

# *Fiji Budget 2015*




*Turning Promises*

*Into Deeds*

*Budget Commentary*

*21 November 2014*



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Should you wish to discuss any aspect of the budget or any other matter, please contact us.

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21 November 2014

***Turning Promises into Deeds***

The 2015 Fiji Budget was delivered by the Honourable Minister of Finance Mr Aiyaz Sayed-Khaiyum today with the theme of ***Turning Promises into Deeds***. This is the first Budget for the recently elected democratic Government and it has kept to its election manifesto promises, and in continuing with their broad strategy and policy framework.

While there are no major surprises, there are certain sectors in the economy being given greater attention. These include the Agricultural, Education and Health Sectors, Export Markets and the ICT Industry.

The 2014 growth in the economy is expected to be 4.2%, exceeding the earlier estimate of 3.8%.

The Honourable Minister has also outlined plans for improvements in the Public Service with the aim to address service delivery and efficiency. The government will focus on infrastructure development and upgrades, and has secured global development partners in financing of various projects. Transforming the current workforce will remain a challenge.

Further revisions have been made to fiscal and excise duty in order to protect local producers and for the promotion of renewable energy including solar. Our detailed analysis is enclosed which outlines the various features and announcements in the Budget.

Some changes have been made to Income Tax, CGT and VAT.

Please feel free to contact any of the partners for further clarifications.

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# A. Spotlight on the 2015 Budget

## 1. Budget Estimates and Key Indicators

	2014 Budget	2014 Revised	2015 Budget	2016 Target	2017 Target
	\$m	\$m	\$m	\$m	\$m
Revenue	2,721.8	2,387.5	3,122.4	3,032.9	3,166.6
Expenditure	2,883.3	2,545.9	3,336.3	3,216.7	3,312.8
Net (Deficit)	(161.5)	(158.4)	(213.9)	(183.8)	(146.2)
Debt	3,999.1	4,008.5 (f)	4,114.1	4,406.2	4,552.3
Debt as a % of GDP	48.3%	49.7%	48.3%	47.9%	46.7%
Visitor arrivals	694,016 (f)	680,726 (f)	701,148 (f)	722,183 (f)	743,848 (f)
Inflation	2.5% (p)	1.5% (p)	3.5% (p)	3% (p)	N/A
Anticipated sugar export quantity (000s)	189.1 tonnes (f)	171.2 tonnes (f)	174.5 tonnes (f)	188.9 tonnes (f)	204.2 tonnes (f)
	<b>June 2014</b>	<b>2012</b>	<b>2013</b>		
Contingent Liabilities	2.4b	2,133.4m	2,191.4m		

Key:

(f) Forecast

(p) Provisional

N/A Data not available

## 2. Direct Tax Measures – Income Tax Policy Changes

Policy	Description
1. Promote Disaster Relief Preparedness for Farmers	<ul style="list-style-type: none"> <li>✚ 200% tax deduction for voluntary contribution of cash donation by taxpayers towards a Farmers Emergency Fund Account for disaster relief, with minimum contribution of \$10,000.</li> </ul>
2. Incentivize Small and Medium Enterprises (SMEs) for the Agriculture Sector	<ul style="list-style-type: none"> <li>✚ Extend the scope of SME Income Tax Incentive to cover the whole Agriculture sector.</li> <li>✚ Currently it covers only selected activities within the Agriculture sector.</li> </ul>
3. Promote Commercial Agriculture and Agro-processing by reducing the threshold and extending the expiry date.	<ul style="list-style-type: none"> <li>✚ Reduce the Commercial Agriculture incentives minimum initial level of investment from \$2,000,000 to \$250,000 in line with the TFR thresholds:               <ul style="list-style-type: none"> <li>○ \$250,000 to \$1,000,000 Capital Investment – 5 years tax holiday</li> <li>○ \$1,000,000 to \$2,000,000 Capital Investment – 7 years tax holiday</li> <li>○ \$2,000,000 and above Capital Investment – 13 years tax holiday</li> </ul> </li> <li>✚ The incentive is extended to 31 December 2018.</li> </ul>
4. Promote Information Communications Technology (ICT) investment through extension of existing incentives.	<ul style="list-style-type: none"> <li>✚ Extend the scope of ICT incentives to include setting up of ICT accredited training institutions and ICT start-ups involved in the application design and software development companies.</li> <li>✚ The benefits will include:               <ul style="list-style-type: none"> <li>○ 150% deduction for all ICT start-up costs (no conditions such as employment level and export requirements attached).</li> <li>○ Duty-free and VAT exemption on all items imported which are required for the establishment.</li> </ul> </li> </ul>
5. Promote exports growth by increasing the existing export incentives	<ul style="list-style-type: none"> <li>✚ Export Income Deduction to be increased from 40% to 50%.</li> </ul>
6. Promote Hotels Investments by extending the definition of “project” in the Eleventh Schedule.	<ul style="list-style-type: none"> <li>✚ Expand the definition of “project” under the Hotel Investment Tax Incentive (Eleventh Schedule of the Income Tax Act) to include the buying and selling of residential units in hotel and integrated tourism developments.</li> </ul>
7. Promote Hotels Investments by extending the Short Life Investment Package incentives to include new apartments	<ul style="list-style-type: none"> <li>✚ Extend the current Short Life Investment Package incentives (Eleventh Schedule of the Income Tax Act) to include new apartments.</li> <li>✚ The length of stay at the apartments should not be more than six months.</li> </ul>
8. Extend Accelerated Depreciation Allowance Incentives	<ul style="list-style-type: none"> <li>✚ Accelerated Depreciation Allowance for buildings, plant and machinery will be extended to 31 December 2018.</li> </ul>
9. Extend Bio-Fuel Production Incentive	<ul style="list-style-type: none"> <li>✚ Bio-Fuel Production incentives (10-year tax holiday) will be extended to 31 December 2018.</li> </ul>
10. Incentivize savings for those earning \$16,000 and below	<ul style="list-style-type: none"> <li>✚ Individuals with total earnings of \$16,000 and below will be exempt from paying resident interest withholding tax on any interest earned from savings.</li> <li>✚ Resident interest withholding tax will no longer be “final tax” for qualifying individuals.</li> </ul>



Policy	Description
11. Amend the Tax Administration Decree	✚ Change the Chairmanship of the Tax Agents Board to the Permanent Secretary for Finance or his appointed representative.

### 3. Direct Tax Measures - Capital Gains Tax (CGT)

Policy	Description
1. Exempt CGT on transfers on love and affection	✚ CGT will be exempt on love and affection transfers: <ul style="list-style-type: none"> <li>• parents to children and vice versa;</li> <li>• within siblings;</li> <li>• between spouses; and</li> <li>• between grandchildren and grandparents and vice-versa.</li> </ul>
2. CGT Valuation	✚ Current practice of independent valuation by Solicitor General to remain. ✚ From 2015, Solicitor General will pay the valuers.
3. Exempt CGT on gain made from sale of shares for private companies listed in the South Pacific Stock Exchange	✚ Align CGT legislation with the Income Tax Act to exempt CGT on gains made from sale of shares arising from reorganization, restructure and amalgamation of private company for purpose of listing on the South Pacific Stock Exchange.

### 4. Direct Tax Measures - Fringe Benefits Tax (FBT)

Policy	Description
1. FBT will be charged on accommodation provided to hotel executives.	✚ FBT will be extended to include all accommodation provided to hotel executive managers, irrespective of the location of the hotel.
2. Provide clarity on apportionment of FBT charged on motor vehicle if the benefit given to the employee is also used for business purposes.	✚ The value of motor vehicle benefit is reduced by 50% and leftover 50% is charged with FBT. This will provide clarity and will not require keeping of log books.
3. Formalize the non-deductibility of FBT	✚ Section 19 of the Income Tax Act is amended to formalize the non-deductibility of FBT.

### 5. Direct Tax Measures - Stamp Duty

Policy	Description
1. Amend and insert new definitions into the Stamp Duties Act.	✚ Section 2 is amended to insert new and amend existing definitions listed below: <i>Land, Lease, Money</i> and <i>Stamp Office</i> .

Policy	Description
2. Introduce Stamp Duty for non-residential property buyers	<ul style="list-style-type: none"> <li>✚ 10% stamp duty will be charged on transfer for non-resident strata title property buyers.</li> <li>✚ 5% stamp duty will be charged on mortgage for non-resident strata title property buyers.</li> <li>✚ Non-resident definition in this case is for tax purposes.</li> </ul>
3. Exempt Stamp duty for agriculture mortgage and SMEs	✚ Part 1 of the Schedule is amended to exempt stamp duty for all mortgages relating to Agriculture, and all stamp duties for SMEs.
4. Stamp Duty Exemptions	<ul style="list-style-type: none"> <li>✚ Exempt Stamp Duty on employment contracts; and</li> <li>✚ Transfer of vehicle by probate or divorce settlement.</li> </ul>

## 6. Indirect Tax Measures – Service Turnover Tax (STT)

Policy	Description
1. Provide Clarity on bars on which STT will be charged.	✚ STT to be charged on the ‘provision of meals, beverages or any other services in all licensed bar’ including bars in clubs.
2. STT will also be levied on hired vehicles (LH registered vehicles) as well.	<ul style="list-style-type: none"> <li>✚ STT is extended to include service provided by hired vehicles</li> <li>✚ LH number plates will be charged STT.</li> </ul>
3. Extend scope of STT on services provided in restaurants	✚ The scope of STT is extended to also include takeaway meals in restaurants with gross turnover of \$1.5m.
4. Exempt STT on medical evacuations and natural disasters	✚ STT will not be charged on chartered flight (aircraft and helicopters) services provided for medical evacuations and also for natural disaster.

## 7. Indirect Tax Measures – Value Added Tax (VAT)

Policy	Description
1. Tourist VAT Refund Scheme is extended to other Ports of Entry	✚ The Fourth Schedule to the VAT Decree will be amended to extend the Tourist VAT Refund Scheme to Nausori International Airport and Lautoka Wharf.
2. Amend the definition of New Dwelling House	<ul style="list-style-type: none"> <li>✚ Section 70 of the VAT Decree is amended to provide clarity on the incentive given for refunds of VAT on New Dwelling House.</li> <li>✚ VAT refunds will only be allowed for the first residential property.</li> </ul>
3. Zero-rate repeats on prescribed medicine	✚ The Second Schedule to the VAT Decree is amended to zero-rate repeats of prescribed medicine.

