61,662	74,009	69,863	60,283	63,297	66,462

Domestic Production (tonnes)	2007 (a)	2008 (a)	2009 (a)	2010 (a)	2011 (f)	2012 (f)
Rice	14,870	11,595	11,637	7,684	8,068	8,471
Beef	1,958	1,866	1,719	1,761	1,827	1,864
Dairy	11,100	10,300	11,070	10,200	13,000	13,300

Source: Department of Agriculture; (a) = actual, (f) = forecast

## Policy Framework

- 7.7 To support development in the agriculture sector, Government will continue to implement a “Demand Driven Approach”. The programme aims to address failures in the supply chain and connect production to markets.

### Demand Driven Approach

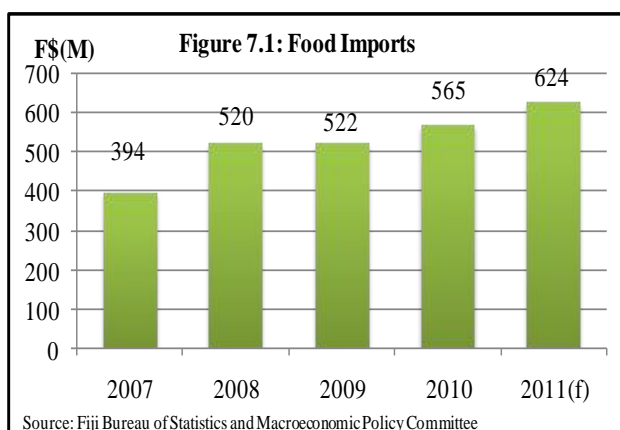
- 7.8 Government’s ‘demand driven approach’ focuses on attaining the following policy objectives:

- Facilitate private sector development;
- Accelerate agricultural diversification into areas of competitive advantage (e.g. high value niche export and traditional crops);
- Promote food security, including rice and milk; and
- Enhance tourism-agriculture linkages.

- 7.9 The success of Government projects depends also on private sector involvement. Hence, to facilitate close collaboration with the private sector, a National Crop & Livestock Council and the National Research Council have been set up. The objective is to encourage private sector participation in the planning and formulation of project priorities.

### Food Security Programme [FSP]

- 7.10 Food continues to be one of the major contributors to Fiji’s import bill, accounting for \$565.0 million or 16.5 percent of imports in 2010. Government is therefore committed to reducing imports of



agriculture commodities over the medium term.

- 7.11 In line with this commitment, Government has adopted a “*Feed Fiji First: Go Local*” theme, in-line with the “*Fijian Made and Buy Fijian Campaign*”. Priority will also be given to improving linkages to other economic sectors such as tourism to reduce food imports and support economic activities in the rural areas.
- 7.12 In 2012, a sum of \$1.0 million is provided for the Food Security programme. The Department of Agriculture (DOA) will also focus on off-season production including value adding activities. Accordingly, a sum of \$260,000 is provided to support potato development, \$600,000 to revitalise rice, \$300,000 for the Sigatoka Valley Development, \$500,000 for the Saivou Valley and Nadarivatu Development Program and around \$350,000 for cocoa, ginger and vanilla development programs.

**Table 7.2: Major Agricultural Import Commodities, 2007 – 2010**

		2007	2008	2009	2010
<b>Dairy</b>	Production (t)	11,100	10,300	11,070	10,200
	Imports (t)	12,649	14,840	10,996	13,778
	Import (\$)	53,179,593	62,393,093	46,896,260	70,025,363
<b>Potato</b>	Production (t)	n/a	n/a	n/a	434
	Imports (t)	18,516	16,763	18,321	19,565
	Import (\$)	14,981,556	16,818,460	15,536,513	18,106,241
<b>Beef</b>	Production (t)	1,958	1,866	1,719	1,761
	Imports (t)	3,128	2,980	2,687	3,620
	Import (\$)	10,661,395	10,765,678	10,636,091	17,358,066
<b>Sheep</b>	Production (t)	33	56	45	64
	Imports (t)	7,813	8,102	7,024	4,275
	Import (\$)	28,856,801	28,496,040	27,996,790	25,636,382
<b>Rice</b>	Production (t)	14,870	11,595	11,637	7,684
	Imports (t)	32,758	49,784	30,613	44,124
	Import (\$)	24,553,296	39,784,101	34,446,399	37,464,152

Source: Department of Agriculture and Fiji Bureau of Statistics  
t=tonnes

### **Export Promotion Programme (EPP)**

- 7.13 Government has identified a number of agricultural commodities that are potentially high value niche exports. These include fresh fruits, vegetables, cut flowers, herbs and certified organic products – including virgin coconut oil.

- 7.14 In support of export development, Government has allocated \$1.0 million in the 2012 Budget towards the export promotion programme. Government will also work to ensure that market needs are met while production standards are improved. The strategic use of public-private partnership (PPP) under the umbrella of the National Crop and Livestock Council and the National Research Council will be strengthened to support the efficient and effective use of resources.

**Table 7.3: Major Agricultural Export Commodities, 2007 – 2010**

		2007	2008	2009	2010
<b>Dalo</b>	Production (t)	61,662	74,009	69,863	60,283
	Export (t)	12,648.81	14,840.49	10,996.32	10,513.35
	Export (\$)	23,647,269	22,175,115	20,088,669	23,775,596
<b>Cassava</b>	Production (t)	61,379	55,773	42,332	51,690
	Export (t)	1,709.94	1,800.52	2,522.19	2,257.95
	Export (\$)	2,441,155	2,185,006	2,933,898	2,871,471
<b>Ginger</b>	Production (t)	3,110	2,488	2,787	2,338
	Export (t)	1,228.21	1,394.73	1,037.13	1,003.72
	Export (\$)	5,474,352	5,818,251	6,385,854	6,489,644
<b>Pawpaw</b>	Production (t)	9,091	7,265	2,446	2,190
	Export (t)	174.16	184.27	176.50	432.19
	Export (\$)	1,993,739	1,387,090	957,614	1,481,249
<b>Kava</b>	Production (t)	3,349	3,286	2,603	2,792
	Export (t)	463.39	392.89	212.24	243.56
	Export (\$)	1,993,739	1,387,090	3,946,254	3,900,667

Source: Department of Agriculture and Fiji Bureau of Statistics  
t=tonnes

### Other Policy Initiatives

- 7.15 To address the effects of climate change, work will continue on the dredging of the Nadi River and other rivers in Fiji. Likewise, work on watershed management in the Nadi water basin will continue with more emphasis on community education and partnership. This will also be replicated in other watersheds in Ba and Vanua Levu. Other areas that will be addressed include farm management practices and sustainable land management. A total of \$10.5 million is provided in the 2012 Budget for drainage and flood protection, watershed management and drainage subsidy.
- 7.16 The DOA will also undertake further research into disease resistant varieties of agriculture commodities. Other areas of research include seasonality, agronomical practices, farm management and feed technology. In this regard, a sum of \$850,000 has been provided in the

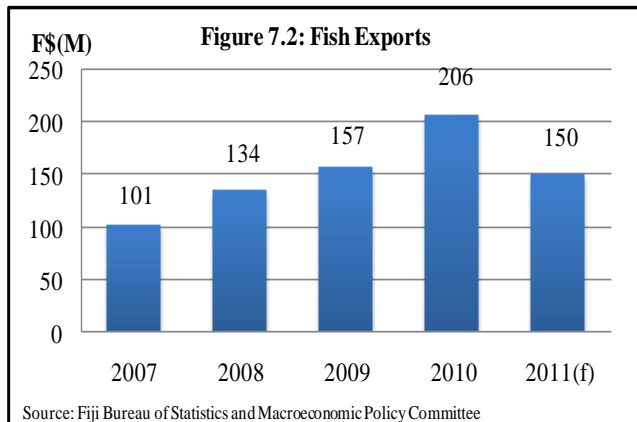


2012 Budget for crop research and around \$3.6 million for livestock related research.

- 7.17 Furthermore, negotiations on market access and Bilateral Quarantine Agreement (BQA) will be vigorously explored. To this effect, the DOA will engage the assistance of multilateral trade agencies to facilitate market access for key commodities.
- 7.18 The 2012 Budget provides specific incentives to encourage and promote private sector investment in the sector.

**Fisheries**

- 7.19 Fisheries is an equally important sector in terms of its contribution to GDP, as well as in supporting livelihoods. Export earnings from the sector in 2010 are estimated at \$206.0 million, equivalent to around 13.0 percent of total exports.



- 7.20 In terms of employment, the sector directly employs approximately 9,150 individuals and provides around 18,000 to 20,000 jobs indirectly. Fish production has averaged 20,000 metric tonnes in the last 10 years. Of this, the offshore fisheries industry contributes 67.0 percent whilst artisanal fisheries contribute 28.0 percent and the remaining 5.0 percent is attributed to aquaculture.

**Offshore Fisheries**

- 7.21 Offshore fisheries exports continue to be the dominant contributor to foreign exchange earnings accounting for 89.0 percent of total export earnings. The offshore fisheries industry is dominated by tuna species in terms of output and exports. On average, Fiji exports 87.0 percent of its tuna to Japan, USA and American Samoa. The remaining 13.0 percent are exported to China, Thailand, New Zealand, Canada and Korea. It is estimated that about 42.0 percent of total catch is sold to canneries, 37.0 percent as fresh fish exports, and 21.0 percent as domestic sales.

- 7.22 Fiji has successfully re-enlisted as a fish exporting country to the European Union (EU) Market. Government assisted two local companies through the National Export Strategy (NES) to comply with EU standards. The establishment of the Food Unit through the Ministry of Health has also strengthened quality control measures and fish handling procedures that conform to the EU's health standards.

### **Inshore & Aquaculture Fisheries**

- 7.23 Apart from fresh and canned fish exports, the fisheries sector also export other products such as aquarium, pearl and reef food fish. The pearl and aquarium fisheries subsectors have shown growth potential. In recent years, the sector has expanded to include other fisheries, such as live rock and live coral.
- 7.24 The Inshore & Aquaculture Fisheries development program covers three main areas - mariculture, freshwater culture and brackishwater culture. A sum of \$500,000 has been allocated for Coastal Fisheries Development Project and a further \$500,000 is provided for the Marine Resource Inventory Survey.

### **Policy Framework**

- 7.25 Government through the Department of Fisheries is committed to assisting the fisheries sector through the following initiatives:
- Review the existing institutional arrangement including legislation to take account of global and national developments;
  - Encourage PPP for industry driven research and training;
  - Building capacity at community level to manage inshore fisheries and coral reef resources;
  - Build local industry capacity on Hazard Analysis and Critical Control Points (HACCP) and Convention on International Trade in Endangered Species (CITES) requirements for export and import controls;
  - Enhance resource assessment and management of inshore and inland fisheries; and
  - Undertake both applied fisheries and trade research to focus on product development for export.
- 7.26 Current legislative reforms for the sector entail the preparation of three separate, yet complementary pieces of legislation for national fisheries

management namely: Offshore Fisheries, Aquaculture and Inshore Fisheries. Government is also committed to reviewing the institutional approach to fisheries management in Fiji.

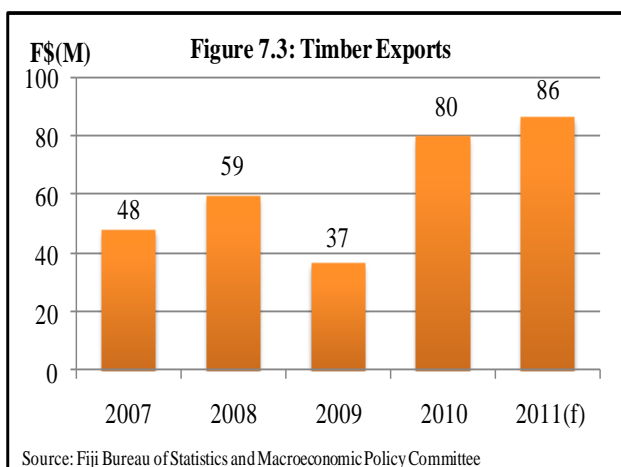
- 7.27 Other significant policy initiatives that will be completed in 2012, include the preparation of a National Fisheries Policy, the review of the Tuna Management & Development Plan and the development of both an Aquaculture and Inshore Management and Development Plan.

