

**2011 NATIONAL BUDGET ADDRESS**  
***“Enhancing Economic Growth and Inclusive Development”***

Cabinet Ministers

Your Excellencies

Members of the Diplomatic Corp

Distinguished Ladies and Gentlemen and

Fellow Fijians,

Bula Vinaka and a very good morning to you all.

It is my pleasure to present to you the 2011 National Budget.

In the 2010 and subsequently in the revised 2010 budget, the Prime Minister highlighted some key measures which Government is focused on to enable the full implementation of the Strategic Framework for Change and to position Fiji for augmented and sustained economic growth and inclusive development.

As stated by the Prime Minister in the 2010 budget address in November last year, we must modernise and strengthen the foundations of all aspects of our nation including the economy. We must also take steps, difficult as they may be at first, to tackle and rectify the ills and mitigate the risks brought about by the mismanagement of the past.

These tough steps require an appreciation and understanding by all parties, including employers, employees, unions, business houses and of course Government. There is a need to collaborate to arrive at tangible and practical solutions which will provide sustainable economic growth and prosperity for all.

It also requires prudent financial management and accurate accounting not only of government finances but of all public institutions and government entities. It also requires full disclosure and transparency by the private sector.

Inaccurate records and/or skewed accounting are invariably driven by political imperatives or narrow economic interests which are deleterious to the national economy, non-conducive to sustained economic growth, and leads to systemic distortions and creates disparities.

The benefits of true and accurate records and monitoring will always be beneficial in the long run. It will set the proper foundation of economic growth and development.

Indeed, the write-down by the FNPF to demonstrate the true position of its assets while berated by some was essential and an honest move. It was essential since decisions going forward had to be made on sound financial footing. It led to confidence building and credibility with investors both locally and internationally.

Notwithstanding the write down, the FNPF results released three days ago shows that in a very short term the revelation of FNPF's true financial position resulted in confidence within the organization of FNPF and those that dealt with it. FNPF now has a net surplus of \$209.4m compared to a net loss of \$181.5m in 2009. The balance of members' funds in FNPF increased to \$2.85 billion.

Ladies and Gentlemen, projections by international organisations such as IMF, indicate that there will be a strong global economic recovery, led mainly by emerging Asian economies.

The world economy is expected to grow by 4.8 percent in 2010, before slowing to 4.2 percent next year. Growth for Fiji's major trading partners, Australia and New Zealand, remains strong.

The Euro Zone economy has also shown more positive signs of recovery. However, we are also aware of the situation in Greece and Ireland. The pace of growth in the US economy has slowed down.

Fiji intends to maximise its trade and export opportunities through improved ties with China of course, and India, Indonesia, Malaysia and other Asian and emerging economies. In this vein, the 2011 Budget has allocated funds for the opening of missions in Indonesia, Brazil and South Africa.

As has been well publicised, the IMF recently concluded an Article IV consultation on Fiji's economy. I am pleased to announce that the Article IV consultations will now be conducted on an annual basis.

These consultations are very useful to better understand the macroeconomic position of the country and assessing various policy alternatives available to Government.

We were also in negotiations with IMF in respect of a Stand-By Arrangement. However, because of a stable foreign reserves position, overall positive signs of recovery in the global economy, increasing confidence in the Fijian economy, and the need to continue with policies to improve the living standards for ordinary Fijians, we have reconsidered the need to enter into such an arrangement.

Government will continue to engage with the IMF and other international agencies such as the World Bank for policy advice and technical assistance in the implementation of its reform agenda.

We would also like to acknowledge the contributions of the IMF, World Bank and other development partners for the invaluable support and guidance.

Latest economic projections released by the Reserve Bank estimates a marginal growth of 0.1 percent for 2010. A downward revision from the earlier forecast of 1.8 percent. This is mainly attributed to subdued performances in key sectors driven by inter alia subdued international markets.

Fiji, being a small and open economy, our growth to a very large extent, is subject to developments in our major trading partners' economies.

For 2011, the economy is expected to grow by 1.3 percent. Most sectors of the economy are expected to contribute to this recovery in line with the anticipated growth for our major trading partners.

Following the devaluation of the Fiji dollar in April 2009, there was a corresponding increase in inflation, reaching as high as 10.5 percent in April this year. However, inflationary pressures have eased. Inflation is expected to reach around 4.0 percent by the end of this year.