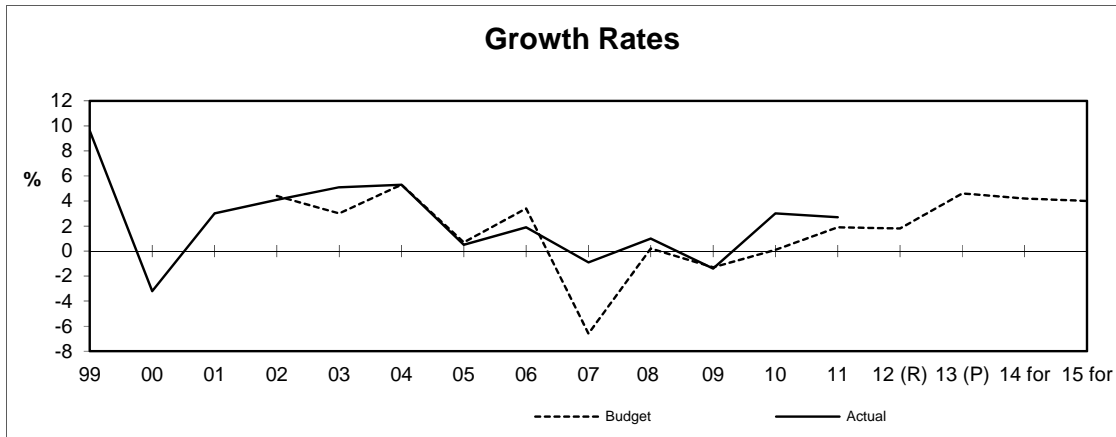
## 8. *Amnesty*

Policy	Description
1. Grant amnesty (no penalties or tax liabilities) for the declaration of assets outside Fiji.	<ul style="list-style-type: none"><li>Applicable to Fiji residents;</li><li>Amnesty applicable for a period of 6 months.</li></ul>
2. Grant amnesty on all penalties payable on outstanding tax liabilities. The liabilities do not include penalties	<ul style="list-style-type: none"><li>A committee consisting of CEO and Fiji Revenue and Customs Authority (FRCA) Board members will consider amnesty applications;</li><li>Penalties will be waived;</li><li>A tax payment program will be finalized with the taxpayers;</li><li>Will cover all income tax, VAT and Capital Gains Tax liabilities;</li><li>This is for 6 months;</li><li>Tax liability has been accepted by the taxpayer but the taxpayer has the inability to pay in lump sum.</li></ul>

# B. State of the Nation

## 1. Growth rate

2015=4% (2014 Budget=4.2%)

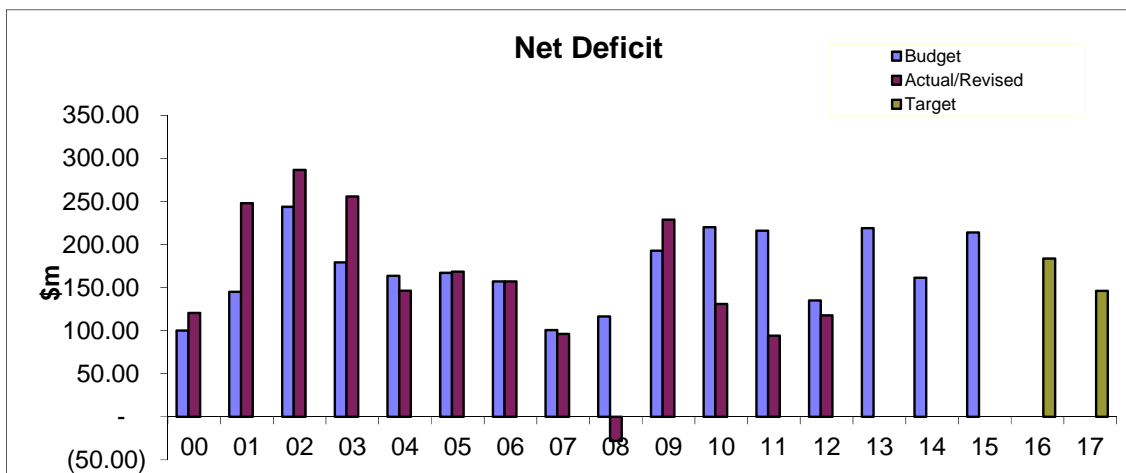


Source: 2015 Budget Supplement

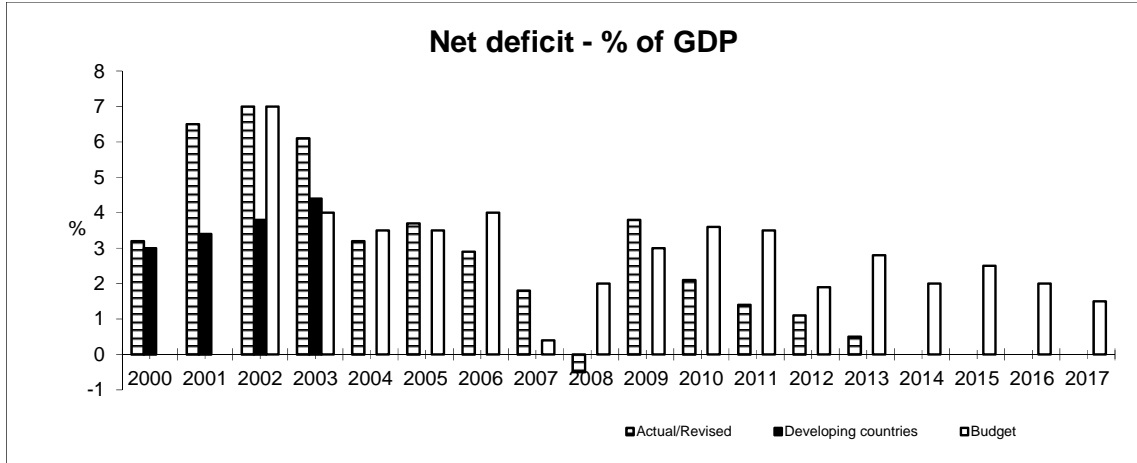
Tourist arrivals of 701,148 (2014 forecasted – 680,726) and sugar export of 174,500 tonnes expected for 2015 (2014: 171,200 tonnes).

## 2. Budget Deficit

The net deficit for 2015 is budgeted at \$213.9 million or 2.5 %of nominal GDP. In comparison, the initial forecasted 2014 net deficit of \$161million has been revised to \$158.3 million.



Source: 2015 Budget Supplement



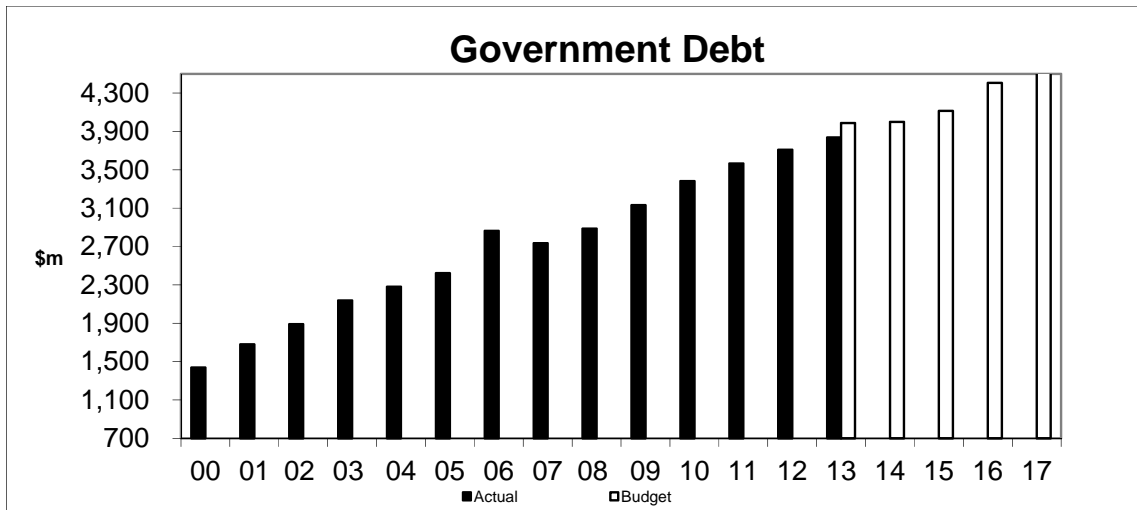
Source: 2015 Budget Supplement

### 3. Balance of payments

For 2015, the current account deficit is projected by Government to be 9% of GDP. The current account deficit for 2016 is projected to be 8.7% of GDP and 9% of GDP in 2017.

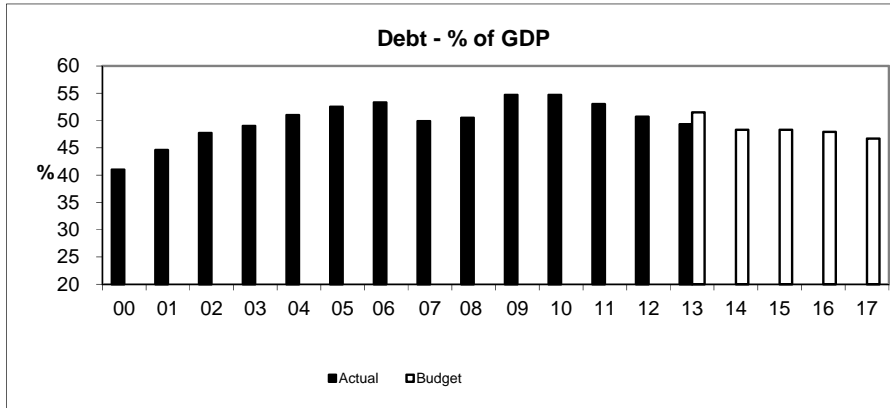
### 4. Government debt

The debt estimate up to September 2014 is \$4,024 million.