### Other Initiatives

- 7.28 As a precursor to the 95<sup>th</sup> Session of the ACP Council of Ministers meeting to be held in Vanuatu in June 2012, Fiji will host the 3<sup>rd</sup> ACP Ministerial Meeting on Fisheries in April, 2012. A sum of \$200,000 is being allocated in the 2012 Budget for this purpose. This high-level meeting provides an opportunity to showcase Fiji’s fisheries industry including potential investment prospects in the aquaculture sector.

### Forestry

- 7.29 Fiji has a total of 1,054,419 hectares of forest cover, representing 58.0 percent of total landmass. The forest is made up of 899,229 hectares of native forest, 52,419 hectares of hardwood plantations, 64,068 hectares of softwood plantations and 38,742 hectares of mangrove forest. The sector on average accounts for 1.2 percent of GDP and contributes some 4.1 percent towards total domestic exports.



- 7.30 Export earnings declined by 38.0 percent in 2009 due to depressed demand in the global economy. In 2010 export earnings increased to \$80.0 million and this is projected to increase to \$86.0 million in 2011. Pine wood chips comprise the largest export with an average of 236,330 metric tonnes being exported exclusively to the Japanese market.

- 7.31 The medium term outlook is positive given the establishment of the world's largest mahogany processing plant in Deuba by Sustainable Mahogany Industry Limited (SMIL). This new investment has provided employment to around 100 locals.
- 7.32 In addition, Future Forest Fiji Limited (FFFL) is focusing on sustainable, large scale planting and harvesting of teak, one of the world's greatest hardwood timber. To date, more than 140,000 teak trees have been planted in the Ra Province. FFFL has also built the largest commercial tree nursery in Fiji with a capacity of 400,000 seedlings per annum. Teak plantation has enormous potential as it is anticipated to generate long-term employment and future revenue sources for resource owners and rural communities.

### **Policy Framework**

- 7.33 The Department of Forestry has played an integral role in laying the foundation to harness Fiji's rich forest resources. The review of the Forest Decree (2009), the National Forest Inventory, the formalisation of the Fiji Forest Policy Statement and the National Forest Program, all provide a sound policy framework for sustainable management of Fiji's forest resources. To this end, a sum of \$336,000 has been allocated in 2012 for the Ecosystem Rehabilitation Project.
- 7.34 The Mahogany Industry Development Decree 2010 also facilitates sustainable harvesting and reforestation of mahogany with the view to create long term economic returns. A sum of \$250,000 has been allocated for the Fiji Mahogany Trust in 2012.
- 7.35 Furthermore, the adoption of the Fiji National Harvesting Code of Practice and the launching of the National Standards for Forest Certification aim to uplift the standards of forest industries and promote high quality forestry products. SMIL was accredited with the "Fiji Pure Mahogany" forest certification which effectively brands Fiji's unique mahogany timber as an internationally recognized quality product that is harvested sustainably.
- 7.36 The One Million Tree Planting Initiative campaign is aligned with the national goal to increase forest area by 2.0 percent annually. To date, 1,177,855 trees have been planted. Other measures being implemented include the revitalisation of the sandalwood plantation in 2011 and 2012.

7.37 Government is committed to ensuring the provision of appropriate institutional and physical infrastructure to support the development of the sector including sustainable development and management of forestry resources.

### Other Initiatives

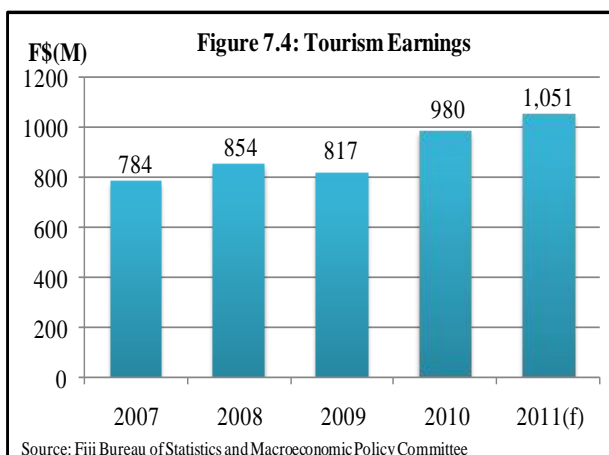
7.38 The Department of Forestry through its Timber Industry Training Center is currently implementing the waste wood project. The key objective of the project is to maximise utilisation of wood waste through processing into high value, high quality products that could compete with alternative timber imported products. Technical training in this respect is targeted at resource owners. Government has allocated \$200,000 in the 2012 Budget towards this project.

7.39 In addition, the Department will embark on further research & development of wood & non wood species to provide accurate and quality technical information on these species. This project is envisaged to substitute demand for species such as Vesi, Yaka, Dakua, Kauvula and Kaudamu with lesser known and used species as well as substitute imported non wood forest products. A sum of \$150,000 has been allocated in the 2012 Budget for this initiative.

7.40 Furthermore, the Department will commence implementation of the Fiji Reducing Emissions from Deforestation and Forest Degradation (REDD+) Policy. Through this project, Fiji will be able to participate in an appropriate carbon financing mechanism under REDD+ before December 2015. Government has provided a sum \$300,000 for this initiative in 2012.

### Tourism

7.41 The tourism sector has continued to perform exceptionally well and is Fiji's largest foreign exchange earner. The industry provides direct and indirect employment to an estimated 45,000 people. It is mainly private sector driven



and contributes approximately 30.0 percent to GDP. Visitor arrivals continue to increase reaching 631,868 in 2010 and are expected to reach 676,099 at the end of 2011. The industry is expected to hit the “billion dollar mark” in terms of foreign exchange earnings this year.

- 7.42 Sustaining the tourism growth is critical and will require consistency and commitment from all stakeholders in the industry.

### **Fiji Tourism Development Plan 2007-2016**

- 7.43 Consultation on the review of the plan has commenced to ensure that recommendations and targets set in 2006 are still relevant and realistic, and to ensure that Government maximises its return on investment.

### **Current Tourism Initiatives**

- 7.44 Government has implemented the Registration of Surfing Areas Decree and the Denarau (Nadi River) Development Decree to assist the growth of the tourism industry.
- 7.45 The industry faces tough competition from other international markets, with regional players becoming more influential. Therefore, it is necessary that the industry strategically positions itself to meet global demand and ensure continued growth.

### **Global Marketing Initiatives**

- 7.46 Tourism Fiji will continue its global branding initiatives in all source markets through the National Geographic and CNN TV networks and online platforms under the ‘Fiji Me’ branding, to ensure that Fiji remains a top destination for potential visitors.
- 7.47 In support of Air Pacific’s direct flights to Hong Kong, Tourism Fiji will strengthen its presence and efforts in China, India, Europe and the UK to drive traffic through this route to Fiji.

### **Tourism Fiji Marketing Grant**

- 7.48 To ensure the continued growth of the tourism sector, Government is providing a sum of \$23.5 million in the 2012 Budget to Tourism Fiji as marketing grant.

## Mining & Groundwater

7.49 Mining and exploration in Fiji has been dominated by gold production from the Vatukoula mine, although significant revenues also come from other industrial minerals such as sand, gravel, quarried stone and coral sand. The mining and quarrying sector on average, accounts for 1.5 percent of GDP and accounted for around 9.0 percent of total domestic exports in 2010.

7.50 A total of 10 projects were registered and implemented from 2007 to 2011. These investments were cumulatively valued at around \$42.0 million and provided employment opportunities to approximately 100 personnel.



7.51 After declining in 2006, the mining industry is showing resilience in light of improving production levels and export values. Gold, as the country's second largest individual export earner contributed nearly \$90.0 million in 2010 and is forecast to surpass the \$100 million mark in 2011.

**Table 7.4: Production, Export Value of Gold & Related Commodities**

	2007	2008	2009	2010	2011*
<b>PRODUCTION</b>					
Gold (kg)	28	698	1,089	1,899	734
Silver (kg)	0	265	313	328	203
Quarried Stone (m <sup>3</sup> )	n/a	n/a	197,126	291,063	n/a
River Sand & Gravel (m <sup>3</sup> )	n/a	n/a	89,748	136,757	n/a
River Sand (m <sup>3</sup> )	n/a	n/a	32,494	25,248	n/a
Coral Sand (m <sup>3</sup> )	n/a	n/a	n/a	n/a	n/a
<b>EXPORT VALUE</b>					
Gold (\$'000)	2,553	26,722	40,985	89,891	66,949
Silver (\$'000)	n/a	149	316	552	451
<b>PRODUCTION VALUE</b>					

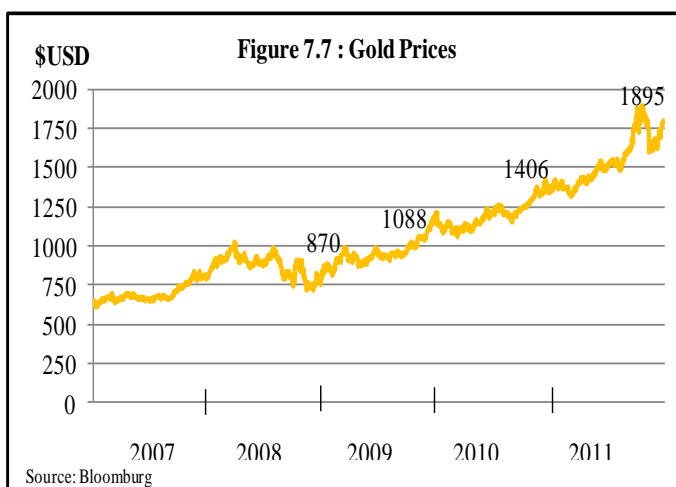
	2007	2008	2009	2010	2011*
Quarried Stone (\$'000)	5,783	2,646	3,731	16,795	2,360
River Sand & Gravel (\$'000)	3,991	3,483	5,717	7,473	3,355
River Sand (\$'000)	2,376	807	946	1,862	109

Source: Fiji Bureau of Statistics, Mineral Resources Department

\* As at 31<sup>st</sup> July, 2011

### ***Vatukoula Gold Mines***

7.52 Vatukoula gold production increased to 22,497 ounces (698kg) in December 2008. In 2010, gold production increased to around 61,172 ounces (1,899kg), an estimated increase of 75.0 percent from 2009. Higher gold prices in the world market price have added further impetus to gold exports.



7.53 In line with the upgrade of its mining machinery and power-generating facilities, the company signed a Memorandum of Understanding (MoU) with the FSC for future purchase of power from the bagasse power project at the Rarawai Mill, as an alternate source of power for the mine.

### ***Namosi Joint Venture***

7.54 The Namosi Joint Venture (NJV) has been granted a Special Prospecting Lease by Government to explore for copper and other minerals in the Waisoi area in Namosi Province.

7.55 This location has been explored and studied for potential mining for around 40 years. Apart from ongoing exploration activities, Government has initiated community consultation to help develop the Terms of Reference (TOR) for the Waisoi project's environmental and social impact assessment (EIA). The EIA study is expected to be completed during the first half of 2012.



- 7.56 The project is expected to inject approximately \$2.0 billion into the domestic economy provided that all environmental and social safeguards have been met. The high price of copper in the world market is expected to boost exports in 2012, should the Waisoi copper mine commence operations on schedule.

### ***Mt Kasi Goldmine***

- 7.57 The Mt Kasi goldmine in Savusavu contains a historic 240,000 ounces of gold with known mineralisation open along strike and at depth. In mid 2011, Newcrest Exploration (Fiji) Limited was selected as the preferred bidder to embark on an exploration program targeting a large epithermal and porphyry related gold deposit. Field work will start this year.

### ***Nawailevu Bauxite Mining***

- 7.58 In May 2011, a bauxite mining lease was awarded to Aurum Exploration Fiji Limited and mining operations have commenced. The company is expected to export 1.0 million tonnes of bauxite minerals, worth around \$30.0 million in the first two years. The estimated labour force will be around 100 and of this, 70-80 percent could potentially be local employees.