Ladies and Gentlemen, I am pleased to say that we have continued to comfortably manage our foreign reserves, which, at the end of October, stood at around \$1.2 billion. This is sufficient to cover 4 months of import goods.

Rising exports, declining imports, higher tourism earning and remittances have also contributed to these unprecedented and sustained levels of reserves.

Consequentially, liquidity in our banking system has remained stable, averaging around \$280 million throughout most of the year. These levels are expected to help stimulate private sector investment.

In view of the stable level of foreign reserves to date, the Reserve Bank will increase delegated limits to authorised foreign exchange dealers effective from 1 January 2011 for selected transactions.

In support of local value adding, the Reserve Bank rationalised its Import Substitution and Export Finance Facility during the year. The new facility makes available \$40 million to eligible businesses. As from yesterday, this facility will also include renewable energy apart from agriculture and aquaculture.

Ladies and Gentlemen, the Reserve Bank will ensure that there is sufficient liquidity in the banking system, maintain control on inflation and put in place a facilitative monetary and financial policy framework which will be in harmony with fiscal policy.

## **BUDGET FRAMEWORK**

Ladies and gentlemen, the 2011 budget framework estimates a total revenue of \$1,745.7 million and a total estimated expenditure of \$1,961.7 million. The estimated net deficit for 2011 is projected at \$216 million or 3.5% of GDP. Nominal GDP is \$6,177.3 million.

Ladies and gentlemen, next year's revenue projection is based on expected recovery in the domestic economy and key revenue policy measures to be introduced through the 2011 Budget. I will provide details on the revenue measures later in my address.

The provision for operating expenditure in 2011 is \$1,384.8 million, an increase of 7.5 percent compared to 2010. This is due to increase in interest, grants and subsidies under Seg 6.

Capital expenditure forecasted for 2011 is \$526 million, an increase of 37 percent. This increase is attributed to allocations in sugar industry support, capital construction, health, roads and rural development.

This mix of expenditure demonstrates Government's commitment to channel more resources to capital works and to address socio-economic disparities.

Ladies and gentlemen, as some of you may be aware, the US\$150 million global bond raised in 2006 is due for repayment in September next year. Fund managers based in Singapore and Hong Kong have been identified as Government's international broker to manage the re-financing of the global bond.

Part of next year's debt is expected to be financed through this global bond rollover. This strategy will free up limited resources in the domestic financial market for private sector investment and also support our foreign reserves. As a proactive measure, Government will establish a debt financing programme to build up funds for the repayment of the re-financed bond.

Ladies and Gentlemen, Government's debt level presently stands at around 57.7 percent of GDP and interest costs of 3.9 percent of GDP. This is not an enviable position.

Government's contingent liabilities covering guarantees to entities such as the Fiji Sugar Corporation, Fiji Electricity Authority and the Housing Authority stand around 33.5 percent of GDP, further compounding Government's debt levels.

In the next few years, Government plans to bring down the debt level by gradually reducing budget deficits. However, we are also mindful of the need to simultaneously stimulate growth and investment. This objective will be pursued through dedicating a larger share of available resources towards capital investment, vigorous implementation of Government's reform programme and spurring private sector investment.

## **PUBLIC SECTOR DEVELOPMENTS**

As highlighted in the previous 3 budgets, the Bainimarama Government is committed to reforms in the civil service, State owned enterprises and other public entities.

Many of these reforms have commenced, some are ongoing, and indeed some of the short term ones have been completed.

These, in short have included the change in management of Government quarters, the mergers of various Government funded entities, re-organisation of entities, the divestment of shares and sale of businesses, outsourcing, and the participation of the private sector with Government in joint ventures. A number of other internal reforms of

processes and systems including procurements, financial management and monitoring have also been introduced.

Expressions of interest for the sale of the abattoirs operated by the Fiji Meat Industry Board, Government Printery and the Kalabu Tax free zone will be advertised next week.

As part of the reform process, Government will also increase a number of fees to reflect the true market cost of processing applications. The increased fees will also assist in providing improved and technologically based services.

These will include an increase in application fees in the Department of Immigration. New measures to facilitate, simplify and expedite work visa and other categories of permits will be put into place by 1 January 2011.

In this respect, new categories of business migration will be introduced, and there will be fast tracking of citizenship applications by former Fijians.

In order to improve staff capacity and capabilities, and to expedite processes, FIRCA is allocated an additional \$12 million in the 2011 Budget for its operating and capital grant.