Source: 2015 Budget Supplement

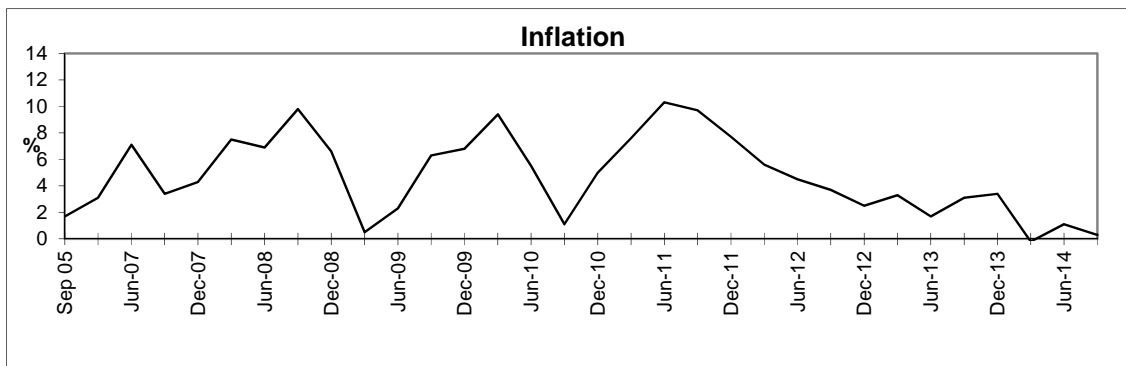
The Government debt is projected to be 48.3% of GDP in 2015 and forecasted at 47.9% of GDP and 46.7% of GDP for 2016 and 2017 respectively.



Source: 2015 Budget Supplement

## 5. Inflation

The 2013 year end inflation stood at 3.4%. By October 2014, inflation had decreased to 0.3%. The 2014 year end inflation is forecasted to be 1.5%. Inflation is forecasted at 3.5% for 2015 and 3% for 2016.



Source: RBF Quarterly/ Economic Reviews and 2015 Budget Supplement

# C. Government Strategic Direction

## 1. Economic Performance and Outlook

### 1.1. International Outlook

The International Monetary Fund (IMF) recently revised the global growth projections for 2014 from 3.6% to 3.3%. Forecasted growth for 2015 was also downgraded to 3.8%.

### 1.2. Domestic Outlook

The domestic economy expanded by 4.6% in 2013, after growing by 1.8% in 2012 and 2.7% in 2011.

### 1.3. Overview 2014

The Fiji economy is forecasted to grow by 4.2%. This is an upward revision from the 3.8% growth previously forecasted.

The 4.2% growth is expected to be driven by the various sectors except for the fishing and mining sectors. The higher growth is largely driven by construction, manufacturing, financial and insurance activities, wholesale and retail trade, information and communication, agriculture, transport and storage and the accommodation and food services sectors.

### 1.4. Overview 2015

The domestic economy is projected to grow by 4% in 2015. This is an upward revision from the 2.4% growth previously forecasted. The 2015 growth is expected to be broad based with positive contributions from all the sectors.

The Government reported that the 2015 Budget provides substantial funding support for infrastructure development, including roads, electricity, water, sewerage and other major capital investments. The Government expects this to have a significant impact on the construction sector and indicated that increased operational expenditures will broadly support activity in the wholesale & retail and manufacturing sectors.

### 1.5. Overview 2016 and 2017

The economy is expected to grow by 3% for both 2016 and 2017.

In both years, growth is anticipated to be driven mainly by the manufacturing, financial and insurance activities, agriculture, wholesale & retail trade, information & communication, construction and the accommodation & foods services sectors.

### 1.6. Inflation

The 2013 inflation was 3.4%.

In October 2014, inflation was recorded at 0.3%. Government indicated that this reflects the free primary and secondary school education initiative and the stable global food and oil prices. The 2014 year end inflation is projected to be around 1.5%.

The inflation for 2015 and 2016 is forecasted at 3.5% and 3%, respectively.

## **1.7. Exports and Imports**

Exports are forecasted to grow by 8% in 2014. This growth is expected due to the higher re-exports and exports of sugar, timber, mineral water, garments & textiles, yaqona, gold and other domestic exports.

Total exports are projected to increase by 3.5% in 2015. A broad based growth of 4% is expected for 2016 and 2017.

Imports are forecasted to increase by 10.7% in 2014.

Import growth for 2015, 2016 and 2017 is projected at 4.8%, 4.4% and 4.3% respectively.

## **1.8. Monetary Policy**

The overnight policy rate remains unchanged at 0.5% in 2014. The Government indicated that monetary policy continued to focus on safeguarding the twin objectives of low inflation and a comfortable level of foreign reserves.

## **1.9. Interest Rates**

The excess liquidity in the banking system has been supporting accommodative lending rates in the market.

## **1.10. Exchange Rates**

The Government reported that the Nominal Effective Exchange Rate index increased by 1.5% over the year. The Real Effective Exchange Rate index declined by 0.8% over the month of September, reflecting a slight gain in Fiji's international competitiveness mainly attributed to a decline in domestic inflation, and fell by a marginal 0.2% over the year.

# **2. Update on Government's Policy Objectives**

## **2.1. Update on the Implementation of the Roadmap for Democracy and Sustainable Socio-Economic Development**

The Government provided an update on the implementation of the Roadmap for Democracy and Sustainable Socio-Economic Development 2010-2014 (RDSSED), which covers the three core areas of:

- Good governance;
- Economic development; and
- Socio-cultural development.

## **2.2. Green Growth Framework**

Cabinet endorsed the implementation of the Green Growth Framework (GGF) on 29th July 2014. The Government stated that the GGF is being introduced as a dynamic planning tool to instil environmentally sustainable initiatives in future development strategies for Fiji.

The Government stated that the GGF aims to put in place a robust participatory process that fosters harmony between the three pillars of economic, social and environmental objectives over time and ensure Fiji's future economic development is achieved in a manner that is sustainable and includes the participation of all key stakeholders.



The Ten Thematic Areas identified under the three pillars of Fiji's GGF to create an enabling environment for sustainable and inclusive development in the medium to long term are:

**Environment**

1. Building Resilience to Climate Change & Disasters;
2. Waste Management;
3. Sustainable Island & Ocean Resources;

**Social**

4. Inclusive Social Development;
5. Food Security;
6. Freshwater Resources & Sanitation Management;

**Economic**

7. Energy Security;
8. Sustainable Transportation;
9. Technology Innovation; and
10. Greening Tourism & Manufacturing Industries.

The Government stated that the implementation of the GGF is being spearheaded by a high level multi-stakeholder panel comprising broad representation across the nation, including Government, private sector, NGOs, academia, and other key interest groups.

### **3. Medium Term Strategy**

Government's medium-term fiscal strategy involves implementing policies that promote growth whilst maintaining fiscal and macro-economic stability taking into account prevailing global and domestic economic conditions as well as Government's priorities for the 2015 Budget. Government targets to achieve the following key macro-economic targets over the medium term:

- raise annual growth levels to 5%;
- maintain investment levels at above 25% of GDP;
- manage inflation at around 3%;
- maintain adequate levels of foreign reserves;
- gradually reduce Government's debt stock to 40% of GDP; and
- contain the budget deficit at or less than 3% each year.

Government has set a net deficit target of 2.5 percent of GDP for the 2015 Budget, reflecting the difference between a revenue forecast of \$3,122.4 million and a budgeted expenditure of \$3,336.3 million. Debt level for 2015 is projected to reduce slightly to around 48.3%, from 49.7% in 2014.

Fiscal deficits for 2016 and 2017 have been projected at 2% of GDP and 1.5% of GDP, respectively. Debt is expected to reduce in 2016 with payment of the US\$150.0 million Global Bond.

In order to remove structural bottlenecks to growth and raise the economy's productive capacity, Government is continuing its priority on infrastructure development with the operating to capital expenditure mix in the 2015 Budget projected at 59:41 compared to 66:34 in the 2014 Revised Budget.

#### **3.1. Revenue Policy**

Government's revenue policy for the medium term will be geared towards simplifying the tax system, maintaining current investor-friendly policies to raise investment, generate employment and boost Fiji's growth potential. The key guiding principles adopted by Government for the formulation of revenue policies for the 2015 Budget are:

- Protect Government's revenue base to support future expenditure demands and debt obligations;

- Streamline existing tax administrative processes to ensure efficient and timely processing of incentives and concessions for new investment proposals;
- Support export-led investments and promote value-added activities, mainly in resourced-based sectors and industries;
- Secure favourable provisions in future international trade agreements to manage the impact of customs tariff losses and protect our infant industries;
- Improve current tax compliance efforts by clamping down on tax planning and evasion;
- Employ effective tax policy measures to address serious health and environmental concerns such as non-communicable diseases (NCD's) and climate change.
- Provide further support to selected Ministries and Departments to improve the recovery of revenue arrears;
- Assist the private sector through timely processing and payment of VAT refunds;
- Review Government fees, fines and charges; and
- Strengthen price surveillance for duty concession items to ensure that the benefits of duty reduction are passed on to consumers.

The specific taxation and revenue policy measures are indicated in Section A.

### **3.2. Expenditure Policy**

With the 2015 Budget, Government continued its approach to prioritise funding to upgrade roads and bridges network, water and sewerage infrastructure, education, health, resource-based sectors and other sectors such as social protection, housing, rural development and the maintenance of law and order.

Budget allocations in the medium term will be based on the following key principles:

- Spending will continue to be channelled to key policy initiatives and priorities of Government;
- Continue funding support for major infrastructure projects such as roads, water and electricity to spur economic activity and improve living standards in rural isolated regions;
- Increase capital spending to facilitate investment by the private sector;
- Implement cost-effective strategies in Ministries and Departments to better manage controllable expenditures such as travel, telecommunications and purchases of goods and services;
- Provide adequate resources to support essential services such as health, water and education;
- Allocate sufficient resources towards poverty alleviation schemes and programmes that provide adequate social safety-net for the poor and underprivileged in society;
- Accelerating public sector reform initiatives;
- Promote small & micro business enterprises, and self-help initiatives to sustain the livelihoods of low income households; and
- Allocate resources for contingency support, particularly for immediate relief or response during natural disasters.

### **3.3. Debt Policy and Risk Management**

Government's debt management policy for the medium term focuses on attaining sustainable debt levels through the adoption of prudent and sound risk management strategies. Key objectives for debt management over the medium term are:

- Prudently manage annual budget deficits to reduce the overall debt stock to sustainable levels;
- Explore opportunities for low-cost financing in the domestic capital market;
- Manage exchange rate and interest rates risks associated with offshore borrowings;
- Ensure external financing is wholly devoted to capital expenditures;
- Minimize risks associated with contingent liabilities by ensuring compliance with Government's Guarantee Policy;
- Stabilise debt servicing costs by refinancing maturing debt at low and competitive interest rates; and
- Continue to build up the Sinking Fund Account and seek other alternative funding options to settle the Global Bond in 2016.

### 3.4. Structural Reforms

Government's overall reform programme includes new initiatives under key public sector reforms as well as land policy reforms, labour market reforms, sugar industry reforms and financial sector reforms.