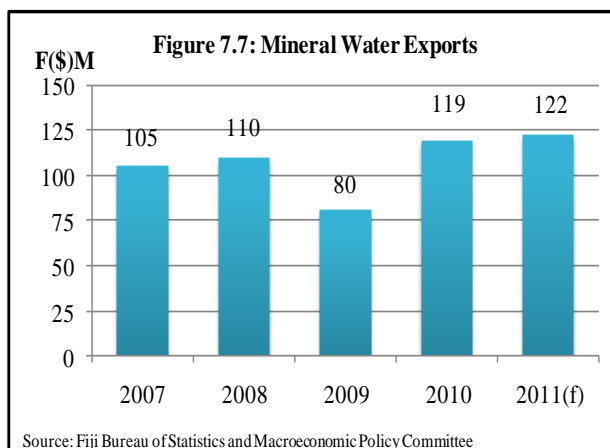
### **Exploration Activities**

- 7.59 The rising world gold and copper prices and the shortage of physical metal supply have opened up opportunities for mining and exploration companies to prospect and invest. As at June 2011, a total of 49 exploration licences covering 576,146 hectares were issued, while a further 37 applications were in varying stages of processing, which included deep sea exploration.
- 7.60 The increase in exploration expenditure signals the country's mineral resource potential. Other than gold, the discovery of several types of mineral deposits such as copper, zinc, manganese, bauxite, alumina and so forth provides added impetus for diversification of the mineral base, which could lead to an exponential increase in export earnings.
- 7.61 From 2014 onwards, Government intends to firmly establish a mining industry that fosters good governance, ensures environmental sustainability and provides equitable returns to the investors, resource owners and Government.

7.62 Government has allocated a sum of \$800,000 in 2012 for the Mineral Investigation Programme.

### **Groundwater Resources**

7.63 Over the past decade, the groundwater resources sector has grown to be an important industry. The sector consists of the extraction of groundwater, value addition, and development of bottled mineral water mainly for exports. New small-scale ventures have emerged and 2 projects valued at around \$1.6 million were implemented creating employment opportunities for locals.



7.64 On account of commendable reputation in the US market and the world over, export receipts from bottled mineral water has contributed significantly towards foreign exchange earnings and sustainment of livelihoods through employment.

7.65 In 2010, export earnings from bottled mineral water were estimated at around \$119.0 million, the highest ever recorded since 2007. By the end of 2011, it is projected that export earnings will surpass \$120.0 million.

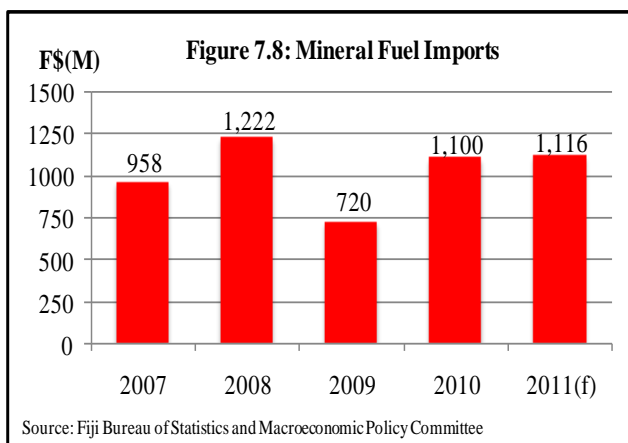
7.66 Government recognises that bottled mineral water as an export commodity serves as a powerful advertisement and marketing strategy for Fiji. Government is therefore dedicated towards developing the country's mineral and groundwater resources sector. In 2012, the Government has allocated a sum of \$620,000 towards the Groundwater Assessment and Development Project.

### **Renewable Energy Sector**

7.67 The provision of sustainable energy supply is essential for economic development and growth. Similar to other countries in the region, Fiji is heavily dependent on imported fuel to fully meet domestic demand for

energy. As such, the economy remains vulnerable to fluctuations in world crude oil prices. Fuel imports have increased substantially from around \$720 million in 2009 to \$1.1 billion in 2010. By end of 2011, imports are projected to surpass \$1.1 billion.

7.68 Rising fuel prices has had a direct effect on the cost of living in Fiji. Prices of basic food items and services have continued to increase over the past years.



7.69 Factors that continue to affect the provision of energy services in Fiji include: limited

internal markets, lack of economies of scale, high transportation costs, remoteness of islands, vulnerability to natural disasters, significant difficulties in attracting foreign direct investments, and limited human and institutional capacity. The nexus between energy services and economic development is further complicated by the following:

- limited integration of the energy sector with the other sectors so as to maximise synergy and the efficient use of financial resources; and
- ongoing loss in preferential access to Organisation for Economic Cooperation and Development (OECD) markets.

7.70 Imported diesel fuel is the chief source of primary commercial energy and is used largely for transportation and electricity generation. The ratio of fuel imports to total merchandise exports remains high. The relatively low level of conversion efficiency for commercial and domestic energy needs continues to cause imbalances in trade.

### **Renewable Energy Initiatives**

7.71 Government through the Department of Energy (DOE) is promoting the development and use of renewable energy sources such as hydro, wind, wave, tidal, biomass, geothermal and bio-fuels. Stand alone solar home systems are used in several rural communities in Fiji. Other small rural communities have developed hydro schemes to meet energy requirements.

The DOE is also supporting the development of bio-fuels using copra and jatropha. In addition, collaboration with FSC for the production of ethanol from molasses is being pursued. In 2012, a sum of \$2.7 million has been allocated for the Bio-Diesel Implementation Project.

- 7.72 In terms of the electricity sector, around 51.0 percent of the country's electricity requirements are met from renewable energy sources which include; hydro (48.0 %), biomass (2.0 %) and wind & other renewable resources (1.0 %). This is provided largely through the FEA's grid network on Viti Levu, Vanua Levu and Ovalau. Imported petroleum (Industrial Diesel & Heavy Fuel Oil) for back-up generators make up the remaining balance of 49.0 percent. The DOE has coordinated the installation of 500 diesel generators, 1,400 Solar Home Systems and 3 mini hydro's in rural communities and schools around the country. Through donor assistance, a sum of \$4.0 million has been directed towards this project in 2012.

### **Policy Framework**

- 7.73 A Rural Electrification Policy has been in place since 1994 which is the basis for the ongoing rural electrification programme. In addition, Government has approved a charter for renewable energy-based rural electrification schemes in 2003. The charter provides a mechanism for Renewable Energy Service Companies (RESCO) to install and maintain renewable energy-based projects. A draft renewable energy legislation to support the charter is under consideration.
- 7.74 The National Energy Policy (NEP) 2006 was developed to reduce fuel imports, strengthen energy security and build up a resource efficient, cost effective and environmentally sustainable energy sector. The NEP provides a common framework for all stakeholders to work towards optimum utilization of energy resources. There are four key strategic areas that the NEP focuses on: National Energy Planning, Energy Security, Power Sector and Renewable Energy:
- i) Energy Planning - covers four broad areas including institutional strengthening of the DOE, development and review of appropriate frameworks, coordination & consultation with stakeholders and the management of energy information.
  - ii) Energy Security - ensures stable and adequate energy supplies to the country through diversifying our energy base and developing renewable energy resources and other alternative fuels. In

addition, it includes the promotion of energy conservation and efficiency in energy production, conversion and use.

iii) Power Sector - focuses on ensuring that the entire population has access to electricity through the extension of the FEA grid network, stand-alone systems by the DOE, and extensions from Government stations. The involvement of the private sector in the provision of electricity is encouraged.

iv) Renewable Energy – Focuses on ensuring increased use of affordable and appropriate renewable energy technologies through quantifying the local renewable energy resources available, providing incentives for the importation and use of renewable technologies, and adapting renewable energy based standards for local use. In 2012, a sum of \$300,000 has been allocated for the Renewable Energy Development Project.

7.75 The NEP will be reviewed at the end of 2011, with assistance from the World Bank.

7.76 It is against this background that the DOE is proposing to develop an Energy legislation that will regulate the production, supply and use of energy. In addition, the legislation will ensure that due diligence is given to reduce the impacts of energy production, supply and use on the environment.

## **Micro, Small & Medium Enterprises**

### **Overview**

7.77 Micro, Small and Medium Enterprises (MSMEs) allow some of the most marginalised and vulnerable groups to diversify incomes, create new sources of economic growth and generate additional employment (including self-employment) in rural areas. In Fiji's case, MSMEs are concentrated in the populated areas in the peri-urban centers.

7.78 The objective is to create globally competitive MSMEs, particularly those enterprises who have proven to be successful in their operations. A number of the MSMEs have entered the export market and are providing valuable auxiliary service to major sectors such as tourism, agriculture and manufacturing.

- 7.79 In order to strengthen MSMEs, Government will continue to implement measures to enable the growth of this sector. In October 2011, Government also endorsed MSMEs to brand its products through the Industry Emblem Decree 2011. Under this Decree, any eligible MSME will be permitted to use the emblem at no cost, to brand and promote their products as 'Fijian Made', for the first two years. Funding has been provided in the 2012 Budget for this purpose.
- 7.80 In addition, a grant of \$3.0 million is provided for Start-Up and Medium Enterprise Development.

### **Policy Framework**

- 7.81 The National Centre for Small & Medium Enterprise Development (NCSMED) is tasked with supporting MSME development. This includes identifying and developing business opportunities for MSMEs, enhancing managerial and technological capabilities, developing financing programs and strengthening institutions that support MSMEs. Also, encouraging mainstream businesses to support local MSMEs.
- 7.82 In 2012, a sum of \$500,000 has been allocated for the operations of the NCSMED.

### **Current Initiatives**

- 7.83 NCSMED's initiatives are centred on four major programmes: One of these programs include Business Incubators & Training which consists of three separate projects:
- a) Ra Business Incubation Centre – West;
  - b) Suva Business Incubation Centre – Central; and
  - c) Business Incubation Support Services (including product development, training and mentoring).
- 7.84 In the last three years, a total of 3,600 individuals have been assisted through the Business Incubation Programme.

### **Business Cluster Development**

- 7.85 The NCSMED is actively working on developing a honey producing cluster in Ra, pearl farming in Savusavu, and vegetable farming in Sigatoka, Ra, and Nadarivatu. It is also exploring business cluster formation opportunities for other sectors in various locations across Fiji.

## **Northern Development Programme**

- 7.86 Since its commencement in 2008 and up till June 2011, a total of \$3.8 million has been distributed as equity assistance grant from Government and a further \$4.2 million has been provided to borrowers from commercial lenders. In total, 1,422 enterprises have benefitted from the programme. This assistance will continue in 2012, with a budget allocation of \$1.0 million.

## **Microfinance services**

- 7.87 There are currently 6 Microfinance Institutions (MFI's), MF West, Fiji Council of Social Services (FCOSS), MF Bua, Cooperative Navua, Cooperative Labasa, and MF Labasa. The total number of clients stands at 20,952 and total savings at \$970,956. The microfinance operation is currently being reviewed by the Reserve Bank of Fiji in order to improve the performance of microfinance operations in Fiji.

## **New Businesses – Training**

- 7.88 NCSMED has conducted Competency-Based Economies through Formation of Enterprises (CEFE) workshops in urban and rural areas to accelerate new venture creation. Another important component of technical training is the introduction of the “One Village One Product” (OVOP) concept. The idea is to develop business enterprises in communities using local resources. A village or community will specialise in a product in which it has absolute advantage and build local market outlets which can extend to overseas markets.
- 7.89 To date, a total of 82 workshops in CEFE new Business Creation involving 2,103 participants have been conducted in Vanua Levu. A further 669 participants have attended the Technical Skills training, 151 have attended the Business Improvement Training and 235 participants have attended Financial Training.

## **CHAPTER 8: INVESTMENT FACILITATION**

### **Introduction**

- 8.1 Investment is the key to increased employment opportunities, higher income and productivity levels, and strong trade flows, all of which contribute to higher growth and development.
- 8.2 Therefore, the main objective of investment facilitation is to ensure an efficient flow of investments. Government's aim in this regard, is to develop and design instrumental programs that will not only create, but sustain a more conducive climate for investment in Fiji.

### **Update on Investment Facilitation Reforms**

- 8.3 *One Stop Shop Concept:* In pursuit of an investor friendly system and effective streamlined processes, Cabinet approved the formation of the Economic Development Board (EDB) under its One Stop Shop concept, as a mechanism to improve the Investment Approval Process. The EDB will be the decision making body that will approve both domestic and foreign investments valued over \$1.0 million.
- 8.4 The Board headed by the Prime Minister, together with the Minister for Industry and Trade and the heads of the 22 investment approval agencies will be "time bound" to approve all applications thus, fast tracking the approval process.
- 8.5 A sum of \$100,000 has been allocated for the one stop shop concept in 2012.
- 8.6 *E-Government Project:* The E-Government Investment Approval Tracking System (IATS) is part of Government's reform programs aimed at improving the efficiency of processing and approving foreign investment project applications. The project initiated by the Information Technology & Communication Services Department (ITCS) was designed to allow investors to submit their Foreign Investment Registration Certificate (FIRC) application form online and be able to track the approval status at each agency.
- 8.7 The initial set up of IATS targets the first tier approval agencies which includes Investment Fiji, FRCA, Registrar of Companies (ROC), RBF and the Department of Immigration (DOI). The project will also include the on line payment system with Westpac bank. The second phase of the



project will entail automation of the rest of the seventeen agencies.