Government is also in negotiations with FNPF to divest its overseas properties which will reduce Government's operating costs whilst giving FNPF the opportunity to invest offshore.

Government will also rationalise the giving of grants to statutory bodies which have liquid assets and revenue streams which could be utilised for operational costs. One such example is CAAFI, which will no longer receive any income from the airport departure tax.

From 2011, all expenditure relating to salaries and wages will be prudently managed through the Government's payroll system to ensure that agencies do not exceed their budgetary provisions for personnel emoluments.

To improve human resource management, the Public Service Commission and the Ministry of Finance is currently undertaking a functional review across government agencies to determine the appropriate staffing levels for each Ministry. The review will initially focus on the five largest ministries, namely Education, Health, Agriculture, Works and Public Utilities.

As part of the Strategic Framework for Change and the need to rationalise functions and eradicate duplication, from 1 January 2011 the functions of the Ministry of Multi-Ethnic Affairs will be farmed out to different and relevant ministries already performing similar responsibilities.

In other words, the Ministry of Culture will now have the responsibility of all cultural aspects, PSC will have the responsibility of the scholarships and the Ministry of Provincial Development will be responsible for rural advisory councils. Such devolution and assimilation will also assist in the removal of ethnic based development and administration.

In this respect, devolutions of other ministries will be implemented in the coming years.

A review of all rental contracts for Government offices will be undertaken next year by private valuers to identify rental charges which are currently above normal market rates. The review should enable Government to re-examine existing agreements and save costs on rental charges. Government appropriates approximately \$21.0 million on rent each year, many of these leases were negotiated years ago. The PSC will now not only negotiate but also enter into lease contracts, as opposed to the Ministry of Lands.

Following the first phase of the leasing of vehicles, as opposed to the previous practice of outright purchase, Government is now in the process of finalising a more flexible arrangement for the next phase of leasing of vehicles for use by the various ministries and departments. These leased vehicles will be fully insured, and will also contain more appropriate arrangements for mileage caps and servicing. A total of 164 vehicles will be deployed to governments departments that provide essential services such as Health, Education, Public Utilities and the Police. The first allotment of leased vehicles is expected to be released early next month. We also acknowledge the participation of the private sector in this exercise.

In 2010, Government introduced a new fuel card system to better manage the fuel consumption of Governments vehicle fleet. I am pleased to report that this initiative has resulted in financial savings and improved the efficiency of the usage of Governments vehicle fleet.

Let me now highlight some key and recent reforms.

### Energy

Ladies and Gentlemen, preparatory works are underway on the restructure of Fiji Electricity Authority to privatise at the most 49% of equity with Government retaining 51%.

A new market based tariff structure has been introduced recently to allow FEA to recover costs and prepare for a liberalised market. Furthermore, it will allow the participation of private investors in the supply of renewable energy to the national grid given the rates now on offer.

With the introduction of the new tariff rates, Government will remove fuel concessions and VAT exemptions.

However, concomitantly Government will provide \$3.0 million to subsidise electricity costs of residential users that consume less than (or equal to) 75 units of electricity per month. A further \$0.5 million will be provided to subsidise electricity costs of schools that consume less than (or equal to) 200 units per month. In total Government will provide a subsidy of \$3.5 million for electricity consumption in 2011. This is a reinforcement of the targeted assistance policy.

### Milk

Ladies and Gentlemen, the restructure of Rewa Dairy will be completed within two weeks. It involves the separation of the company's commercial operations from its co-operative functions.

Under the restructure, a new processing company, Fiji Dairy Company Limited (FDCL), has been established. Whilst Fiji Dairy Co-operative Company Limited (FDCCL) will be administered and owned by dairy farmers or suppliers.

\$2.0 million has been allocated to assist the farmers in the set up of the co-operative. FDCL will be owned by the Government and the private sector, and eventually it will be wholly private owned.

This restructure, ladies and gentlemen, will allow the new Fiji Dairy Company Limited to solely focus on its core business of processing and distributing milk and dairy products to the people of Fiji. This is expected to strengthen the Company's financial viability and remove reliance on government subsidies. On the other hand, the formation of the new Fiji Dairy Co-operative Company Limited will enable better coordination of support to the dairy sector. Overall, it will encourage stronger participation from farmers and the private sector.