**World Bank Review of the Civil Services:** A comprehensive review will be conducted by the World Bank in 2015 to restructure the civil service into a lean, efficient, and cost-effective organisation. An allocation of \$500,000 has been set aside in the 2015 Budget for this exercise.

**Human Resource and Productivity Management:** A sum of \$1.0 million is provided in the 2015 Budget to support the Fiji Volunteer Scheme. Government has been able to post 30 volunteers to several countries in the region including the Republic of the Marshall Islands, Nauru, Vanuatu and Tuvalu

Government has announced that the Service Excellence Awards (SEA) Programme is now part of the Performance Agreement for PS's. This has resulted in increased emphasis by Ministries to review and improve public service processes and procedures. In 2014, a record number of 33 Agencies participated in the SEA Programme.

**Organizational Management:** Government has announced that in 2014, PSC developed a 'Performance Assessment Framework' for Permanent Secretaries (PS's). All PS's have signed their Performance Agreement with the PSC in early 2014. A core part of the Agreement requires PS's to achieve key outputs stipulated in their Annual Corporate Plans. This will ensure effective planning and execution of core programmes, as well as greater accountability for resource utilisation.

### 3.5. Public Enterprise Reforms

These will be focused mainly on improving the productivity, efficiency and financial performance of State Owned Entities. Key reforms are:

- The modernization project of the domestic and international terminals of Airports Fiji Limited (AFL) and divestment of Government's shares in AFL
- Review of Fiji Electricity Authority (FEA) reform plans and put in place a viable strategy for restructuring the organisation into a fully-fledged corporate entity including separation of the FEA's regulatory functions from its core commercial operations including partial divestment of Government's shares FEA in 2015.
- To formulate a feasible plan for the reform and restructure of Fiji's port sector with options for the privatisation of Fiji Ports Corporation Limited (FPCL). The objective is to bring about more productivity and efficiency, as well as cost-effectiveness in the management of Fiji's seaports.
- In 2015, Government will provide \$9 million for Pacific Fishing Company Limited to undertake extensive renovation works at its Levuka facility. This investment is vital for the company to maintain its current fish loin processing contract.

### 3.6. Financial Management Reforms

Government will continue with its efforts to implement key Financial Management Reform initiatives with the objective to strengthen financial accountability and transparency in the civil service and ensure prudent management of public resources. Key planned efforts include:

- Implementing key requirements for the adoption of the International Public Sector Accounting Standards (IPSAS). This will require regulatory amendments to prevailing financial legislations, roll-out of intensive capacity building programmes, recruitment of competent staff and the provision of adequate funding support.
- The review of the Financial Management Act (FMA) 2004 and its subsidiary legislations, the Finance Instructions 2010 and the Procurement Regulations 2010 will continue in 2015. The review will take into

account new financial accountability requirements in the 2013 Constitution, modernise accounting processes and strengthen accountability for financial management.

- Rolling out of Internet Banking to Trade Manufacturing Accounts (TMAs) and Trust Accounts in 2015.
- With the success of new hedging scheme in 2014 to mitigate foreign exchange rate risks and volatilities associated with global commodity prices on the procurements of pharmaceutical products by the Ministry of Health, the Government plans to roll-out the new hedging scheme to other line Agencies in 2015, following proper assessments.
- The stock taking exercise for compiling Government's 'National Fixed Asset Register' will continue in 2015 as this is essential for the move towards an accrual accounting system which requires the fair market value of all state assets.

### **3.7. Labour Reforms**

Government announced that Fiji's labour reforms have made historic progress with the successful roll-out of 5 of the 6 phases of reforms.

The Workers Compensation Reform will be integrated into a single policy and legal framework with the OHS Reform. The goal is to deliver cost-effective and quality social protection and social security services to both employers and workers.

### **3.8. Land Reforms**

Government has allocated \$2.5 million to support the Land Bank programme in 2015.

Government has announced that all state lands that are currently being occupied by squatters will be subdivided and given 99 year leases. This policy will be extended to squatters residing on native lands; however, leasing will only be made with the approval of landowners.

### **3.9. Sugar Industry Reforms**

Government has provided a budget of \$5.0 million for the Sugar Development Programme in 2015. This programme has two components, namely the Cane Development Grant (for fallow land) and the Cash-back Incentive Scheme.

### **3.10. Financial Sector Reforms**

**Review of the Insurance Act:** The Reserve Bank of Fiji (RBF) has completed the review of the Insurance Act. RBF has incorporated into the draft amendments to the Insurance Act the provisions that require effective market disclosure, the use of actuarial assessments, and a risk-based solvency framework.

**Pensions Decree:** The RBF is mandated to supervise the Fiji National Provident Fund (FNPF). The new Pensions Supervision Act legislation will include provisions such as allowing new entrants to the pension fund market, requirements for appointment of the pension fund board and management, and monitoring and investigation powers of the supervisor. The new Act will be administered by the Reserve Bank as supervisor.

**Review of the Merchant Service Fee (MSF):** The RBF is currently finalising a new Payment Systems Legislation in order to provide a clear and transparent legal framework to cover interventions relating to specific issues such as credit card surcharging and merchant service fees.

**Inclusive insurance development:** RBF engaged a consultant in June 2014 to develop model regulations and guidelines to assist in the development and implementation of inclusive insurance in Fiji. Inclusive insurance aims

to expand insurance coverage to low income earners as well as employees in the informal market through safe and innovative insurance products and policies.

**Credit Union Regulations:** The RBF plans to review the legislation pertaining to Credit Unions in order to strengthen licensing requirements and foster prudential supervision and regular reporting on financial performance.

**Financial Sector Development:** the Government, RBF, financial institutions and relevant stakeholders have embarked on developing a Financial Sector Development Plan (2015-2025) for Fiji. It will articulate strategic reform areas and identify key pillars to unlock further growth in the financial sector.

**Financial Inclusion:** National Financial Inclusion Taskforce will continue to collaborate closely with private and public entities, microfinance institutions, civil society groups and development partners to coordinate and supervise the progress of financial inclusion initiatives in the country.

**Consumer Protection:** The RBF has established a Complaints Management Forum as part of its consumer protection programme to ensure that customer complaints are promptly dealt with without being reverted through the court system.

**Capital Markets Development:** The expansion of Fiji's capital markets remains a priority for the RBF. In 2014, three working groups were established to assist the Capital Markets Development Taskforce with the implementation of the Capital Markets Development Master Plan 2020.

**National Payment System Act:** A draft legislation for the establishment, regulation and oversight of a National Payment System has been compiled by the RBF. The draft legislation provides the regulatory framework for the licensing, regulation and oversight of payment system providers, e-money issuers, and other money transfer services to ensure the protection of users of this service. Powers to address infringements, take remedial measures and levy penalties have also been incorporated into the draft legislation.

**Small and Medium Enterprises Credit Guarantee Scheme:** This scheme aims to improve credit access for small and medium enterprises by enabling Government to share part of the loan risk with financial institutions. A budget allocation of \$1.5 million has been provided for this scheme.

**Import Substitution and Export Finance Facility:** This facility provides concessional loan funding for businesses involved in exports, import substitution and renewable energy projects. Loans issued under the facility are expected to grow by approximately 50% by the end of this year with total outstanding loans up to end of August standing at \$55.9 million.

**Housing Facility:** The facility was established by the RBF in 2012 to assist the Housing Authority and the Public Rental Board in providing affordable housing loans to low income earners. To date, the facility has been fully utilised.

**Financial Intelligence Unit (FIU) & Anti-Money Laundering (AML) Measures:** The FIU will continue to assist the National AML Council to conduct and finalize Fiji's national risk assessment. The purpose of this exercise is to comply with international AML requirements and also identify money laundering & terrorist financing risks at the national level.

**Asia Pacific Group on Money Laundering (APG) Mutual Evaluation:** Fiji will undergo a mutual evaluation by the APG in 2015. This will involve a group of experts from APG member countries who will assess the level of compliance and effectiveness of Fiji's AML/CFT systems against international AML standards. The FIU will be the lead agency to coordinate the mutual evaluation by APG. Fiji last underwent a mutual evaluation by APG in 2006.

The FIU will continue to work closely with various stakeholders to investigate cases of "Unexplained Wealth" under the Proceeds of Crime (Amendment) Decree 2012 and to ensure their compliance with the Financial Transactions Reporting (FTR) Act.

## **4. Government's Fiscal Position**

### **4.1. 2013 Actual Performance**

The net deficit target was set at \$219.0 million or 2.8% of GDP with the budgeted total revenue of \$2,108.4 million and total expenditure of \$2,327.4 million. However, a lower net deficit of \$37.9 million, equivalent to 0.5 % of GDP was achieved.

### **4.2. 2014 Revised Projections**

The net deficit was set at \$161.5 million or 1.9% of GDP with total estimated revenue of \$2,721.8 million and total expenditure of \$2,883.3 million.

The total revenue and expenditure for 2014 has been revised to \$2,387.5 million and \$2,545.9 million, respectively.

### **4.3. 2015 Budget**

The Government announced that the total revenue for 2015 is estimated at \$3,122.4 million against a total expenditure of \$3,336.3 million (overall net deficit of \$213.9 million or 2.5% of GDP).

The Budget details that the largest component of operating revenue will be indirect taxes (particularly VAT), which represents 68.9% of total operating receipts followed by direct taxes at 23.0%.

### **4.4. Direct taxes**

The projection for total direct taxes in 2015 is \$582.8 million, which is higher by 12.9% than collections anticipated for 2014. The increase is in line with strong business and investment activities and favourable labour market conditions.

### **4.5. Indirect taxes**

VAT is the largest revenue earner for Government. In 2013, total VAT collections stood at \$724.0 million, 2014 VAT collections are estimated to be \$774.7 million and projected 2015 collections are \$817.1 million.

The Budget indicates that some of the reasons for the increase in indirect taxes are the buoyant consumption spending, strong tourism activity, continued growth in imports and overall favourable economic conditions.

### **4.6. Operating Payments**

The Budget details show that, in 2013, personnel costs represented around 41.3% of total operating expenditure followed by transfer payments (25.1%), interest payments (17.3%), supplies and consumables (12.3%), purchase of outputs and other operating payments (4.0%).

### **4.7. Personnel costs**

For 2014, personnel costs are expected to be \$772.9 million due to increases in Civil Service pays. The 2015 budgeted amount is \$864.1 million equivalent to 44.6% of total operating expenditure.