### Other Initiatives & Outlook

- 8.8 Investment Fiji is actively working on mechanisms to facilitate and mobilise the implementation of projects in order to boost investment and employment in Fiji. These mechanisms are aimed at ‘cleaning’ up database/records and primarily focusing on ‘genuine’ projects which need assistance.
- 8.9 All foreign investors, with the exception of dual citizenship holders, must obtain a FIRC prior to setting up any business(s) in Fiji.
- 8.10 From 2008 to 2010 there was a decline in the number of actual investments implemented compared to the number of registrations. This could be attributed to the following factors:
- The rippling effects of the Global Financial Crisis (GFC) and its impact on global growth and major trading partners;
  - Natural disasters, particularly in 2009; and
  - Introduction of the minimum investment thresholds in the Foreign Investment Regulations (FIR) of 2008 & 2009.
- 8.11 However, this year the number of investment projects implemented have increased as shown in Table 8.1 below.

**Table 8.1: Investments 2007-2011**

	2008		2009		2010		2011 [Jan-July]	
	Proposed	Actual	Proposed	Actual	Proposed	Actual	Proposed	Actual
No. of Projects	245	134	80	62	117	85	76	120
Value of Investment (F\$m)	405.5	713.8	317.7	95.8	592.1	391.1	273.9	225.7
Employment	3,637	1,764	5,575	714	2,706	2,878	1,633	1,464

Source: Investment Fiji [formerly Fiji Trade and Investment Bureau]

- 8.12 Investment Fiji will be provided an operating grant of \$1.0 million in 2012 to promote investment opportunities in Fiji.
- 8.13 Furthermore, production companies registered in Fiji for the purpose of producing movies, TV productions and other audio/visual productions are required to at least spend F\$250,000 in Fiji within 6 to 12 months of the FIRC being issued. Accordingly an amendment to the Income Tax Act

was undertaken to effect this requirement.

- 8.14 A sum of \$800,000 has been allocated to the Fiji Audio Visual Commission in 2012.

### **Other Programs to facilitate Investments and Businesses**

- 8.15 *Fijian Made and Buy Fijian Campaign:* In 2011, Cabinet approved the Industry Emblem Decree and its associated regulations as part of the Campaign. In line with this, the Ministry undertook the first phase of the Campaign to disseminate relevant information to the general public through marketing and communication, with the announcement of December as the “Buy Fijian Month”. The overall objective of the Campaign is to promote Fijian made products, both domestically and internationally through a national branding strategy. A sum of \$500,000 is directed towards the campaign in 2012.
- 8.16 This initiative supports Government’s import substitution policy which is aimed at promoting production of items which are heavily imported but can be manufactured locally.
- 8.17 Fiji has the capacity to produce agricultural commodities such as rice, potato, honey, pawpaw, pineapple and bananas. Simultaneously, we also have authentic handicrafts; along with an established textile and garment industry. The small and medium enterprises (SME’s) have also secured comparative advantage in producing some lucrative niche products such as virgin coconut oil, noni juice and honey.
- 8.18 *The National Export Strategy (NES):* This initiative is aimed at enhancing all forms of the export of goods and services through value addition, diversification and improving the quality of commodities. The key sectors targeted include:- Agro Business, Forestry, Marine products, Mineral Water, ICT and Audio Visual. The NES provides grants to existing and new exporters intended to fund infrastructural developments, procure capital machines and equipment for diversification.
- 8.19 Since 2007, a total 28 companies have benefitted from this program, of which 8 companies were assisted this year. As per Cabinet approval in June 2011, an impact assessment will be undertaken to ascertain the effectiveness of the NES programme.
- 8.20 In 2012, Government has allocated a sum of \$1.0 million towards the NES to boost exports and improve the nation’s balance of payments.

## **CHAPTER 9: EXTERNAL TRADE AND DEVELOPMENT COOPERATION**

### **Introduction**

- 9.1 Fiji moved towards trade liberalisation in 1989 as part of its economic reforms to gain from potential trade opportunities. Since then, Fiji has signed several trade agreements and also joined the World Trade Organisation (WTO) in 1996. However, trade policies are tailor designed to ensure maximum benefits are gained through globalisation and effective mitigation of unavoidable losses of trade liberalisation.
- 9.2 Government is continuously focusing on refining its current trade policies to seek preferential market access for existing industries that have comparative advantage and identifying new opportunities for exports.

### **Update on Regional and International Trade Agreements and Outlook**

- 9.3 Fiji has been actively exploring and participating in regional and international fora to seek trade and investment opportunities that would provide benefits to the Fijian economy.
- 9.4 As a member of the WTO, Fiji joined the Small Vulnerable Economies (SVE) to frame responses to advocate issues for the full integration of small and vulnerable economies into the multilateral trading system.
- 9.5 In line with the collective views of the SVE group, Fiji also supported a lower tariff binding on Non-Agricultural Market Access (NAMA) products. Although negotiations have stalled due to lack of consensus and divergent interests amongst members on pertinent issues, discussions have continued with a view to reach a sound conclusion by December 2012.
- 9.6 Fiji ratified the *Pacific Island Countries Trade Agreement (PICTA)* (Trade in Goods) in 2003. The implementation of this agreement has been slow as other parties to the agreement are still putting in place reforms and policies to support and facilitate its implementation. However, this has not dampened Fiji's private sector interest as exports to the Pacific Islands are expected to increase over the medium to long term. To date, only 7 countries have ratified the PICTA.

- 9.7 The 14 Forum Island Countries (FICs) have also conducted their sixth round of negotiations for a PICTA Trade in Services (TIS). The PICTA TIS focuses on encouraging competition in the services sector and “Temporary Movement of Natural Person’s” which is expected to be an extension of the PICTA. Fiji has tabled conditional offers on services sectors that could be opened up but contingent upon countries effectively implementing the PICTA.
- 9.8 On the *Melanesian Spearhead Group (MSG)*, the Prime Minister assumed the chairmanship when Fiji hosted the MSG Leaders and related meetings in Suva in March 2011. The MSG comprises of Fiji, Papua New Guinea, Vanuatu and Solomon Islands. The parties to the MSG are presently undertaking discussions on the draft Memorandum of Understanding (MOU) on the MSG Skills Movement Scheme (SMS). The MOU would be trialed at first and later upon review will be transposed into a binding Trade in Services and labor mobility agreement. The MOU is envisaged to be concluded by the end of 2011. A sum of \$400,000 has been allocated to host the 2012 MSG meeting in Fiji.
- 9.9 Fiji is not a party to the *PACER Plus* negotiations as a result of the Forum Leaders Decisions of 2009 and 2010. Fiji’s decision to undertake voluntary suspension of Part 2 of the framework on PACER Agreement would effectively absolve Fiji from any legal obligations arising from the final PACER Plus Agreement.
- 9.10 The expiry of LOME preferences necessitated the need for Africa, Caribbean and Pacific (ACP) countries to negotiate a WTO compatible *Interim Economic Partnership Agreement (IEPA)* that Fiji signed in 2009. The IEPA provides preferential quota and duty free access for all goods into the EU and Fiji, except in sensitive products. Fiji is expected to benefit from global sourcing of processed fish in the Harmonised Tariff System (1604 and 1605) and quota for sugar exports to the European Union.
- 9.11 On 30 September 2011, the European Commission (EC) announced that countries that have concluded an EPA but not taken the necessary steps to ratify and implement it would no longer benefit from the EPA market access to Europe as from 1 January 2014. The alternative, should Fiji fail to ratify the IEPA, is utilizing the benefits of the EU’s Generalised System of Preferences (GSP) Scheme which is less generous than the IEPA and is considered a unilateral scheme. The Ministry of Industry and Trade is currently taking steps to address the ratification of the IEPA.

- 9.12 On the regional front, Fiji remains committed to regional integration and has continued to actively participate in the negotiations for a ***Comprehensive Economic Partnership Agreement (CEPA)***. The CEPA is currently negotiated between the Pacific ACP countries to address the contentious issues in the IEPA and to include development cooperation in the IEPA. The PACP's continued negotiations for a CEPA is a strategic move, also endorsed by the wider ACP countries to ensure that a full and comprehensive EPA is being negotiated with the EU. The negotiations for the PACP comprehensive EPA is expected to be concluded by June 2012.
- 9.13 Fiji maintains market access preferences to Australia and New Zealand within the ***SPARTECA Textile Clothing and Footwear (TCF) Scheme***. The SPARTECA TCF Scheme is a non-preferential trade agreement that provides duty free access for selected TCF products exported to Australia and NZ from the Pacific islands. The improved Rules of Origin (ROO) also provided much needed support for continued investments, trade and employment opportunities for garment manufacturers.
- 9.14 Fiji applied for an extension of the SPARTECA TCF Scheme which is expected to expire in December, 2011. While the Scheme has been beneficial, the decline in the Australian textile industry and increase in price of materials has led to a shift in source markets for raw materials to countries such as China. This has resulted in the Fiji TCF industry's inability to meet the local content requirements of SPARTECA.
- 9.15 This year Fiji submitted a proposal to the Australian Government requesting "derogation" of the SPARTECA ROOs. In the meantime, a proposal is currently being considered by the Chinese government to provide technical assistance and cooperation to the garment industry in Fiji.
- 9.16 In addition to Fiji's Multilateral and Regional dynamism in trade, the country has also been pro active in engaging with the greater Asian, African and the South American regions. As part of Fiji's ***Look North Policy***, Fiji has established 3 new missions in Indonesia, Brazil and South Africa. This is expected to foster trade and investment opportunities with these countries. In 2012, Fiji will establish diplomatic missions in South Korea and the United Arab Emirates (UAE). A sum of \$2.5 million is allocated towards the establishment of these missions.
- 9.17 In 2011, Fiji also joined the Non Alliance Movement (NAM) with the view to strengthen its bilateral relations with the greater Asian region.

The NAM represents two-thirds of the United Nations membership and 55 per cent of the world population, particularly developing or third world countries.

- 9.18 Fiji hosted the “*Engaging with the Pacific Meeting*” in 2011 which provided an opportunity for Pacific Small Island Developing States (PSIDS) to come together to discuss matters of mutual and exclusive regional interests.

### **Development Assistance – Financial and Technical Cooperation**

- 9.19 Fiji’s *International Cooperation* relationship with the international community has been challenging given our relative smallness and isolation from major economies. Further to this, the relationship has been constrained as a result of Fiji’s exclusion from the Pacific Islands Forum which has impacted relations with major development partners.
- 9.20 All Development Assistance is coordinated through the Budget Aid Coordinating Committee (BACC). The Ministry of Finance serves as the secretariat to BACC which is the central aid coordination mechanism of Government. The Office of the Prime Minister specifically coordinates all assistance from the People’s Republic of China (PRC).
- 9.21 Overseas Development Assistance (ODA) accounts for around 1.0 percent to 2.0 percent of GDP. The main areas of development assistance include training, infrastructure, health and technical cooperation.

### **Summary of Overseas Development Assistance by Sectors**

- 9.22 The table below highlights the amount of development assistance provided under the various sectors for the period 2010-2012.