### Sugar Industry

Ladies and Gentlemen, allow me to shed some light on the sugar industry which has been the subject of much debate recently. Earlier this year, Government commissioned

a fact-finding mission of FSC's financial status. FSC is a key component of the sugar industry. The Review confirmed FSC's weak financial position. Subsequently, Government has taken an active and inevitable role to engage with the company to ensure continued operations and future viability.

Government has been called upon by FSC's creditors to settle borrowings that were guaranteed by Government.

Ladies and gentlemen, as a responsible government, we are committed to salvaging FSC and the sugar industry as more than 200,000 people, or 20 percent of our population, depend on it for their livelihoods. We strongly believe that the industry can be viable if urgent and major reforms are undertaken immediately and supported by all the stakeholders.

A Sugar Taskforce, established to spearhead the FSC reforms, has already developed a comprehensive Reform Plan to ensure the financial sustainability of FSC and the sugar industry. The Plan covers strategies for reforming critical aspects of the industry such as institutional arrangements, production, harvesting and transport systems, and operational management of FSC.

The Reform Plan developed by the Taskforce will be discussed with industry stakeholders. However, immediate cost cutting measures have been imposed on FSC as an interim strategy to reduce the company's operating losses.

Furthermore, from next year, all income and expenditures of FSC will be tightly monitored and controlled by Government. This is necessary to prevent the company from making further losses and placing further strain on Government's resources – resources which are funded by the tax payers of Fiji.

Government is actively seeking technical assistance from development partners to assist its reform efforts for FSC. An appropriate provision of \$110 million has been

allocated in the 2011 Budget to support FSC which will have an impact on the sugar industry as a whole.

In addition, \$6.0m has been allocated for cane replanting, \$1.0m for cane quality payment, \$5.0m to South Pacific Fertilizers and \$1.5m for Committee for Better Utilisation of Land. In total, \$123m has been allocated for the support of the sugar industry.

Ladies and Gentlemen let me now highlight some of the key provisions and allocations in the 2011 Budget.

#### Poverty Alleviation & Targeted Assistance

Government is fully cognisant of the fact that economic disparities do exist in our economy. It is also aware that the most beneficial and economically viable approach is to provide targeted assistance to those marginalised members of our society. Indeed, such a welfare net becomes essential when broad based revenue measures are implemented.

In 2010, for the first time in Fiji's history, we saw the introduction of a food voucher programme for those individuals receiving family assistance allowance. The 23 odd thousand recipients will continue to enjoy this assistance in 2011. Approximately \$7.5 million has been allocated for this scheme.

Government will continue with its bus fare/transportation assistance for school children at a cost of \$12 million. The education assistance which includes free tuition and text books will also be provided at a cost of \$18.3 million.

Two years ago, Government had also increased the income tax threshold to \$15,000 from \$9,000 thereby giving more disposal income.

The recent price determination of basic food items has resulted in a total of 9% decline in the price of a large array of essential food items.

As part of its policy to expand the safety net, Government will in 2011 allocate an additional \$3.6 million to issue food vouchers of \$30 a month to 10,000 new recipients.

Within this scheme, based on a means test, the elderly over 70 years who are currently not receiving any form of Government assistance, pregnant mothers who currently just fall outside the eligibility for receiving Family Assistance allowance, and disadvantaged families with school children will be eligible.

The Ministry of Strategic Planning will release the details of the scheme before Christmas.

#### Housing Assistance

Following the review of the hardware sector, Government is now in a position to implement the Housing Assistance program to assist targeted families to purchase first homes. A sum of \$10.0 million is provided in the 2011 Budget in particular to assist families to invest in the upcoming Waita City development.

The existing housing assistance allocation will continue in 2011.

#### Health

Primary healthcare strengthening in 2011 will see the implementation of grass root operational programs. These programs are high impact and low cost in nature. These will include the revitalisation of the village/community health worker scheme.

Ministry of Health has already developed a prototype health centre which will be set up in all divisions where health centres are required. This will reduce overall capital cost, and provide for efficiency in maintenance and planning. An allocation of \$1.7 million has

been made to construct health centres in Nayavu, Nasavu, Cuvu, Qamea Island and Kashmir, Lautoka.

In addition, 3 new mortuaries will be commissioned in the next 3 months in Balevuto, Mokani and Tukavesi.

From the middle of next year, the Ministry of Health will commence a planned maintenance and infrastructure programme to ensure that all public medical facilities are fully functional.