### **4.8. Transfer payments**

The major operating grants and transfers projected in 2015 include the following:

- Water Authority of Fiji - \$63.2 million
- Fiji Revenue and Customs Authority - \$45.7 million
- Fiji National University - \$38.6 million
- University of the South Pacific - \$36.6 million
- Fee Free Education Years 1-8 - \$35 million
- Fee Free Education Years 9-13 - \$31.4 million
- Poverty Benefit Scheme - \$22 million
- Bus Fare Assistance - \$20.0 million
- Fiji Road Authority - \$18.2 million
- Land Transport Authority - \$15.0 million
- Fiji Independent Commission Against Corruption - \$9.0 million
- Fiji's Servicemen's After Care Fund - \$8.4 million
- Social Pension Scheme - \$8.0 million
- Legal Aid Commission - \$4.4 million
- Biosecurity Authority of Fiji - \$4.0 million
- Salary Grant for Early Childhood Education Teachers - \$3.3 million
- Tourism Fiji - \$3.0 million
- Civil Aviation Authority of Fiji - \$3.0 million
- iTaukei Affair Board - \$3.0 million
- University of Fiji - \$2.5 million
- Shipping Franchise Scheme - \$2.4 million
- Maritime Safety Authority of Fiji - \$2.2 million

#### ***4.9. Supplies and Consumables***

In 2013, the cost of inputs for provision for public goods and services totalled \$186.2 million. Government anticipates supplies and consumables in 2014 to be \$156.5 million and \$223.2 million in 2015.

#### ***4.10. Special Expenditure***

In 2013, the expenditure on special projects by Government ministries totalled \$60.2 million. Government expects special expenditures to be \$50.8 million in 2014 and plans to spend \$81.1 million in 2015.

#### ***4.11. Interest Paid***

Total interest in 2013 is \$260.2 million and is projected to be \$261.2 million in 2014. Government projects \$274.6 million in interest payments in 2015.

#### ***4.12. Other Operating Payments***

The expenditure associated with debt financing in 2013 totalled \$0.2 million. Government anticipates other operating payments to be \$1.1 million and \$6.5 million for 2014 and 2015, respectively.

#### ***4.13. Total Operating Payments***

Total operating payments in 2013 amounted to \$1,508.3 million representing 72% of total Government expenditure. Government anticipates total operating expenditure of \$1,657.8 million, representing 66.3% of total Government expenditure in 2014 and budgeted \$1,938.9 million, representing 59.5% of total appropriation in 2015.

#### **4.14. Government Savings**

The excess of operating revenue over operating expenditures in 2013 totalled \$536.2 million. Government projected savings of \$668.3 million in 2014 and anticipates operating savings of \$598.3 million or 6.9% of GDP in 2015.

#### **4.15. Government Investing Activities**

The receipts from investing activities stood at \$12.2 million in 2013. Government has projected total investing receipts to be \$15.0 million in 2014 and expects investing receipts of \$509.7 million in 2015 from anticipated sales of certain assets and shares in Airport Fiji Limited, Fiji Port Corporation Limited and the reorganisation of Fiji Electricity Authority.

Government provided \$1.0 million in the form of loans to students in 2013. For 2014, with the introduction of the Tertiary Education Loan Scheme (TELS), this is estimated at \$39.0 million. For 2015, Government has provided \$42.5 million towards TELS and will provide funding of \$9.0 million to PAFCO, and \$9.7 million to South Pacific Fertilisers Limited.

Capital transfers to undertake capital projects by Government agencies and statutory authorities stood at \$494.2 million in 2013. Capital transfers are expected to increase to \$678.5 million in 2014. Government projects capital transfers in 2015 to be \$1,055.1 million to continue investments in road development, public utilities and other essential services.

Total expenditure on physical non-current assets that represents spending on capital construction activities and capital purchases totalled \$91.2 million in 2013. Government anticipates this expenditure to be \$124.1 million in 2014 and \$205.5 million in 2015.

Net investing deficit of \$574.1 million was recorded in 2013. Government anticipates net investing deficit of \$826.6 million in 2014 and \$812.1 million in 2015.

### **5. Government's Balance Sheet**

#### **5.1. Government Equity Investment**

The Government indicated its continued monitoring of various State Owned Enterprises (SOEs) to improve performance to maximise returns. Reform initiatives have been implemented to improve productivity and enhance service delivery. Government indicated that improved financial performance of SOEs will minimise future fiscal risks and also assist Government in channelling dividends to support Government's operations and key priority objectives.

#### **5.2. Government Equity Investment - Performance**

The Government reported generally mixed results on its Return on Asset (ROA) and Return on Equity (ROE) from investments in SOEs in the various sectors:

- Trade & Finance and Transport & Infrastructure – the SOEs in this sector generated satisfactory returns due to the positive performances by Unit Trust of Fiji (Management) Limited, Public Rental Board, Airports Fiji Limited, Fiji Airways Limited, Air Terminal Services and Fiji Ports Corporation Limited.
- Agriculture – this sector indicated improved returns in 2013 owing to favourable performance from Fiji Meats Industry Board, Yaqara Pastoral Corporation Limited.
- Communications – this sector generated negative returns given the losses incurred by Fiji Broadcasting Corporation Limited and Amalgamated Telecom Holdings Limited.



### 5.3. Dividends from Government Investments

The Government announced that it received dividends totalling \$11.9 million in 2013 with Amalgamated Telecom Holdings providing the highest returns followed by Fiji Ports Corporation Limited, Yaqara Pastoral Corporation Limited, Air Terminal Services, Post Fiji Limited and Unit Trust of Fiji (Mgt) Limited.

Minority Owned Companies provided \$6.8 million, Government Commercial Companies provided \$4.9 million and Majority Owned Companies provided \$0.2 million in dividends. Contributions from the communication and transport and infrastructure sectors make up 89% of dividends in 2013.

### 5.4. Arrears of Revenue

The total arrears of revenue as at 30 June 2014 are \$153 million. A significant portion of outstanding revenue is from unpaid taxes of \$68.7 million, which accounts for 45% of total arrears. Apart from taxes, \$32 million is owed to Government from unpaid water rates, \$28.8 million from uncollected crown lease rentals and \$9.8 million from outstanding judicial/court fees, fines and charges. 53.6% of the amounts outstanding are made up of arrears which are less than 2 years old.

### 5.5. Government Debt

The debt level in 2013 increased by 2.9% compared to the debt level in 2012. As at September 2014, total debt stood at around \$4 billion or 49.9% of GDP and is anticipated to be around 49.7% of GDP by year end as noted in the table below:

	2011	2012	2013	2014 (Sept)	2014 (f)
	\$m	\$m	\$m	\$m	\$m
Domestic debt	2,734.4	2,744.0	2,744.2	2,868.5	2,840.9
External debt	832.1	935.5	1,081.1	1,155.5	1,167.6
Total debt	3,566.5	3,679.5	3,825.3	4,024.0	4,008.5
<b>Debt as a % of GDP</b>	<b>54.5</b>	<b>53.4</b>	<b>51.4</b>	<b>49.9</b>	<b>49.7</b>
<b>Domestic/Total Debt Ratio</b>	<b>76.7</b>	<b>74.6</b>	<b>71.7</b>	<b>71.3</b>	<b>72.0</b>
<b>External/Total Debt Ratio</b>	<b>23.3</b>	<b>25.4</b>	<b>28.3</b>	<b>28.7</b>	<b>28.0</b>

Source: 2015 Budget supplement

### 5.6. Domestic Debt Stock

Total domestic debt in 2013 was equivalent to 35.2% of GDP. The primary market was active with a total floatation of \$271.6 million of which \$172.8 million was raised by Government. Other market participants included Fiji Development Bank, Fiji Electricity Authority and Housing Authority with a combined total of \$98.8 million in bonds issuance.

### 5.7. Domestic Interest Rates

The financing costs for both short term and long term debt instruments were relatively low in 2013 due to high liquidity in the financial system. This led to the oversubscription of Government bond floatation, which exerted downward pressure on interest rates.

## 5.8. External Debt Stock

The external debt stood at \$1,155.5 million by September 2014, equivalent to 14.3% of GDP. This is an increase of \$74.4 million or 6.8% from 2013.

The US\$250 million global bond is due for repayment in March 2016. Government indicated that it has set up an offshore Sinking Fund Account to assist in the settlement of the Bond.

## 5.9. Contingent Liabilities

Government indicated that total contingent liabilities are \$2.4 billion as at 30 June 2014, equivalent to 29.8% of GDP. Total contingent liabilities increased in June 2014 by \$218 million when compared to 2013 and increased in 2013 by \$58 million from 2012.

# 6. Poverty Alleviation, Rural Development and Youth & Sports

## 6.1. Poverty Alleviation

The Government announced that poverty is a key challenge factor and they will continue to tackle this over the medium term. According to the 2008/2009 Household Income and Expenditure Survey, population in poverty has declined from 35% in 2002/2003 to 31% in 2008/2009. To achieve desired poverty reduction outcomes, Government advised that it will continue to support existing social protection programmes such as the poverty benefit scheme, child protection programmes, social pension scheme and food voucher programme.

### Key initiatives

Poverty Benefit Scheme	Set up to provide financial support to destitute and poor households. A sum of \$22 million has been allocated towards this initiative.
Child Protection Allowance	Cash grant allocated to residential homes providing foster care, adoption and residential facilities for orphans. Budget allocation of \$2.0 million.
Social Pension Scheme	\$8.0 million allocated towards improvement of welfare of elderly citizens with an increase in monthly pension from \$30 to \$50 and reduce age eligibility from 70 to 68 years.
Women's Plan of Action	Budget allocation of \$1.0 million with 5 key areas under this plan: <ul style="list-style-type: none"><li>- Formal Sector Employment &amp; Livelihood;</li><li>- Equal participation in decision making;</li><li>- Elimination of violence against women and children;</li><li>- Improved access to basic services; and</li><li>- Women and the Law</li></ul>
Lagilagi Housing Development Project	A sum of \$2 million has been budgeted for the completion of Phase 2 of this project which will provide affordable and decent housing for low income households, particularly families residing in squatter settlements.
Squatter Upgrading & Resettlement	A sum of \$3.0 million is allocated to fund the Cuvu, Caubati and Ledrusasa Squatter Settlements, which will be completed in 2015 with the issuance of 260 lease titles. The Sasawira project will be continued until 2016 and will result in issuance of 150 leases. \$0.5 million allocated for Sustainable Income Generating Project in Vanuakula, Nativi, Nakama, Nakoro and Noboutini. \$3.0 million allocated for upgrade of informal settlements on iTaukei

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**Key initiatives**

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	Lands at Qauia, Wakanisila, Nadonumai and Waidamudamu settlements.
Social Housing Policy	\$0.5 million allocated to write-off of housing loans for clients who have paid more than 1 ½ times the principal amount and who are retired or can prove genuine financial difficulty based on low income or medical ground.
Education	<p>\$20.0 million allocated to bus fare subsidy to assist students from low income households. The assistance also covers students travelling by boat, carriers and other modes of transportation where bus services are not available.</p> <p>\$52.5 million allocated for tertiary education loan scheme which includes funding for the toppers scheme and provision for low interest loans for tertiary education. The scheme also covers accommodation, transport, pocket allowances, books, study materials and other associated costs.</p> <p>\$15.7 million allocated for funding of existing students who were awarded scholarships prior to the introduction of the new tertiary education scheme. The scheme will be phased out upon completion of these students' studies.</p>

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## **6.2. Development of Rural and Maritime Areas**

The Government will continue to drive the implementation of key rural and divisional projects, including the Grant for Self-Help Projects, Rural Electrification Projects, the Integrated Human Resource Development Programme and the Rural & Outer Island Agriculture Development Project.