**Table 9.1: Cash Grants 2010 - 2011**

Sector	2010		2011		2012*	
	Value (\$)	%	Value (\$)	%	Value (\$)	%
General Administrative	7,638,644	10	18,782,514	18	14,509,894	10
Social Services	52,313,335	71	57,980,814	58	73,755,828	53
Economic Services	12,027,681	16	12,088,684	12	34,635,397	25
Infrastructure	1,915,433	2.6	12,429,617	12	17,074,053	12
<b>Total</b>	<b>73,895,093</b>	<b>100</b>	<b>101,281,629</b>	<b>100</b>	<b>139,975,172</b>	<b>100</b>
Total in Cash	8,947,989	12	8,717,070	8.5	17,965,580	13

Sector	2010		2011		2012*	
	Value (\$)	%	Value (\$)	%	Value (\$)	%
Total in AIK	64,947,104	88	92,564,559	92	122,009,591	87

Source: Ministry of Finance

\* = Estimates

9.23 The table below provides a breakdown of aid in kind assistance for 2010 - 2012.

**Table 9.2: Aid-In-Kind 2010 - 2012**

Details	2010		2011		2012*	
	Value (\$)	%	Value (\$)	%	Value (\$)	%
Training	16,412,651	25	16,379,468	18	14,405,615	12
Infrastructure	23,300,000	36	26,267,995	28	11,559,721	9
Technical Assistance	3,543,605	5.5	11,897,138	13	22,780,272	19
Health Services	8,211,182	13	11,472,000	12	13,684,863	11
Technical Cooperation	-	-	6,729,893	7.4	10,925,298	9
Others	13,479,666	21	19,818,065	21	48,653,822	40
<b>Total</b>	<b>64,947,104</b>	<b>100</b>	<b>92,564,559</b>	<b>100</b>	<b>122,009,591</b>	<b>100</b>

Source: Ministry of Finance

\* = Estimates

9.24 It is anticipated that Bilateral Aid will further increase in 2012 as a result of new Development Cooperation Agreements recently signed with Indonesia and currently negotiated with South Africa and Brazil.

9.25 Chinese developmental assistance to Fiji has also increased in recent years. Fiji has benefited from large volume of aid and development assistance from PRC for bridge construction, roads, transportation, building and construction, schools and hospitals.

9.26 Under the Regional Development Project, Government seeks to mobilise surplus skilled labour for major projects in the region. This includes current negotiations to provide workers to the PNG LNG project and the Guam military base development. Efforts have also been directed to second skilled teachers to Japan and to take advantage of new US visa rules that allow Fijians to work in the US.

9.27 The Fiji Volunteer Scheme was established to engage unemployed persons and retirees who wish to serve locally and regionally through

volunteerism. The scheme would be managed by the PSC and a sum of \$400,000 has been allocated in the 2012 Budget.



## CHAPTER 10: 2012 TAX MEASURES

10.1 This chapter provides a description of specific tax policy measures introduced in the 2012 Budget. Details of amendments to the Income Tax, VAT Decree and Customs Tariff are provided in the tables below.

### Section 1: Direct Tax Measures

#### (i) INCOME TAX

Policy	Description																																				
1. Corporate Tax Rate	❖ Reduce Corporate Tax Rate from 28% to 20%.																																				
2. Individual Tax Rates	<ul style="list-style-type: none"> <li>❖ Income tax threshold increase from \$15,000 to \$15,600;</li> <li>❖ The marginal income tax rate for lower band to reduce from 25% to 7%; the rate for middle income tax band to reduce from 31% to 18%, and the income tax marginal rate for the top band to reduce from 31% to 20% in line with the corporate tax rate;</li> <li>❖ Introduce a Social Responsibility Levy to be applied on full chargeable income, starting at 23% for income tax band \$270,001 to \$300,000; and</li> <li>❖ Increase by 1% for every income tax band thereafter.</li> </ul> <table border="1" style="margin: 10px auto; width: 80%;"> <thead> <tr> <th>Chargeable Income (\$)</th> <th>Tax Payable (\$)</th> <th>Levy</th> </tr> </thead> <tbody> <tr> <td>0-15,600</td> <td>Nil</td> <td></td> </tr> <tr> <td>15,601 – 22,000</td> <td>7% of excess over \$15,600</td> <td></td> </tr> <tr> <td>22,001– 50,000</td> <td>448 +18% of excess over \$22,000</td> <td></td> </tr> <tr> <td>50,001 – 270,000</td> <td>5488 +20% of excess over \$50,000</td> <td></td> </tr> <tr> <td>270,001 - 300,000</td> <td>49, 488 + 20% of excess over \$270,000</td> <td>23%</td> </tr> <tr> <td>300,001 - 350,000</td> <td>55, 487 +20% of excess over \$300,000</td> <td>24%</td> </tr> <tr> <td>350,001 - 400,000</td> <td>\$65, 487 + 20% of excess over \$350,000</td> <td>25%</td> </tr> <tr> <td>400,001 - 450,000</td> <td>\$75, 487 + 20% of excess over \$400,000</td> <td>26%</td> </tr> <tr> <td>450,001 – 500,000</td> <td>\$85, 487+ 20% of excess over \$450,000</td> <td>27%</td> </tr> <tr> <td>500, 001 – 1,000,000</td> <td>\$95, 487 + 20% of excess over \$500,000</td> <td>28%</td> </tr> <tr> <td>1,000,001 +</td> <td>\$195, 486 + 20% of excess over \$1,000,000</td> <td>29%</td> </tr> </tbody> </table>	Chargeable Income (\$)	Tax Payable (\$)	Levy	0-15,600	Nil		15,601 – 22,000	7% of excess over \$15,600		22,001– 50,000	448 +18% of excess over \$22,000		50,001 – 270,000	5488 +20% of excess over \$50,000		270,001 - 300,000	49, 488 + 20% of excess over \$270,000	23%	300,001 - 350,000	55, 487 +20% of excess over \$300,000	24%	350,001 - 400,000	\$65, 487 + 20% of excess over \$350,000	25%	400,001 - 450,000	\$75, 487 + 20% of excess over \$400,000	26%	450,001 – 500,000	\$85, 487+ 20% of excess over \$450,000	27%	500, 001 – 1,000,000	\$95, 487 + 20% of excess over \$500,000	28%	1,000,001 +	\$195, 486 + 20% of excess over \$1,000,000	29%
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3. South Pacific Stock Exchange (SPSE) Incentives	❖ Remove 40 percent local equity requirement for foreign incorporated companies listed on the SPSE.																																				
4. Accelerated Depreciation	❖ Accelerated depreciation to be extended to 2014.																																				

5. 40% Investment Allowance	<ul style="list-style-type: none"> <li>❖ 40% Investment Allowance (excluding cost of labor) allowed for extension and renovation expenses with minimum qualifying capital expenditure of \$50,000.</li> <li>❖ Available only to existing businesses in Vanua Levu.</li> </ul>
6. Advance Company Tax	<ul style="list-style-type: none"> <li>❖ Effective from 2012, advance payment of tax by companies will be increased from 33% to 90% by the end of the current fiscal year;</li> <li>❖ 30% to be paid in June; 30% to be paid in September; and 30% to be paid in December, while the remaining 10% is to be paid in February the following year.</li> </ul>
7. Removal of housing interest allowance	<ul style="list-style-type: none"> <li>❖ Remove the \$400 interest allowance on housing normally deductible under the PAYE tax computation.</li> </ul>
8. Tax deduction on FNPf Employer contribution	<ul style="list-style-type: none"> <li>❖ Tax deduction to Employers for Employee FNPf contributions only allowable up to 50%.</li> </ul>
9. Carried Forward of business losses	<ul style="list-style-type: none"> <li>❖ All carried forward of losses to be reduced to 4 years.</li> </ul>
10. Fringe Benefits Tax	<ul style="list-style-type: none"> <li>❖ Introduce a new fringe benefit tax regime at a rate of 20% in 2012; and</li> <li>❖ Employers will be responsible for paying and remitting to FRCA the relevant amount.</li> </ul>
11. Transfer Pricing	<ul style="list-style-type: none"> <li>❖ Section 34 of the ITA to be amended to provide for the introduction of the Income Tax (Transfer Pricing) Regulations in 2012.</li> </ul>
12. Buying and Selling of shares for properties in Fiji.	<ul style="list-style-type: none"> <li>❖ A foreign company which owns land or assets in Fiji cannot transfer ownership of the subject land or assets by way of sale of shares unless sale of those shares are approved by FRCA.</li> </ul>

**(ii) OTHER TAXES**

Policy	Description
1. Hotel Turnover Tax (HTT) renamed as Service Turnover Tax (STT)	<ul style="list-style-type: none"> <li>❖ The new STT will also apply to other tourism related services: <ul style="list-style-type: none"> <li>• rental car operators;</li> <li>• in-bound tour operators;</li> <li>• events management operators;</li> <li>• recreation, entertainment and cinema operators;</li> <li>• bars and night-clubs;</li> <li>• bistros, coffee shops &amp; restaurants with annual gross turnover of \$1.5 million and above;</li> <li>• All water sports, underwater activities, skydiving, hot air balloon rides, river safaris, aircraft rides including helicopters with annual gross turnover in excess of \$300,000; and</li> <li>• home stay operators.</li> </ul> </li> </ul>
2. Departure Tax	<ul style="list-style-type: none"> <li>❖ Increase from \$100 to \$150</li> </ul>

## **Section 2: Indirect Tax Measures**

### **(i) VALUE ADDED TAX**

<b>Policy</b>	<b>Description</b>
1. VAT threshold (for registration purposes)	❖ Increase VAT threshold from \$50,000 to \$100,000.
2. Small and Micro Enterprises (SME)	❖ SMEs to lodge one VAT return in a year; and ❖ Applicable only to entities with gross annual turnover of \$300,000 and below.
3. VAT Dwelling House	❖ Reinstate repealed Section 70(2) of the VAT Decree to effect the re-introduction of VAT dwelling house claims; ❖ To claim, an expenditure threshold of \$120,000 is applicable; ❖ Includes construction of first time residential housing and excludes renovations.
4. VAT Refund	❖ FRCA and Ministry of Finance to expedite payment of VAT refunds.

### **(ii) CUSTOMS TARIFF CHANGES - FISCAL DUTY**

<b>Items</b>	<b>Fiscal Duty</b>
1. Canned Fish	❖ Increase Fiscal Duty from 15% to 32%.
2. Electrical Mounting Blocks	❖ Increase Fiscal Duty from 5% to 15%.
3. Exercise Books	❖ Increase Fiscal Duty from 15% to 32%.
4. Imported cigarettes and alcohol	❖ Increase Fiscal Duty by 3%.
5. Blank DVDs and CDs	❖ Introduce a specific duty rate of \$1 on blank CDs & DVDs.
6. Palm Oil	❖ Increase Fiscal Duty from 15% to 32%.
7. Mono Sodium Glutamate	❖ Increase Fiscal Duty from 5% to 32%
8. Machinery used in the manufacture of goods	❖ Reduce Fiscal Duty to 0%.
9. Knitted fabrics	❖ Reduce Fiscal Duty from 32% to 5%.
10. New road tractors for semi trailers of heading 8701 and trailers of heading 8716	❖ Reduce Fiscal Duty from 32% to 5% excluding agricultural tractors, which is 0%; ❖ Includes prime-movers; and ❖ Self loading and other trailers for transport of goods.
11. New trucks (goods vehicles) of gross vehicle weight exceeding 3 tonnes	❖ Reduce Fiscal Duty from 32% to 5%.
12. New special type vehicles of heading 8705	❖ Reduce Fiscal Duty from 32% to 5%.
13. Fruits and vegetables not grown or produced in Fiji	❖ Reduce Fiscal Duty from 32% to 5%

Items	Fiscal Duty
14. Raw materials (Manufacturers outside of Viti Levu)	❖ Reduce Fiscal Duty on raw materials to 0% for all manufacturers based outside of Viti Levu.
15. Chicken mesh hexagonal wire netting	❖ Reduce Fiscal Duty from 32% to 5%.
16. Musical Instruments	❖ Reduce Fiscal Duty from 5% to 0%.
17. Sports Equipment under heading 9506	❖ Reduce Fiscal Duty from 5% to 0%. ❖ This includes energy supplements-beverages in liquid and powder form.
18. Agricultural Inputs	❖ Reduce Fiscal Duty to 0%. ❖ Seeds of a kind for sowing of heading 12.09, insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant-growth regulators, pure-bred breeding animals falling under heading 0101, 0102, 0103 and 0104.

### (iii) CUSTOMS TARIFF CHANGES - IMPORT EXCISE

Policy	Description
1. New trucks (goods vehicles) of gross vehicle weight exceeding 3 tonnes	❖ Reduce Import Excise Duty from 15% to 5%
2. Musical Instruments	❖ Reduce Import Excise from 10% to 0%.
3. Nails	❖ Impose 10% Import Excise.
4. Nylon ropes	❖ Impose 15% Import Excise.

### (iv) LOCAL EXCISE DUTY CHANGES

Policy	Description
1. Cigarettes, tobacco and alcohol	❖ Increase current Excise Duty by 3%.