\$2.0m has been allocated in the 2011 Budget for the development of basic laboratories at the 19 Sub-divisional hospitals. A new cadre of formally trained Laboratory Assistants shall work with Graduate Laboratory Technologists.

These laboratories will process specimens to provide better health care at the local level. Similarly, all 19 subdivisional hospitals are currently being outfitted with Ultrasound and X-Ray facilities.

The Lautoka Hospital is currently being outfitted with its first CAT Scanner and mammogram machine and a Diabetic/Renal Hub. The Labasa Hospital has taken delivery of its Diabetic/Renal Hub Centre and will have a CAT Scanner installed next month.

CWM Hospital is undergoing a major facelift and the scheduled opening of the Pacific Eye Hospital is due in 4 days time. It should be noted that the Cardiac Catheter Laboratory became operational in July 2010 at the CWM Hospital.

\$2m has been allocated in the 2011 Budget for the purchase, installation and operation of a Magnetic Resonance Imaging or MRI machine at CWM. MRI technology complements the digital radiology and CAT Scanner installation in the provision of a higher grade of medical tertiary care in Fiji.

Currently, for all MRI requirements, Fijians have to travel abroad. This critical technology will now be available in Fiji. It will also be available to other Pacific Islanders who currently also have to travel to Australia and New Zealand.

Government has plans to construct a new Ba hospital, and is currently in negotiation with possible donors.

### Rural Electrification

For 2011, Government will expand the reach of its rural electrification programme through the extension of the grid in the Seaqaqa and Dreketi areas, Rukuruku in Ovalau and various parts of Ra, Nadroga and Ba with an allocation of \$2.8 million.

In addition, a sum of \$3.7 million is also provided to enable the completion of various solar and diesel schemes for villages and settlements that had already paid their contributions under the previous scheme.

### Roads

In addition to the road projects in the 2010 budget, improvements to the Suva-Nausori corridor will continue in 2011 with the construction of 4 lane roads and bridges to ease traffic congestion.

The Ratu Dovi/Kings Road project will also continue, which is expected to see the construction of a 4 lane road up to Laqere Bridge. A sum of \$11.4 million is also allocated for the periodic maintenance of roads around the country

New projects to commence in 2011 include the upgrading of the Buca Bay, Moto, Serea and Sigatoka Roads, at a cost of \$17.0 million funded by the Exim Bank of China.

In addition, around \$3.5 million has been specifically set aside for the upgrading of various rural roads around the country, to be administered by the Divisional Commissioners Offices.

To assist in road construction, a sum of \$2.0m is allocated to the Department of National Roads for the purchase of plant and machinery.

### Water

In recognition of water being a basic necessity for living, Government through the Water Authority of Fiji (WAF) will continue to work towards ensuring the supply of consistent and safe piped water supply to all areas and an environmentally friendly sewerage system. A sum of \$77 million in operating and capital grant has been allocated to WAF in 2011 to undertake upgrading and augmentation works to improve the supply, quality and reliability of water and sewerage services.

This allocation will fund major works such as the Suva/Nausori Regional Water Supply and Sewerage Scheme, Nadi/Lautoka Water Supply Scheme, Lautoka Regional Sewerage Schemes and other upgrading works including in Labasa, Savusavu and Sigatoka .

### Rural Jetties

The provision of regular and reliable shipping services to our maritime zones is critical for enhancing trade and transportation to outer islands. In this regard, the construction of rural jetties is an important initiative currently being undertaken at the Kadavu and Yasawa jetties. For 2011, a sum of \$3.7 million is provided for the completion of the Rabi jetty and construction of two new jetties in Qarani and Nairai.

### Aids to Navigation

\$2.0m has been allocated to fix, repair and rehabilitate Aids to Navigation (ATONs) within Fiji's waters and EEZ, to fulfill Fiji's international obligations for vessel safety in its waters. This is also to make Fiji an alternative and safe destination for marine vessels.

### Rural Development

The focus of Government's rural development program is to create economic opportunities for our rural people to contain the rural urban drift. Accordingly, Divisional Commissioners will now play a more prominent role in directing and coordinating development in the various divisions by working with Divisional Boards consisting of members of the public from the respective divisions.

From 2011, the budgets of each Divisional Commissioner will be reflected separately under the Ministry of Provincial Development in order to better plan and implement their activities and programs. The tender process has also been rationalised to expedite and operate a transparent process so that implementation of capital works is realised with immediacy.