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**Key initiatives**

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Rural Electrification Project	<p>\$19.5 million allocated to cater for the extension of the electricity grid, solar system installation, and house wiring.</p> <p>An additional sum of \$2.7 million allocated as funding for grid extension works that will be undertaken for the Nacavanadi/Korotasere, Tokaimalo and Dawasamu/Bureiwai projects.</p>
Electricity Subsidy	\$5.7 million is provided for Government's electricity subsidy to low income families for the increase in electricity threshold from 75 kilowatts to 85 kilowatts.
Rural Housing Assistance	\$1.4 million allocation for construction of houses in rural areas to ensure continued support and improved living standards in these areas.
Drainage and Flood Protection	\$8.0 million allocated for drainage and flood protection which will involve dredging of rivers and construction of river bank boulders around the country to reduce threat of crop loss in low lying agricultural land.
Drainage Subsidy and Maintenance of Irrigation Schemes	\$2.0 million allocated for drainage subsidy to selected agricultural areas; and \$1.5 million for the maintenance of existing irrigation schemes.

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## 7. Priority Sectors

### 7.1. Education

The Government has indicated that the provision of quality education is a key priority of Government. The Government has allocated around \$560.0 million (16.8% of total budget) to the education sector. The free education programme at the primary and secondary levels will continue. The Government also indicated that the formula for allocating grants to schools will change in 2015 to factor in criteria that will take into consideration disadvantaged schools.

The Government also announced that free education has been extended to pre-schools. A total of \$1.4 million is allocated for this initiative. The Government has also stated that the teacher to student ratio is targeted to be reduced to 1:30 and 1:35 in primary and secondary schools, respectively, by 2016.

Furthermore, the Government has indicated that special emphasis has been placed on technical and vocational training and technical colleges would be established around Fiji. This is expected, among others, to address the current skill shortages in the construction sector.

### 7.2. Health

The Government indicated that it will continue to invest to provide quality and affordable health services and a total of \$269.7 million has been allocated in 2015. 441 new positions have been created in 2015 to address the shortage of doctors, nurses and allied health workers.

The Government has also indicated that \$8 million has been allocated to provide free medicines (including for non-communicable diseases) to Fijians with an annual income of below \$20,000. Repeats of prescribed medicines will also be zero-rated. A new tertiary hospital will be established, which will be managed in collaboration with the Fiji National University. New health facilities will be constructed around the country with a budget of \$42.1 million.

### 7.3. Infrastructure development and public utilities

#### Roads




The Government announced that it has allocated \$653.8 million in 2015 to the Fiji Roads Authority for road infrastructure. Road maintenance and renewal works will continue around the country. A total loan funding from the EXIM Bank of China of \$97.8 million is allocated for projects such as the Nabouwalu to Dreketi, Moto to Buca Bay and Sawani to Serea roads. Government has also provided for the expansion, capacity enhancement and improvements of the Nadi to Lautoka road. A major bridge and jetty renewal programme is also being implemented, which would be partly funded by Fiji's developing partners.

The Government has also indicated that funding has been provided to acquire a new vessel, increase frequency of maritime services to remote and uneconomical shipping routes, and subsidise air services on uneconomical routes.

#### Water and sewerage

The Government announced that \$239.2 million has been budgeted to the Water Authority of Fiji for the upgrade of the water and sewerage infrastructure to accommodate the growing demand due to population growth and increased commercial developments in urban centres.

Major capital projects for 2015 of the Government are as follows:

-  Water distribution system project - \$30.9 million;
-  New water source treatment plant - \$25.7 million;
-  New waste water treatment plants - \$13.4 million;

- ✚ Water sources and treatment plants - \$15.6 million;
- ✚ Replacement of water meters - \$12.0 million;
- ✚ Improvement & upgrade of waste water distribution systems - \$10.7 million; and
- ✚ Other rural water supply - \$5.0 million.

The Government has also indicated that it would install Ecological Purification Systems and will provide 91,250 litres of free water per year to Fijian households with an annual income of less than \$30,000.

### ***Energy and electricity***

Government has stated that \$29 million has been allocated to the Department of Energy in 2015 for the extension of the grid, installation of solar systems and investment in renewable energy sources. Collectively, a sum of \$29 million is provided to the Department of Energy in 2015 for this purpose. To expand the supply of electricity to rural areas, a funding support of \$19.5 million is being provided to cater for rural electrification projects. Government will partner with the Fiji Electricity Authority to extend the national grid lines to selected areas around the country.

Government has also increased the monthly electricity subsidy for low income families from the current 75 kilowatts to 85 kilowatts.

## **7.4. Agriculture**

The Government has indicated that the sector's contribution towards economic growth has been declining over the years. Consequently, the Department of Agriculture has developed the Fiji 2020 Agriculture Sector Policy Agenda to modernize the sector and improve its regional and international competitiveness. The Agenda establishes a long-term plan for the industry to address the issue of food security, improving export performance, raising investments into the sector, generating employment particularly in rural areas, while at the same time addressing global challenges such as climate change.

### ***Sugar***

The Government indicates that the sugar industry has performed well in 2014 with cane production increasing to 1.8 million tonnes, an increase of around 12.0%; and sugar production also increasing to around 218,000 tonnes.

In 2015, the Ministry of Sugar is provided with a total funding of \$11.8 million, which includes an allocation of \$9.7 million for South Pacific Fertilisers Limited; and \$5.0 million towards the sugar development programme which targets the planting of 3,000 hectares of new crop. A sum of \$2.5 million is also allocated for the upgrading of cane access roads while \$0.6 million is provided for the purchase of cultivators.

### ***Non-Sugar***

The Government indicates that the non-sugar agricultural sector comprising of commodities such as root crops, tropical fruits, vegetables, spices, coconut products, cocoa, poultry, dairy and livestock contributes around 7% to GDP.

The Government has allocated \$1.0 million for the Export Promotion Programme to increase agricultural exports by strengthening commercial agriculture activities. In addition, a sum of \$1.0 million is provided to promote the production of selected local commodities under the Food Security Programme. The Government has also indicated that the fertilizer subsidy programme introduced in 2014 will be expanded to include ginger farmers, dairy and livestock sector with a budget funding of \$1.5 million.

To address the high cost of land preparation and to encourage land use and agriculture, Government has indicated that it has allocated \$2.0 million to assist farmers to prepare land for cultivation. Mechanization of farms will also continue with Government allocating \$0.8 million for the purchase of farm machineries and equipment.

The Government has also indicated that existing initiatives targeting crops and livestock such as cocoa, coconut, potato, ginger, rice, dairy, beef, sheep, goat and area-based programmes in the Sigatoka Valley, Nadarivatu, Saivou Valley and Rotuma Island will continue in 2015 with a total funding support of more than \$3.0 million.

### ***Fisheries***

Most of Fiji's fisheries products are exported to key markets in Japan, USA, China, Thailand and New Zealand. The Government indicates that \$500,000 would be provided for the marine resource inventory survey to take stock of marine resources within the "Qoliqolis".

A further \$500,000 is allocated for coastal fisheries development with the purpose of strengthening inshore fisheries development through advisory services on quality control, fish handling & marketing and monitoring of fishing grounds. In addition, a sum of \$400,000 is provided for mariculture and pearl & oyster development.

Government indicates that it would also be providing \$500,000 for the construction of the multi-species hatchery in Caboni, Ra for the purpose of assisting with the supply of various fish species to restock overfished reefs, open up opportunities for aquaculture production & exports and generate supplementary income & employment opportunities for fish farmers. A further \$500,000 is provided for aquaculture farming.

A total of \$1.4 million is also allocated to complete the Gau Ice Plant and the construction of the new Rotuma Ice Plant.

### ***Forestry***

The Government is providing \$300,000 for the restoration of degraded native forest species. This will involve seed production, improvement in nursery facilities, field planting, training & awareness and monitoring.

7.46 Government is also allocating \$300,000 for the Reducing Emissions and Deforestation and Forest Degradation (REDD) plus programme in 2015. An allocation of another \$300,000 is also provided for the Ecosystem Rehabilitation programme. The Colo-i-Suva Forest Park will also be upgraded with a budget of \$150,000 in 2015.

The Government has also allocated \$550,000 to subsidise the purchase of value-adding machines in maritime areas to encourage local communities to process timber for construction of homes, church and community halls.

## ***8. Investment Facilitation***

Government states that it recognises the importance of both local and foreign direct investment (FDI) in improving Fiji's economic growth prospects.

### ***Single Window Clearance System***

The Government indicates that Investment Fiji is currently focusing on simplifying the registration process for investments in Fiji through the creation of the "single window clearance" application system, which will be available on-line to investors. Phase 1 is expected to be launched in November 2014. Tier 1 Agencies include the Registrar of Companies, Investment Fiji, Fiji Revenue & Customs Authority, Reserve Bank of Fiji and the Department of Immigration.