### (v) 2012 EXCISE RATES

DESCRIPTION	2011 RATES	2012 RATES
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or less	\$1.39/litre	\$1.43/litre
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or more	\$1.62/litre	\$1.67/litre
Potable Spirit Not Exceeding 57.12 GL	\$30.54/litre	\$31.46/litre
Potable Spirit Exceeding 57.12 GL	\$53.49/litre	\$55.09/litre
Wine: Still	\$2.16/litre	\$2.22/litre
Sparkling	\$2.46/litre	\$2.53/litre
Other fermented beverages:		

DESCRIPTION	2011 RATES	2012 RATES
Still	\$2.16/litre	\$2.22/litre
Sparkling	\$2.46/litre	\$2.53/litre
Ready to Drink Mixtures of Any Alcoholic Beverages of any Alcoholic Strength by volume of 11.49% or less	\$1.00/litre	\$1.03/litre
Cigarettes from local tobacco per 10 sticks	93.86 cents	96.68 cents
Cigarette from imported tobacco per 10 sticks	140.81 cents	145.03 cents
Manufactured tobacco containing tobacco grown outside Fiji	\$81.13/kg	\$83.56/kg
Manufactured tobacco containing tobacco grown in Fiji	\$47.66/kg	\$49.09/kg
Manufactured tobacco containing tobacco grown in foreign and tobacco grown in Fiji:		
Foreign portion	\$81.13/kg	\$83.56/kg
Local portion	\$47.66/kg	\$49.09/kg

#### (vi) CUSTOMS LEGISLATIVE CHANGES

Policy	Description
1. Code 117(ii) [Knitted fabric accepted by the Comptroller as not being manufactured in Fiji to a specification which he considers reasonable (Heading 3002, 6003, 6004, 6005 and 6006)]	❖ Delete the content of Code 117(ii) in line with reduction in fiscal duty from 32% to 5% for knitted fabrics
2. Creation of codes in Part III of the Tariff	❖ Creation of codes in Part III of the Tariff to accommodate certain goods currently approved under Section 10 - existing requirements and qualifying conditions will apply.
3. Garnishee Bank Accounts for Duty owed	❖ To recover duty owed, a garnishee order will be issued on the Importer's bank account or joint account, provided the source of income in joint account is determined to be the income of the Importer only and not the other party to the joint account.

#### (vii) CHANGES TO SECTION 10 CONCESSIONS, CTA

POLICY	DESCRIPTION
1. Palm Oil	❖ Remove Section 10 concession
2. Styrofoam lunch boxes	❖ Remove Section 10 concession
3. Tubes, bulbs used for motor vehicles, torches and flash lights	❖ Remove Section 10 concession
4. Duty rate on agricultural machinery and equipment	❖ Agriculture & Dairy - Duty free concession on all specialised agricultural machinery and equipment and

<b>POLICY</b>	<b>DESCRIPTION</b>
	other agriculture-related inputs.
5. Duty on specialised equipment and machinery	❖ Fisheries and Forestry - Duty free concession on specialised equipment and machinery.
6. Exercise books	❖ Remove Section 10 concession

### Section 3: New Levies and Fees

<b>POLICY</b>	<b>DESCRIPTION</b>
1. Telecommunication Levy	<ul style="list-style-type: none"> <li>❖ Introduce 1% levy on all voice call charges. Includes: <ul style="list-style-type: none"> <li>• landline phone bills or land line top up cards;</li> <li>• mobile phone post pay bills; and</li> <li>• mobile phone top up cards or pre-pay bills.</li> </ul> </li> <li>❖ Levy to be collected by service providers and remitted to FRCA on a monthly basis.</li> </ul>
2. Credit Card Levy	<ul style="list-style-type: none"> <li>❖ Introduce 2% levy on all Credit Card purchases and payments.</li> <li>❖ Reserve Bank of Fiji to draw up guidelines for financial institutions for smooth administration of the tax.</li> <li>❖ To be collected by financial institutions and remitted to FRCA on a monthly basis.</li> </ul>
3. Third Party Insurance Levy	<ul style="list-style-type: none"> <li>❖ Impose 20% levy on premiums.</li> <li>❖ Levy to be collected by Insurance companies and remitted to FRCA on a monthly basis.</li> </ul>
4. Luxury Car Levy (new and used)	<ul style="list-style-type: none"> <li>❖ Impose a new customs levy of \$7,500 on luxury cars of a cylinder capacity exceeding 2500cc but not exceeding 3000cc, upon point of sale. This excludes single and twin cabs.</li> <li>❖ Impose a new customs fee of \$20,000 on luxury cars of a cylinder capacity exceeding 3000cc, upon point of sale.</li> </ul>

### Section 4: FRCA Reforms, Administration and Compliance

<b>POLICY</b>	<b>DESCRIPTION</b>
1. Home stay	❖ Strengthen compliance on home stay operators.
2. Gold Card System	❖ Introduce an incentive system for best and compliant taxpayers.
3. Decentralisation of FRCA offices	❖ New offices to open in Rakiraki and Sigatoka from 2012.
4. Upgrade of Tax Portal	❖ Upgrade tax portal in 2012.
5. New Income Tax Decree	❖ To be effective from 1 January 2013.
6. PAYE as Final Tax	<ul style="list-style-type: none"> <li>❖ To be effective from 2013.</li> <li>❖ All the taxable allowance (except FNPF) will be removed in line with reduced tax rate in 2012.</li> </ul>
7. Self Assessment	❖ To be effective from 2013.
8. Presumptive Tax	❖ To be effective from 2013.

<b>POLICY</b>	<b>DESCRIPTION</b>
9. Tax Penalties	❖ Increase in tax penalties.
10. Garnishee Joint Accounts	❖ To be issued on bank joint accounts with spouse or children, provided the source of income is determined to be the income of the taxpayer.

## APPENDICES

### Appendix 1: Statistical Tables

**Table 1: Gross Domestic Product by Sector (\$ millions) 2008-2014**

Activity	Base Weight	2008(r)	2009(r)	2010(p)	2011(f)	2012(f)	2013(f)	2014(f)
<b>AGRICULTURE &amp; FORESTRY</b>	11.6	499.2	434.7	407.5	454.2	487.6	518.1	550.7
<b>Agriculture</b>	10.6	458.1	397.1	358.0	402.5	427.9	455.2	484.0
Subsistence	2.7	120.5	121.1	121.7	122.3	122.8	123.4	124.3
Growing of Crops, Market Gardening & Horticulture	6.4	251.0	214.3	172.9	206.4	227.2	249.7	272.9
Sugar cane	3.0	98.0	88.4	47.9	51.5	57.2	62.9	68.6
Taro	1.7	63.6	60.0	51.8	74.9	82.4	90.7	99.8
Farming of animals	0.9	41.4	32.4	35.7	37.9	39.4	40.9	42.4
<b>Forestry</b>	1.1	41.1	37.6	49.5	51.6	59.7	63.0	66.6
<b>FISHING</b>	2.4	138.4	120.4	119.7	116.7	122.1	125.0	132.0
Offshore fishing	1.3	83.7	67.5	75.9	71.3	75.9	78.9	84.8
<b>MINING &amp; QUARRYING</b>	0.4	14.3	24.1	30.8	27.4	32.3	34.2	46.7
<b>MANUFACTURING</b>	14.2	606.7	593.1	634.8	643.9	676.2	701.7	720.6
<b>Informal activities</b>	3.1	141.4	142.5	143.3	144.6	145.9	147.2	148.5
<b>Food products</b>	3.3	135.0	120.1	121.7	124.8	138.1	148.8	157.9
Sugar	1.0	38.2	23.4	20.0	24.0	28.8	33.1	37.7
<b>Beverages and tobacco</b>	2.1	92.9	86.0	94.4	94.2	105.6	111.4	117.4
<b>Non Food Products</b>	5.8	235.7	242.9	274.6	279.5	285.9	293.4	96.1
<b>Wearing apparel</b>	1.3	60.1	61.8	71.8	70.4	69.7	68.3	66.9
<b>ELECTRICITY AND WATER</b>	1.4	33.3	49.8	56.7	56.2	56.8	58.0	59.7
Production, collection and distribution of electricity	1.2	23.4	39.3	43.5	42.9	43.4	44.2	45.6
<b>CONSTRUCTION</b>	3.2	126.1	110.2	117.7	115.0	119.3	119.5	119.7
<b>WHOLESALE AND RETAIL</b>	12.7	511.4	481.2	480.2	481.1	480.1	485.5	490.3
<b>Informal activities</b>	2.9	130.6	132.1	132.8	134.0	135.2	136.5	137.7
Sale, Maintenance, Repair of Motor Vehicles/Cycles;	2.4	88.2	76.5	71.3	70.8	68.6	66.9	65.4



Activity	Base Weight	2008(r)	2009(r)	2010(p)	2011(f)	2012(f)	2013(f)	2014(f)
Retail Sale of Auto Fuel								
Retail sale - Auto Fuel	1.3	42.8	41.1	33.6	33.6	32.2	31.0	29.8
<b>Wholesale Trade</b>	2.3	83.3	78.0	72.0	67.4	66.1	64.3	62.9
Solid, liquid, gaseous fuels & related products	1.4	44.5	40.5	37.1	34.4	33.0	31.8	30.6
<b>Retail Trade</b>	4.1	169.0	159.6	163.9	170.5	172.3	180.3	187.7
Non-specialised stores with food & beverages predominating.	1.1	37.9	35.2	33.8	34.7	35.3	37.0	38.9
<b>HOTELS &amp; RESTAURANTS</b>	4.3	230.5	235.4	265.9	276.0	282.3	287.6	292.9
Hotels; camping sites and other provision of short-stay accommodation	3.5	200.0	197.1	227.7	237.0	243.0	247.8	252.8
<b>TRANSPORT, STORAGE &amp; COMMUNICATION</b>	15.0	626.1	684.2	681.6	693.6	685.2	686.8	684.9
<b>Land Transport</b>	1.4	54.3	61.1	63.6	66.2	67.5	68.9	70.2
<b>Air Transport</b>	2.3	120.0	92.8	117.1	121.3	123.8	126.2	127.5
<b>Supporting &amp; Auxiliary Activities</b>	4.2	152.4	189.3	182.4	188.0	195.0	197.7	200.6
Other supporting transport activities	1.5	58.1	64.2	66.3	66.3	66.3	66.3	66.3
Activities of other transport agencies	1.3	36.8	56.0	49.8	52.3	55.9	57.1	58.2
<b>Post &amp; Telecommunication</b>	6.0	268.4	313.7	288.9	288.2	268.7	263.4	255.5
Telecommunications	5.9	264.0	310.2	285.5	285.5	265.5	260.2	252.4
<b>FINANCIAL INTERMEDIATION</b>	7.9	483.4	431.1	437.0	458.5	474.7	489.7	505.6
Other monetary intermediation	3.7	226.1	213.3	218.5	229.4	236.3	243.4	250.7
Insurance	1.7	83.3	51.2	68.3	71.7	75.3	79.0	83.0
<b>REAL ESTATE &amp; BUSINESS SERVICES</b>	9.3	404.8	403.6	406.8	416.5	427.5	432.6	440.1
Owner occupied dwellings	4.3	190.7	188.4	189.5	190.4	191.2	192.2	193.5
Real Estate Activities	1.2	55.4	53.9	54.9	57.3	59.0	61.0	63.2
Other Business Activities	1.8	71.7	71.1	75.1	76.1	80.1	82.4	84.9

Activity	Base Weight	2008(r)	2009(r)	2010(p)	2011(f)	2012(f)	2013(f)	2014(f)
<b>PUBLIC ADMINISTRATION &amp; DEFENCE</b>	5.6	287.3	344.3	281.7	269.7	267.1	259.3	251.8
General public services	3.0	137.1	131.2	167.9	157.1	157.1	152.6	148.1
Defence activities	1.4	80.7	131.9	48.9	48.8	47.5	46.1	44.8
Public order & safety	1.1	69.4	81.1	65.0	63.8	62.5	60.7	58.9
<b>EDUCATION</b>	5.2	233.3	232.1	226.6	228.7	230.0	231.3	232.7
Primary	1.6	68.5	69.3	62.5	63.2	63.9	64.6	65.3
Normal secondary	1.1	47.2	47.4	46.7	47.2	47.7	48.2	48.7
Higher education	1.9	91.3	89.1	90.9	91.6	91.6	91.6	91.6
<b>HEALTH &amp; SOCIAL WORK</b>	2.1	85.8	93.6	84.3	83.0	81.0	79.2	77.3
General Government	1.8	73.5	80.9	72.3	70.8	68.8	66.8	64.8
<b>OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES</b>	4.9	134.7	121.2	120.5	121.7	122.8	124.1	125.4
Informal activities	1.2	43.3	36.0	38.5	38.9	39.2	39.6	40.0
Activities of Membership Organisations	2.2	34.7	28.6	27.8	27.9	27.9	28.0	28.0
Activities of political Organizations	1.9	18.4	18.1	17.8	17.8	17.8	17.8	17.8
<b>TOTAL</b>	<b>100.0</b>	<b>4,415.1</b>	<b>4,358.9</b>	<b>4,351.8</b>	<b>4,442.2</b>	<b>4,545.3</b>	<b>4,632.4</b>	<b>4,730.6</b>