From 2011, grants for the upgrading of rural school boarding facilities, construction of nursing stations and health centers will be managed by the Divisional Commissioners Office.

### Agriculture Research

To support the expansion of the agriculture sector, allocations have been made to improve the infrastructure at our research stations and actual research and development. Funding is also provided for the management of pests and diseases including the continuation of the Termite Eradication Programme and Brucellosis programme.

As part of the rehabilitation of the dairy industry, a budget of \$500,000 has been set aside for the importation of heifers to replace the milking stock that was infected by the brucellosis disease.

\$250,000 has been allocated in 2011 Budget for coconut rehabilitation, \$250,000 for potato development, \$250,000 for new agriculture development in the province of Ra.

Linked to agriculture and other Fijian made and grown products, \$200,000 has also been allocated to fund the “Buy Fiji” and “Made in Fiji” initiatives.

An allocation of \$5 million has been set aside to facilitate the leasing of lands for agricultural and other productive use under the Land Use Decree.

### Fisheries Sector

To support export and value addition in the fishing industry, all by-catch from foreign vessels visiting Fiji are to off-load to registered processors who have complied with the necessary health requirements. Permits to off-load will only be granted to registered processors.

In addition, all foreign vessels with lengths of 40m and below will be required to pay a service fee for all transshipments. However, if the catch is directed to registered processors, no service fee will be charged.

There will be various other revenue measures put in place to assist value adding in Fiji.

### Information & Communications Technology

Information and Communications Technologies (“ICT”) are recognized worldwide as a tool that empowers people in business and also in domestic livelihoods.

The Bainimarama Government has been instrumental in the transformation of the ICT sector in Fiji’s history. This transformation/reforms began with the liberalization of the telecommunications sector in 2008 and the subsequent entry of competitors into the mobile telephone sector, the Southern Cross international gateway and from February next year, the national copper backbone owned by TFL. This will in effect mean inexpensive prices, better service delivery and improved technology.

Government is committed to making ICT available to all Fijians irrespective of how isolated or marginalized they are. To support this aim, Government will, before the end

of the year announce Fiji's first national broadband policy which will lay the foundation for the further deployment of ICTs through broadband.

Through the recent determination by the Commerce Commission, Government will receive approximately \$3m per year. These funds will be utilized for specifically targeted projects geared towards the improvement of accessibility, exposure, coverage and development. The various incentives announced in the 2010 address will continue. I shall also announce further revenue measures which in conjunction with the 2010 incentives will provide a boost to this sector and empower individuals.

Government expects telecommunications companies to pass on the benefits of a liberal market and the various incentives provided by the Government to the consumers.

\$250,000 has been allocated for a comprehensive review of the e-Government project to assess its relevance to Government's overall objective of expediting a technologically based Government service.

### *Renewable Energy and Environment*

Government recognises the importance of sustainable development and conservation of our environment for our future generations.

At the 65<sup>th</sup> UN General Assembly held in September, the Prime Minister emphasised the adverse impact of climate change and rising sea levels on small island nations. Government will continue to support regional efforts in raising this topical issue in international forums and meetings.

At the same time, we will continue with ongoing efforts to address the proper disposal and treatment of waste, particularly in our fast growing urban centres and highly populated areas.

We wish to acknowledge the tremendous support of our development partners who have provided around \$9 million to assist Government address issues such as climate change and waste management.

The 2011 Budget provides for a full complement of staffing for enforcement and EIA compliance in the Ministry of Environment.

Government will continue with its focus on renewable energy. Its incentives for investment in this area will continue. The new FEA tariff rates have also now enabled investors in the renewable energy sector to get viable returns on their investment by supplying to the national grid operated by the FEA. The inclusion of renewal energy as a sector to benefit from the RBF import substitution and export finance facility is an added incentive to invest in this area.

There are other additional revenue measures that will reinforce Government commitment to reducing our energy consumption. It is imperative that we protect our environment and become more conscious and proactive in waste disposal and management. After all, it is the preservation of our pristine environment that protects our livelihood and attracts visitors to our shores.

In this respect, Government will ban the importation of non-biodegradable plastics and local manufacturers of such plastics will be given 6 months to adjust their processes towards the production of bio-degradable plastics.

There will also be incentives provided for the installation of private sewage treatment plants and water desalination plants.