### ***Foreign Investment Update***

The Government indicates that, from 2009 to 2013, the number of investment proposals registered increased from 80 to 257. The value of proposed investments during this period also increased by \$873.1 million to \$1,190.8 million in 2013, as follows:

<b>Investment Indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Number of Investment Proposals Registered	80	117	133	130	257
Value of Investment Proposals Registered (\$million)	317.70	621.90	466.75	703.54	1,190.80
Employment Proposal	5,577	2,706	2,901	3,460	4,664

The Government stated that the increase in projects was attributed to the following factors:

- ✚ Attractive tax policy measures introduced in the 2012 and 2013 Budgets;
- ✚ Removal of the \$250,000 minimum investment requirement;
- ✚ Increased participation by Investment Fiji; and
- ✚ Vigorous marketing efforts by Fiji Embassies & Trade Missions.

### ***Investment Reforms***

In 2015, Government stated that Investment Fiji will pursue the following reform initiatives to improve overall investment facilitation, and subsequently enhance the business and investment climate:

- ✚ Formation of Sector Associations amongst Tier 1 and Tier 2 Agencies to strengthen coordination and reporting from line ministries and statutory organisations, and ensure timely feedback to investors;
- ✚ Establishment of a national target for Foreign Direct Investment (FDI);
- ✚ Creation of a Combined Investor Checklist, incorporating the investment requirements and fee schedules of all Tier 1 & 2 Agencies;
- ✚ Review of Reserved & Restricted Activities; and
- ✚ Establishment of a Research & Development System to capture commonly demanded investor information, including a catalogue on available tax incentives and concessions.

### ***Trade & Investment Promotion Missions***

In 2015, Investment Fiji plans to undertake the following missions and exhibitions:

- ✚ Cebit ICT Exhibition, Sydney, Australia;
- ✚ Trade & Investment Mission to Brisbane, Australia;
- ✚ Investment & Trade Mission to Shanghai, China;
- ✚ Trade Mission to MSG Countries (PNG, Solomon Islands, Vanuatu & New Caledonia);
- ✚ Joint Trade & Investment Mission to India (Investment Fiji, Film Fiji, Tourism Fiji);
- ✚ 2015 Yiwu Forest Fair; and
- ✚ Trade & Investment Mission to Dubai.

## **9. External Trade and Development Cooperation**

### **9.1. Trade policy framework and update on regional and international trade negotiations**

The Government has announced that they are in the final stages of formulating its Trade Policy Framework (TPF). The TPF strives to achieve the following objectives:

- Securing preferential access for key exportable commodities and services;

- Protecting infant industries and securing exclusivity for economically depressed regions;
- Fostering adequate assistance under development cooperation provisions;
- Securing favourable aid-for-trade conditions; and
- Adopting feasible “rules of origin” arrangements for niche products etc.

The Trade Policy will be implemented over a ten-year period from 2015 to 2025. A mid-term review will be conducted in 2020 to ensure key trade objectives are achieved during the implementation period.

The Government provided an update on some of its key regional and international trade agreements as follows:

#### ***Melanesian Spearhead Group Trade Agreement (MSGTA)***

The Government indicated that Fiji, Papua New Guinea and Vanuatu began trading duty free under the MSGTA since 2013 however, the Solomon Islands is expected to fully liberate their tariffs by 2017.

The MSGTA is currently being reviewed by member countries to include chapters on services, labour mobility, government procurement and investment. The revised legal text for MSGTA3 is currently being negotiated by trade officials and will be presented to MSG Trade Ministers at the end of November 2014 for further deliberations.

#### ***Interim Economic Partnership Agreement (I-EPA)***

The European Council amended its Market Access Regulation in 2013 to exclude ACP countries from preferential access to the EU market. This adjustment has led to ACP countries being given a deadline of 30<sup>th</sup> September 2014 to provisionally adopt the I-EPA or risk losing out on existing trade preferences. Government approved the application of the I-EPA in July 2014 to prevent any disruptions of exports to the EU.

#### ***Comprehensive Economic Partnership Agreement (CEPA)***

Fiji will continue to negotiate development friendly and mutually beneficial provisions in the CEPA with other Pacific ACP States.

#### ***PACER Plus***

Fiji has yet to officially declare its participation in the PACER Plus negotiations. PACER Plus provides the opportunity for Fiji to gain preferential market access to lucrative markets in Australia and New Zealand and also benefit from provisions relating to labour mobility, investments and development cooperation.

### ***9.2. Trade and Investment Promotion Missions***

The Government stated that it has been working closely with the private sector to capitalise on niche export market opportunities in non-traditional markets in Asia and the Middle-east. Several Trade and Investment Missions have been scheduled in 2015 to targeted markets in Australia, Asia and Northern America.

### ***9.3. Development Cooperation***

Government stated that Fiji’s new foreign policy and the return to parliamentary democracy has opened new alliances to non-traditional partners and has led to the re-engagement by our traditional partners. These have increased development assistance.

In 2014, the total value of official development assistance is expected to be around \$103.6 million and is estimated to be around \$139.3 million in 2015.



#### **9.4. Aid-In-Kind**

Government announced that the value of Aid-In-Kind (AIK) expected in 2015 is \$133.2 million. The Economic Sector will receive the bulk of AIK support values at \$61.3 million in 2015. Out of this, the European Union will provide around \$36.1 million as funding support towards the Sugar Industry. The Chinese Government will also provide aid valued at around \$10 million towards the Mushroom Technology Demonstration Programme. In addition, NZAID will assist the dairy industry while JICA will provide technical assistance for the Nadi River Flood Control Structures.

The Social Sector will receive around \$28.4 million, the Infrastructure Sector will receive around \$17.9 million and the General Administration Sector will receive around \$25.6 million worth of AIK in 2015.

#### **9.5. Cash Grant**

Total cash grants for 2015 is \$6.1 million. The Social Sector will receive the highest grant of around \$5.1 million which will be mainly attributed to the Global Fund's support of around \$3.7 million towards the health sector. The Infrastructure Sector will receive \$0.5 million which will be provided by the World Bank to the Department of Energy for the Sustainable Energy Financing Project. The Economic Sector will receive around \$0.3 million and the General Administration Sector will receive around \$0.3 million.

### **10. Sectoral Allocations**

The 2015 budget allocation to the priority sectors are summaries below:

#### **10.1 Law and Order**

The Government has allocated \$120 million towards the Fiji Police Force (2014 - \$111.8 million) while the Republic of Fiji Military Forces has been allocated \$103.3 million (2014 - \$93.9 million).

#### **10.2 Health**

The Ministry of Health has been allocated a total of \$269.7 million compared to \$222.5 million in the 2014 budget.

#### **10.3 Education**

The Ministry of Education, National Heritage, Culture and Arts has been allocated a total of \$560.0 million compared to \$370.0 million in the 2014 budget.

#### **10.4 Women, Youth and Sports**

The Ministry for Social Welfare, Women and Poverty Alleviation has been allocated a total of \$44.8 million (2014 - \$39.6 million) and the Ministry of Youth and Sports has been allocated a total of \$17.6 million (2014 - \$10.3 million).

#### **10.5 Primary Industries**

The Ministry of Sugar is provided with a total funding of \$11.8 million and the Ministry of Agriculture is provided with \$65.0 million in 2015.



## **10.6 Infrastructure**

Fiji Roads Authority has been allocated a total of \$653.8 million compared to \$474.1 million for 2014.

## **10.7 Utilities**

The Ministry of Public Utilities and Energy has been allocated a total of \$268.2 million compared to \$172.0 million in the 2014 budget.

The above includes \$239.2 million towards the upgrade of water and sewerage infrastructure.

# Appendix 1 - Customs and Import Excise Changes

## (i) Fiscal Duty Changes

Policy	Description
1. Increase duty on imported alcohol, cigarettes and tobacco	Increase Import duty on all imported alcohol, tobacco and cigarettes by 10%.
2. Increase duty on luxury items	<ul style="list-style-type: none"> <li>✚ Increase import duty on luxury items listed below from 0% to 32%</li> <li>✚ Perfume, cosmetics, pre-shave, shaving, or after-shave preparations, cameras and camcorders, sunglasses, binoculars, video &amp; electronic games, watches, iPods, MP3 and MP4 players and jewellery.</li> </ul>
3. Insert new tariff items for sheet of printing and photocopying papers (A3, A4, A5)	✚ Introduce an import duty (32%), excise (free) and VAT (15%) by creating new tariff items for printing and photocopying paper under the tariff items 4802.62.10 and 4810.14.20, 4810.22.20, 4810.29.20.
4. Insert New tariff item for LED Lights	✚ Introduce import duty (0%), Excise (free), VAT (15%) by creating new tariff item under the tariff item 9405.40.20.
5. Increase duty on exercise books	✚ Specific rate of \$1 or 32% whichever is greater will be applied on exercise books.
6. Increase duty on imported unrecorded/blank optical media.	✚ Increase fiscal duty on imported unrecorded/blank optical media from \$2 to \$5.
7. Insert Hybrid vehicles under concession code 129	✚ Concession code 129 will be extended to include hybrid vehicles.
8. Ensure that only 1 vehicle per family is granted concessions on importation by returning Fiji residents.	<ul style="list-style-type: none"> <li>✚ Concession code 220 will allow only 1 used motor vehicle per family.</li> <li>✚ Normal duty will be imposed on importation of additional vehicles.</li> </ul>
9. Extend Concession Code 223 to cover other teaching related goods.	✚ Concession code 223 amended in Column 3 to also include computers for computer labs, multimedia equipment or other teaching related goods as goods eligible for Universities or other educational institution as goods eligible for duty concession.
10. Align the definition of Capital Goods in the Eleventh Schedule.	✚ Concession code 244 amended in Column 3 by referring to capital goods as defined in the Eleventh Schedule of the Income Tax Act to be eligible for duty concession. The definition of “capital goods” is capital equipment, plant, machinery and any other goods employed in the production of other goods but does not include furniture or motor vehicles, kitchenware, raw material, furniture and fittings.
11. Add planting media under Concessions Code 255	✚ Concession Code 255 amended in Column 3 by adding planting media used for floriculture.

## (ii) Excise Duty Changes

Policy	Description
1. Increase excise rate on tobacco and alcohol	✚ Increase excise duty on tobacco and alcohol by 10%.
2. Remove excise duty on locally produced optical media.	✚ Remove Excise rate of \$1 on locally manufactured optical media.
3. Impose excise tax on all sweetened drinks	✚ Impose excise duty on sweetened drinks at a rate of 5 cents per litre.