Source: Fiji Bureau of Statistics & Macroeconomic Policy Committee; r = revised, p = provisional, f = forecast

**Table 2: GDP Growth (% change) by Sector 2008-2014**

Activity	Base Weight	2008(r)	2009(r)	2010(p)	2011(f)	2012(f)	2013(f)	2014(f)
<b>AGRICULTURE &amp; FORESTRY</b>	11.6	1.0	-12.9	-6.3	11.5	7.3	6.3	6.3
<b>Agriculture</b>	10.6	0.7	-13.3	-9.8	12.4	6.3	6.4	6.3
Subsistence	2.7	0.5	0.5	0.6	0.5	0.4	0.5	0.7
Growing of Crops, Market Gardening & Horticulture	6.4	-0.6	-14.6	-19.3	19.4	10.1	9.9	9.3
Sugar cane	3.0	-8.1	-9.7	-45.9	7.6	11.1	10.0	9.1
Taro	1.7	20.0	-5.6	-13.7	44.7	10.0	10.0	10.0
Farming of animals	0.9	0.8	-21.8	10.2	6.2	3.8	3.8	3.8
<b>Forestry</b>	1.1	5.2	-8.5	31.4	4.4	15.6	5.5	5.8
<b>FISHING</b>	2.4	21.8	-13.0	-0.5	-2.6	4.6	2.3	5.7
Offshore fishing	1.3	29.7	-19.3	12.4	-6.1	6.5	3.9	7.5
<b>MINING &amp; QUARRYING</b>	0.4	365.2	68.7	27.7	-11.0	18.1	5.7	36.8
<b>MANUFACTURING</b>	14.2	-2.0	-2.2	7.0	1.4	5.0	3.8	2.7
<b>Informal activities</b>	3.1	0.6	0.8	0.6	0.9	0.9	0.9	0.9
<b>Food products</b>	3.3	-2.3	-11.0	1.3	2.6	10.6	7.8	6.1
Sugar	1.0	-4.4	-38.6	-14.7	20.0	20.0	15.0	14.0
<b>Beverages and tobacco</b>	2.1	-2.8	-7.4	9.7	-0.2	12.1	5.5	5.4
<b>Non Food Products</b>	5.8	-3.1	3.1	13.0	1.8	2.3	2.6	0.9
Wearing apparel	1.3	5.3	2.9	16.1	-2.0	-1.0	-2.0	-2.0
<b>ELECTRICITY AND WATER</b>	1.4	-42.0	49.8	13.8	-1.0	1.2	2.0	3.0
Production, collection and distribution of electricity	1.2	-51.1	68.0	10.8	-1.3	1.0	2.0	3.0
<b>CONSTRUCTION</b>	3.2	4.7	-12.6	6.8	-2.3	3.7	0.1	0.2
<b>WHOLESALE AND RETAIL</b>	12.7	-5.7	-5.9	-0.2	0.2	-0.2	1.1	1.0
<b>Informal activities</b>	2.9	0.8	1.1	0.6	0.9	0.9	0.9	0.9
Sale, Maintenance, Repair of Motor Vehicles/Cycles; Retail Sale of Auto Fuel	2.4	-12.3	-13.2	-6.8	-0.7	-3.1	-2.5	-2.3
Retail sale - Auto Fuel	1.3	-14.3	-3.9	-18.4	0.0	-4.2	-3.7	-3.7
<b>Wholesale Trade</b>	2.3	-10.0	-6.4	-7.7	-6.4	-2.0	-2.7	-2.2
Solid, liquid, gaseous fuels products	1.4	-17.7	-9.0	-8.4	-7.2	-4.2	-3.7	-3.7

Activity	Base Weight	2008(r)	2009(r)	2010(p)	2011(f)	2012(f)	2013(f)	2014(f)
<b>Retail Trade</b>	4.1	-3.1	-5.5	2.7	4.1	1.0	4.7	4.1
Non-specialised stores with food & beverages predominating.	1.1	-7.4	-7.3	-3.8	2.5	1.6	5.0	5.0
<b>HOTELS &amp; RESTAURANTS</b>	4.3	20.6	2.1	13.0	3.8	2.3	1.9	1.9
Hotels; camping sites and other provision of short-stay accommodation	3.5	24.3	-1.5	15.6	4.1	2.5	2.0	2.0
<b>TRANSPORT, STORAGE &amp; COMMUNICATION</b>	15.0	-5.1	9.3	-0.4	1.8	-1.2	0.2	-0.3
<b>Land Transport</b>	1.4	-11.5	12.6	4.1	4.0	2.0	2.0	2.0
<b>Air Transport</b>	2.3	20.8	-22.7	26.3	3.6	2.0	2.0	1.0
<b>Supporting &amp; Auxiliary Activities</b>	4.2	-7.8	24.2	-3.7	3.1	3.7	1.4	1.4
Other supporting transport activities	1.5	-0.5	10.6	3.1	0.0	0.0	0.0	0.0
Activities of other transport agencies	1.3	-19.0	52.3	-11.1	5.0	7.0	2.0	2.0
<b>Post &amp; Telecommunication</b>	6.0	-7.6	16.9	-7.9	-0.2	-6.7	-2.0	-3.0
Telecommunications	5.9	-7.7	17.5	-8.0	0.0	-7.0	-2.0	-3.0
<b>FINANCIAL INTERMEDIATION</b>	7.9	13.2	-10.8	1.4	4.9	3.5	3.1	3.3
Other monetary intermediation	3.7	23.5	-5.7	2.4	5.0	3.0	3.0	3.0
Insurance	1.7	-2.0	-38.5	33.4	5.0	5.0	5.0	5.0
<b>REAL ESTATE &amp; BUSINESS SERVICES</b>	9.3	-1.9	-0.3	0.8	2.4	2.6	1.2	1.7
Owner occupied dwellings	4.3	0.5	-1.2	0.6	0.5	0.4	0.5	0.7
Real Estate Activities	1.2	3.9	-2.7	1.7	4.5	2.9	3.3	3.7
Other Business Activities	1.8	-7.4	-0.7	5.6	1.3	5.3	2.8	3.1
<b>PUBLIC ADMINISTRATION &amp; DEFENCE</b>	5.6	0.6	19.8	-18.2	-4.3	-1.0	-2.9	-2.9
General public services	3.0	8.1	-4.3	27.9	-6.4	0.0	-2.9	-2.9
Defence activities	1.4	-13.8	63.4	-62.9	-0.1	-2.8	-2.9	-2.9
Public order & safety	1.1	6.5	16.8	-19.8	-1.9	-2.0	-2.9	-2.9
<b>EDUCATION</b>	5.2	1.9	-0.5	-2.4	0.9	0.6	0.6	0.6

Activity	Base Weight	2008(r)	2009(r)	2010(p)	2011(f)	2012(f)	2013(f)	2014(f)
Primary	1.6	-0.5	1.3	-9.9	1.1	1.1	1.1	1.1
Normal secondary	1.1	-1.7	0.5	-1.5	1.1	1.1	1.1	1.1
Higher education	1.9	7.1	-2.4	2.0	0.8	0.0	0.0	0.0
<b>HEALTH &amp; SOCIAL WORK</b>	2.1	-12.9	9.1	-9.9	-1.6	-2.3	-2.3	-2.3
General Government	1.8	-14.2	10.0	-10.7	-2.0	-2.9	-2.9	2.9
<b>OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES</b>	4.9	7.8	-10.0	-0.5	0.9	1.0	1.0	1.1
Informal activities	1.2	20.6	-16.8	6.9	0.9	0.9	0.9	0.9
Activities of Membership Organisations	2.2	11.8	-17.4	-2.9	0.2	0.1	0.2	0.3
Activities of political Organisations	1.9	-0.4	-1.6	-1.7	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>100.0</b>	<b>1.0</b>	<b>-1.3</b>	<b>-0.2</b>	<b>2.1</b>	<b>2.3</b>	<b>1.9</b>	<b>2.1</b>

Source: Fiji Bureau of Statistics & Macroeconomic Policy Committee; r = revised, p = provisional, f = forecast

**Table 3: Total Exports by Major Commodities (\$million) 2008-2014**

COMMODITIES	2008	2009	2010(p)	2011(f)	2012(f)	2013(f)	2014(f)
Sugar	248.2	187.1	70.1	168.3	166.4	256.4	235.0
Molasses	13.6	20.8	22.6	31.7	16.4	16.5	19.3
Gold	26.7	41.0	89.9	147.2	181.0	192.7	285.1
Timber, Cork & Wood	59.3	36.7	79.6	86.2	99.7	101.2	103.9
Fish	134.2	156.7	206.0	149.8	152.3	159.9	158.3
Fruits & Vegetables	33.2	31.8	37.6	40.6	44.7	49.2	54.1
o/w Dalo	22.2	20.1	23.8	26.2	28.8	31.7	34.8
Yaqona	4.8	3.9	3.9	4.7	4.7	5.2	5.7
Coconut Oil	9.3	7.4	5.5	6.1	6.7	7.3	8.1
Textiles, Yarn & Made Up Articles	7.8	7.7	8.8	8.4	8.7	8.8	8.9
Garments	100.1	83.9	95.8	89.3	91.9	92.8	93.8
Footwear	2.1	1.7	1.9	1.6	1.6	1.7	1.7
Mineral Water	109.9	80.2	119.2	122.2	124.4	126.6	128.9
Other Domestic Export	234.9	239.0	263.3	176.7	184.8	193.1	201.9
Re- Exports	488.2	335.5	545.4	782.2	836.0	826.9	807.9
<b>Total</b>	<b>1,471.0</b>	<b>1,230.3</b>	<b>1,549.5</b>	<b>1,815.0</b>	<b>1,919.3</b>	<b>2,038.4</b>	<b>2,112.6</b>

Source: Fiji Bureau of Statistics & Macroeconomic Policy Committee; p = provisional, f = forecast

**Table 4: Total Imports by Category (\$million) 2008-2014**

<b>ECONOMIC CATEGORY</b>	<b>2008</b>	<b>2009</b>	<b>2010(p)</b>	<b>2011(f)</b>	<b>2012(f)</b>	<b>2013(f)</b>	<b>2014(f)</b>
Food	520.0	521.5	564.8	623.6	645.2	727.0	706.9
Beverage & Tobacco	21.7	22.5	31.0	35.4	36.8	37.9	39.0
Crude Materials	31.0	25.0	29.9	25.0	26.2	27.6	28.1
Mineral Fuels	1,222.1	720.4	1,099.6	1,115.8	1,149.3	1,183.8	1,219.3
Oil & Fats	37.0	29.1	29.8	36.7	40.0	43.3	45.8
Chemicals	274.5	225.4	292.8	289.1	294.9	300.8	306.8
Manufactured Goods	460.8	404.3	466.0	458.7	463.9	470.6	477.4
Machinery & Transport Equipment	726.5	604.9	623.9	796.6	733.8	1112.9	777.3
Miscellaneous Manufactured Goods	278.6	240.6	296.9	293.3	307.2	321.7	337.0
Other Commodities	29.2	14.2	15.6	18.4	18.5	18.7	18.9
<b>Total</b>	<b>3,601.4</b>	<b>2,807.9</b>	<b>3,450.3</b>	<b>3,692.6</b>	<b>3,715.9</b>	<b>4,244.3</b>	<b>3,956.6</b>

Source: Fiji Bureau of Statistics & Macroeconomic Policy Committee; p = provisional, f = forecast