## (iii) 2015 Excise Rates

Description	2014 Rates	2015 Rates
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or less	\$1.73/litre	\$1.90/litre
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or more	\$2.02/litre	\$2.22/litre
Potable Spirit Not Exceeding 57.12 GL	\$38.07/litre	\$41.88/litre
Potable Spirit Exceeding 57.12 GL	\$66.66/litre	\$73.33/litre
Wine: Still	\$2.68/litre	\$2.95/litre
Sparkling	\$3.06/litre	\$3.37/litre
Other fermented beverages: Still	\$2.68/litre	\$2.95/litre
Sparkling	\$3.06/litre	\$3.37/litre
Ready to Drink Mixtures of any Alcohol and non-alcoholic beverages of an alcoholic strength by volume of 11.49% or less	\$1.24/litre	\$1.36/litre
Cigarettes from local tobacco per 10 sticks	116.99 cents	128.69 cents
Cigarette from imported tobacco per 10 sticks	175.48 cents	193.03 cents
Manufactured tobacco containing tobacco grown outside Fiji	\$101.11/kg	\$111.22/kg
Manufactured tobacco containing tobacco grown in Fiji	\$59.40/kg	\$65.34/kg
Manufactured tobacco containing tobacco grown outside Fiji and tobacco grown in Fiji:		
Tobacco grown outside Fiji	\$101.11/kg	\$111.22/kg
Tobacco grown in Fiji	\$59.40/kg	\$65.34/kg

## (iv) Customs Prohibited Import and Export Regulations

Policy	Description
1. No license required for the importation of mechanical harvesters.	✚ Delete Item 9, Column 3 of Schedule 2.
2. Align currency allowable to travellers to the Exchange Control Guidelines	✚ Ensure that Fiji passport holders are allowed to carry currency in accordance to the Exchange Control Guidelines issued by Reserve Bank of Fiji.

## (v) Other customs changes

Policy	Description
1. Insert a new definition for “Process”	<ul style="list-style-type: none"><li>✚ Insert a new definition for Process, which will also take into account substantial transformation.</li><li>✚ This is to bring more clarity on this term, as there is no definition of process in the existing Customs Act.</li></ul>
2. Recovery of Penalty	<ul style="list-style-type: none"><li>✚ Amend Section 95 of the Customs Act to allow recovery of penalties.</li></ul>

## Appendix 2 - Exchange Control Policies

The following table highlights the exchange control policy to be effective from 1 January 2015.

<b>Payments</b>	<b>Current Delegated Limit to Authorised Dealers</b>	<b>Delegated Limit To Authorised Dealers WEF 1 January 2015</b>
1. Merchant Goods	F\$100,000 per invoice	F\$200,000 per invoice
2. Medical Allowance paid directly to an Individual	Up to \$10,000 per patient per annum	F\$50,000 per patient per annum.
3. Education funds paid directly to students	Up to \$10,000 per student per annum	F\$20,000 per student per annum.
4. Forward Foreign Exchange Cover	\$40 million per bank to write sales contracts in excess of purchase contracts	\$50 million per bank to write sales contracts in excess of purchase contracts

# Appendix 3 – Update on the Implementation of the Roadmap for Democracy & Sustainable Socio-Economic Development 2010 - 2014

STRENGTHENING GOOD GOVERNANCE	ECONOMIC DEVELOPMENT	SOCIO-CULTURAL DEVELOPMENT
<p><b>Formulation of 2013 Constitution</b></p> <ul style="list-style-type: none"> <li>The 2013 Constitution was assented by his Excellency the President on 6<sup>th</sup> September 2013.</li> </ul> <p><b>Parliament</b></p> <ul style="list-style-type: none"> <li>The first sitting of Parliament was convened on 6<sup>th</sup> October 2014 with the swearing in of the 50 newly elected members of Parliament, the speaker of the house, the deputy speaker and the opposition leader.</li> </ul> <p><b>Strengthening Law and Justice</b></p> <ul style="list-style-type: none"> <li>Establishment of an independent and impartial judiciary.</li> <li>Setting up of Legal Aid Offices around the country and convening of island and rural court sittings to improve access to justice.</li> <li>Strengthening law &amp; order by providing adequate resources to the Disciplinary Forces to improve its operational capability.</li> </ul> <p><b>Strengthening Accountability and Transparency</b></p> <ul style="list-style-type: none"> <li>As mandated in the 2013 Constitution, Government will introduce written laws to put in place mechanisms for improving accountability &amp; transparency of public office holders. This includes the establishment of the Accountability &amp; Transparency</li> </ul>	<p><b>Maintaining Macroeconomic Stability</b></p> <ul style="list-style-type: none"> <li>Average annual GDP growth for the past 4 years was 3.0%. The economy grew by 4.6% in 2013 and is projected to grow by 4.2% in 2014.</li> <li>Investments grew from 18.3% of GDP in 2006 to 29.0% in 2013.</li> <li>Average inflation rate for the past 5 years was 4.1%, however the year-end inflation rate for 2014 is projected at 1.5%.</li> <li>In 2013, Government achieved a fiscal deficit of 0.5% of GDP whilst debt levels stood at 51.4% of GDP.</li> <li>Foreign reserves improved from 1.8 months of import cover in 2006 to around 5 months in 2013.</li> </ul> <p><b>Export Promotion / Import Substitution</b></p> <ul style="list-style-type: none"> <li>Successful implementation of the 'Buy Fijian Made' campaign.</li> <li>Continued implementation of key policies and programmes to support export growth such as the 'National Export Strategy', 'Import Substitution &amp; Export Finance Facility' (ISEFF) and the Export Promotion &amp; Food Security Programmes.</li> </ul>	<p><b>Reducing Poverty to a Negligible Level</b></p> <ul style="list-style-type: none"> <li>According to the 2008-2009 Household Income &amp; Expenditure Survey (HIES), poverty levels in the country declined from 35% in 2002/2003 to around 31% in 2008/2009. The Fiji Islands Bureau of Statistics is finalising the survey for the 2013/2014 HIES.</li> <li>In 2014, Government reviewed its poverty alleviation programmes and introduced a new Poverty Benefits Scheme which expanded the coverage of assistance to Fiji's poorest people from 3.0% to 6.4%.</li> <li>A Social Pension Scheme was introduced to provide pension support for persons aged 70 years and over and who were not beneficiaries of any superannuation scheme. The qualifying age for the scheme will be reduced to 68 years in June 2015.</li> </ul> <p><b>Employment &amp; Labour Market Reform</b></p> <ul style="list-style-type: none"> <li>The national minimum wage rate will be increased from \$2 per hour to \$2.23 per hour in 2015.</li> <li>A review of the Employment Relations promulgation is being carried out to make further improvements to the administration of industrial relations in Fiji.</li> </ul>

STRENGTHENING GOOD GOVERNANCE	ECONOMIC DEVELOPMENT	SOCIO-CULTURAL DEVELOPMENT
<p>Commission, the Human Rights and Anti-Discrimination Commission, the Code of Conduct for Parliamentarians and Civil Servants, and Freedom of Information Laws.</p>	<p><b>Making Land more Available for Productive and Social Purposes</b></p>	<ul style="list-style-type: none"> <li>The National Employment Centre (NEC) continues to register and provide training schemes for unemployed citizens as well as securing placements for employment opportunities.</li> </ul>
<p><b>Ensuring Effective, Enlightened and Accountable Leadership</b></p>	<ul style="list-style-type: none"> <li>Adoption of the Green Growth Framework to promote sustainable land use and ensure effective management of Fiji's rich biodiversity and ecosystems.</li> <li>Continuous promotion of the Land Bank initiative to improve land use and investments on idle land, whilst providing equitable returns to landowners and security of tenure to tenants.</li> </ul>	<p><b>Making Fiji a Knowledge Based Society</b></p>
<ul style="list-style-type: none"> <li>Facilitation of Leadership training programmes for the Senior Executive Services and officers at supervisory levels. Implementation of Performance Assessments for Permanent Secretaries.</li> </ul>	<p><b>Enhancing Global Integration and International Relations</b></p>	<ul style="list-style-type: none"> <li>Provision of tuition free education for primary and secondary students.</li> <li>Increased scholarships for tertiary studies through the student loans scheme (TELS) and the toppers scheme.</li> <li>Rollout of one learning device per child initiative.</li> <li>A Fiji Qualification Framework is being implemented to ensure higher education qualifications which are in line with international standards and compatible with labour market requirements.</li> </ul>
<p><b>Enhancing Public Sector Efficiency, Effectiveness and Service Delivery</b></p>	<ul style="list-style-type: none"> <li>A new head office for the Pacific Island Development Forum (PIDF) Secretariat was established in Fiji in 2014.</li> <li>Fiji hosted the 2<sup>nd</sup> PIDF summit in June 2014 with the participation of key member countries and stakeholders.</li> </ul>	<p><b>Improving Health Service Delivery</b></p>
<ul style="list-style-type: none"> <li>Detailed update in Medium Term Strategy section.</li> </ul>	<p><b>Infrastructure Development</b></p>	<ul style="list-style-type: none"> <li>Government's Budget for infrastructure &amp; public utilities increased to \$721.5 million in 2014. This is expected to increase further to over \$1 billion in 2015, covering developments in roads, bridges, water and electricity.</li> <li>Commissioned the new 20-bed Navua Hospital funded through Chinese Government assistance.</li> <li>Increased staffing levels for nurses, doctors and auxiliary workers in the health system.</li> <li>Increased number of medical professionals being trained in Fiji and overseas.</li> <li>New health clinics and facilities established in rural and maritime areas to improve access to health services.</li> </ul>
		<p><b>Children and Youth</b></p>
		<ul style="list-style-type: none"> <li>Child Protection Guidelines have been developed for health workers in enforcing key provisions in the 2010 Child Welfare Decree.</li> </ul>



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**STRENGTHENING GOOD GOVERNANCE****ECONOMIC DEVELOPMENT****SOCIO-CULTURAL DEVELOPMENT**

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- The National Youth Policy (2012) is currently being reviewed to ensure programs provided by Government remain relevant in meeting the needs and aspirations of young Fijians in society.

**Gender Equality**

- National Gender Policy adopted in 2014 to promote gender equity, equality, social justice and sustainable development.
- Construction and extension of Women's Resource Centres to provide access to training and a marketplace where women can sell their products.
- The '*Zero Tolerance Violence Free Community Campaign*' has been implemented in more than 85 communities to address the causes of violence against women, and change social norms and behaviour towards women and children.

**MDG Scorecard**

- Fiji is on track to achieving 4 out of 8 Millennium Development Goals (MDGs). These include: (1) universal primary education; (2) reduction of child mortality; (3) improvement for maternal health; and (4) development of global partnership for development.
  - The post-2015 Development Agenda for MDG's will be incorporated into Government's national development plans.
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