**Table 5: Balance of Payments (\$million) 2008-2014**

ITEMS	2008(r)	2009(r)	2010(r)	2011(f)	2012(f)	2013(f)	2014(f)
<b>BALANCE ON GOODS</b>	-1,875.6	-1,324.6	-1,482.0	-1,456.2	-1,417.2	-1,723.5	-1,403.9
exports f.o.b	1,280.3	1,104.5	1,474.4	1,725.0	1,799.9	1,949.8	2,019.9
imports f.o.b	3,155.9	2,429.1	2,956.4	3,181.2	3,217.1	3,673.3	3,423.8
<b>BALANCE ON SERVICES</b>	677.1	559.2	754.7	775.7	831.2	820.1	896.6
Export of Services	1,650.9	1,463.1	1,736.5	1,803.7	1,862.5	1,910.2	1,955.8
Import of Services	973.8	903.9	981.8	1,028.0	1,031.3	1,090.1	1,059.2
<b>BALANCE ON PRIMARY INCOME</b>	-138.8	-22.4	-191.2	-341.2	-349.7	-235.9	-235.9
Income from non-residents	1,14.7	120.3	151.1	166.6	166.6	166.6	166.6
Income to non-residents	253.5	142.7	342.3	507.8	516.3	402.5	402.5
<b>BALANCE ON SECONDARY INCOME</b>	303.6	358.8	231.3	259.1	241.3	258.2	262.5
Inflow of current transfers	419.8	455.0	332.3	364.6	346.8	363.7	368.0
Outflow of current transfers.	116.2	96.2	101.0	105.5	105.5	105.5	105.5
<b>CURRENT ACCOUNT BALANCE</b>	-1,033.7	-429.1	-687.2	-762.5	-694.5	-881.1	-480.6

<b>CAPITAL ACCOUNT BALANCE</b>	74.8	80.0	74.9	111.5	149.5	130.5	130.5
<b>FINANCIAL ACCOUNT BALANCE (Excluding RA)</b>	-714.8	-489.9	-247.3	-158.1	-540.9	-746.0	-377.6
<b>Errors &amp; Omissions</b>	244.0	-140.9	365.0	492.9	4.1	4.5	-27.5
<b>RESERVE ASSETS</b>	-281.2	385.7	261.1	302.9	-180.0	55.0	80.0

**Note:** Data reported in BPM 6 format. The Financial Account includes reserve assets and the negative (-) sign indicates net borrowing.  
Source: Fiji Bureau of Statistics & Macroeconomic Policy Committee; r = revised, f = forecast



**Table 6: Tourism Statistics, 2008 – 2014**

	2008	2009	2010( p)	2011(f)	2012(f)	2013(f)	2014(f)
<b>Visitors (000)</b>	<b>585,031</b>	<b>542,186</b>	<b>631,868</b>	<b>679,099</b>	<b>703,143</b>	<b>724,237</b>	<b>745,964</b>
o/w Business	39,576	35,652	39,698	47,327	49,220	50,697	52,217
o/w Personal	545,455	506,534	592,170	628,772	653,923	673,540	693,747
<b>Average length of stay (days)</b>	<b>9.6</b>	<b>9.8</b>	<b>9.6</b>	<b>9.7</b>	<b>9.7</b>	<b>9.7</b>	<b>9.7</b>
Business	7.6	8.4	8.2	8.2	8.2	8.2	8.1
Personal (tourism purposes)	8.5	8.6	8.4	8.5	8.5	8.5	8.5
<b>Visitors days (millions)</b>	<b>5.6</b>	<b>5.3</b>	<b>6.0</b>	<b>6.5</b>	<b>6.8</b>	<b>7.0</b>	<b>7.2</b>
o/w Business	0.3	0.3	0.3	0.4	0.4	0.4	0.4
o/w Personal	5.3	5.0	5.7	6.1	6.4	6.6	6.8
<b>Earnings (\$million)</b>	<b>853.8</b>	<b>816.5</b>	<b>979.7</b>	<b>1050.8</b>	<b>1092.9</b>	<b>1125.6</b>	<b>1157.0</b>
o/w Business	53.5	55.8	63.7	72.5	75.4	77.7	79.0
o/w Personal	800.3	760.7	916.0	978.3	1,017.4	1,048.0	1,078.0

Source: Fiji Bureau of Statistics & Macroeconomic Policy Committee; p = provisional, f = forecast

**Table 7: Sugar Production, Export and Price 2008 – 2014**

	2008(r)	2009(r)	2010(p)	2011(f)	2012(f)	2013(f)	2014(f)
Cane Production - Seasonal (million t)	2.3	2.2	1.8	1.9	2.1	2.3	2.6
Sugar Production - Seasonal (000 t)	208	168	132	158	189	218	248
Tonne Cane to Tonne Sugar Ratio - Seasonal	11.2	13.4	13.5	12.0	11.0	10.5	10.0
Export Quantity Sugar (000 t)	260.0	199.0	96.0	147.2	164.7	249.0	229.1
Unit Value (FJ\$/tonne)	954.6	940.2	730.1	1,143.3	1,010.6	1,029.7	1,025.7
Sugar Export Earnings (FJ\$m)	248.2	187.1	70.1	168.3	166.4	256.4	235.0
Molasses Production (000 t)	98.0	119.0	105.0	125.5	79.5	80.0	88.0
Molasses Export Earnings (FJ\$m)	13.6	20.8	22.6	31.7	16.4	16.5	19.3
Price Paid to Growers (FJ\$/tonne)	58.21	61.65	56.23	57.6	57.6	57.6	57.6

Source: Fiji Bureau of Statistics, Fiji Sugar Corporation & Macroeconomic Policy Committee; r = revised, p = provisional, f = forecast

**Table 8: Inflation Rates (2005 – October 2011)**

	2005	2006	2007	2008	2009	2010	2011 (OCT)
All items	1.4	4.4	4.3	6.6	6.8	5.0	9.1
Food	3.1	3.3	7.7	11.1	7.7	2.9	8.2
Alcohol Drinks & Tobacco	3.2	1.3	7.0	2.7	6.6	5.0	5.9
Housing	0.5	3.9	1.7	1.3	1.5	0.3	0.8
Heating & Lightning	11.7	11.0	-6.9	12.7	-8.5	36.7	53.6
Durable Household Goods	-0.7	3.2	2.2	4.4	12.8	2.3	0.1
Clothing & Footwear	0.3	2.4	4.0	0.2	6.6	1.9	1.6
Transport	5.1	1.4	2.3	6.3	16.3	1.4	5.3
Services	1.6	1.3	1.4	0.4	1.8	1.5	2.1
Miscellaneous	-3.0	5.5	10.6	6.4	16.0	0.8	4.4
<b>Memorandum Items: Year-on Year inflation rates</b>	<b>1.4</b>	<b>4.4</b>	<b>4.3</b>	<b>6.6</b>	<b>6.8</b>	<b>5.0</b>	<b>9.1</b>

Source: Fiji Bureau of Statistics

**Table 9: Employment by Sector 2001-2009 (in thousands of persons)**

<b>ECONOMIC ACTIVITY</b>	2002(r)	2003(r)	2004	2005(r)	2006(r)	2007(r)	2008(r)	2009(e)
Agriculture, forestry & Fishing	1.7	1.7	1.6	1.7	1.7	1.6	1.6	1.7
Mining & Quarrying	1.7	1.7	2.4	2.3	2.4	2.2	2.2	2.2
Manufacturing	28.9	25.5	25.0	26.3	27.1	27.4	27.6	27.8
Electricity, Water & Gas	2.7	2.3	2.2	2.7	2.5	2.3	2.3	2.3
Construction	3.5	6.4	7.1	6.2	6.7	9.4	9.4	9.5
Distribution (incl. Tourism)	24.5	25.8	26.7	26.9	27.2	30.4	30.6	30.8
Transport & Communication	10.3	10.7	9.9	10.5	10.6	10.9	10.9	11.0
Finance, Insurance & Business Services	6.4	7.8	8.0	7.9	8.0	9.5	9.6	9.6
Other Services	38.0	37.8	39.0	39.4	40.0	40.1	42.4	42.7
<b>Total</b>	<b>117.7</b>	<b>119.9</b>	<b>121.9</b>	<b>123.9</b>	<b>126.0</b>	<b>135.8</b>	<b>136.8</b>	<b>137.7</b>

Source: Fiji Bureau of Statistics; r = revised, e = estimate

**Table 10: Exchange Control Policies**

Category of Payments	Changes Effective from January 2012
<p>1. <b>Offshore Investment</b></p> <ul style="list-style-type: none"> <li>• FNPF</li> <li>• Non-Bank Financial Institutions (NBFIs)</li> <li>• Companies</li> <li>• Fiji residents</li> </ul>	<ul style="list-style-type: none"> <li>• FNPF, NBFIs and Companies require Reserve Bank approval</li> <li>• For individuals, delegate up to \$10,000 each or per family per annum</li> </ul>
<p>2. <b>Emigrant Transfers</b></p>	<ul style="list-style-type: none"> <li>• Requires Reserve Bank approval</li> </ul>
<p>3. <b>Export of Cash</b></p>	<ul style="list-style-type: none"> <li>• Increase delegated limit to the equivalent of F10,000 in foreign currency inclusive of F\$500</li> </ul>
<p>4. <b>Airline Ticket Sales</b> [applicable only to overseas airlines with offices or agents in Fiji]</p>	<ul style="list-style-type: none"> <li>• Increase delegated limit up to \$1,000,000 per application</li> </ul>
<p>5. <b>Forward Cover Contracts</b></p>	<ul style="list-style-type: none"> <li>• Commercial banks are allowed to write net forward sales contracts up to \$20m per bank</li> <li>• Commercial banks will not be permitted to purchase foreign currency from the Reserve Bank to fund their sales contracts</li> </ul>
<p>6. <b>Charges/Fees/Services</b></p> <ol style="list-style-type: none"> <li>a) Freight &amp; Shipping</li> <li>b) Other Transport Charges</li> <li>c) Royalty &amp; Commission</li> <li>d) Patents, Copyright</li> <li>e) Brokerage &amp; Other Charges to agents and representatives outside Fiji</li> <li>f) Movie/Film Hire, News Service</li> <li>g) Repair – domestic air/shipping, other</li> <li>h) Technical, Professional &amp; Management Fees</li> <li>i) Advertising</li> <li>j) Office Expenses</li> <li>k) Visa Application</li> <li>l) Re-imburement/refund</li> <li>m) Software, etc</li> <li>n) Other</li> </ol> <p>*does not include commercial banks and FX Dealers' head office expenses or reimbursement charges</p>	<ul style="list-style-type: none"> <li>• Increase delegated limit up to \$500,000 per invoice</li> </ul>
<p>7. <b>Import Payments</b></p> <ul style="list-style-type: none"> <li>• Advance payment</li> <li>• Payment for merchanted goods</li> </ul>	<p>Increase delegated limits as follows:</p> <ul style="list-style-type: none"> <li>• \$500,000 per invoice</li> <li>• \$100,000 per invoice</li> </ul>

Category of Payments	Changes Effective from January 2012
<ul style="list-style-type: none"> <li>• Payment to 3rd parties for goods already received</li> <li>• Prepayments of term bills for goods already received</li> </ul>	<ul style="list-style-type: none"> <li>• \$100,000 per invoice</li> <li>• \$1 million per invoice</li> </ul>
<p>8. <b>Loan Repayment</b></p> <ul style="list-style-type: none"> <li>• Principle and Interest (excluding upfront fees)</li> </ul>	<ul style="list-style-type: none"> <li>• Increase delegated limit up to \$500,000 per amount due as scheduled</li> </ul>
<p>9. <b>Medical Expenses</b></p> <ul style="list-style-type: none"> <li>• Paid directly to the patient</li> </ul>	<ul style="list-style-type: none"> <li>• Increase delegated limit to \$5,000 per applicant per annum. This is in addition to the travel allowance of \$10,000 per trip.</li> </ul>
<p>10. <b>Offsetting of Foreign Exchange Earnings against Foreign Currency Bills Payable</b></p> <ul style="list-style-type: none"> <li>• Bills Other than Merchandise Imports</li> </ul>	<ul style="list-style-type: none"> <li>• Delegate up to \$100,000 per invoice</li> </ul>
<p>11. <b>Subscriptions</b> to clubs, societies and trade organisations including entrance fees.</p>	<ul style="list-style-type: none"> <li>• Increase delegated limit up to \$10,000 per annum</li> </ul>
<p>12. <b>Profit declared and distributed to non-resident shareholders/partners/sole proprietors</b></p> <p>a) Capital</p> <p>b) Dividend or Operating Profit</p>	<ul style="list-style-type: none"> <li>• Requires Reserve Bank approval</li> <li>• Requires Reserve Bank approval</li> </ul>