While the restriction on the importation of vehicles older than 5 years will continue, exceptions will be made to encourage the use of LPG/CNG vehicles.

## Tourism

In recognition of its vital contribution to the economy and foreign reserves, as undertaken by Government two years ago, Tourism Fiji will once again receive an annual grant of \$23.5m in 2011.

However, it is imperative that the tourism marketing budget is spent in a prudent manner with maximized utility and the targeting of new markets. New markets are essential to spread our risks and increase yields.

To improve the facilitation of investments in tourism, both FIRCA and the Ministry of Finance will reassess and streamline current procedures and conditions for tax incentives relating to hotel development.

This includes the removal of the requirement to provide certified project plans for provisional approval of the 55 percent Standard Allowance Incentive. In addition, customs requirements on personal items which are declared at air and sea ports will be reviewed to avoid unnecessary inconvenience to tourists when travelling to our shores.

A major boost to tourism will be the establishment of Fiji's first casino. Government has called for Expressions of Interest to attract internationally successful and reputable casino developers and operators who will establish a niche in the Fiji brand.

A new regulatory framework will be in accordance with international best practice in casino operations and management and will also take into account prevailing socio-economic conditions.

In addition to these incentives, a number of revenue measures, which I shall elaborate on later, will be provided to the tourism sector.

### Pricing and Price Controls

Whilst Government has the philosophical commitment to the removal of price control as a means to protect the poor, Government is also cognisant of the fact that there are still some inherent inequalities and distortions which deprive consumers and the economy of the benefits of a liberalised market.

Similarly, such inequalities and distortions have not and will not assist in the robustness and the development of the various key sectors. For example, the hitherto restrictive practices in the hardware sector have deprived Fiji of a sustained and tangible home construction industry. It is for this very reason that Government referred the matter to the Commerce Commission.

So it is not simply a question of making hardware affordable but to reengineer attitudes and business models that will result in volume based transactions. At the same time, given the fact that construction, in particular home construction has a multiplier effect, a volume based approach will have a direct impact on employment, economic generation, and of course, better standards of housing.

There is no doubt that once there is true competition and full disclosure, and with targeted assistance for the economically marginalised, and an increase in income levels, price controls will be gradually removed as already seen in the recent price determinations.

### Law and Order

The budget for the Judiciary has been increased by \$5m from \$11m to \$16m in 2011 to cover the full operational and staffing needs of the Judiciary, in view of new appointments of magistrates and judges. Increases have also been factored into the budgets of the AG's Chambers and the DPP's Office to improve service delivery.

The grant to the Legal Aid Commission has been increased from \$0.6m to \$0.8m. This is important for empowerment for access to justice. Government has also recently,

through the Legal Aid Commission, entered into an agreement with the University of the South Pacific for the establishment of a Community Law Centre to focus on civil legal aid matters for economically disadvantaged people.

The Fiji Police Force will continue restructuring its operations to improve efficiency and performance. Through the revision of the vehicle leasing arrangement, the Fiji Police will continue to be provided with a full complement of motor vehicles for their use.

Our remand centres are currently severely overcrowded. The need for a new remand centre in Suva is critical. \$4.5million has been allocated in the 2011 budget for the construction of a new remand centre facility at Devo, Korovou. This new facility will have the capacity to cater for 200 remand inmates.

#### Tackling Corruption

Tackling systemic corruption continues to be a key objective of Government to strengthen the governance framework. FICAC has been allocated a budget of \$7.9 million to fund ongoing investigative work and prepare for a number of upcoming cases relating to corruption and fraud.

The Ministry of Justice and Anti-Corruption has been allocated \$250,000 to, inter alia, fulfill our international commitments as a State party to United Nations Convention against Corruption and participate in various international peer group reviews.

#### Education, Employment & Sports

Government is committed towards improving the quality and standards of tertiary education in Fiji.

The integration of various institutions into Fiji National University last year has enabled Government to better coordinate the development of Fiji's tertiary education system and allow for more effective use of resources.

In addition to its operating grant of \$24 million in 2011, the Fiji National University will also receive an additional \$4 million for capital upgrade and for all its campuses around Fiji.

Government has established the National Employment Centre (NEC) to promote and secure jobs for the unemployed and to help reduce the unemployment rate from 8.6 percent to 4.2 percent by 2012. The Centre will provide skills training for the unemployed to enable them to find suitable employment and improve their livelihoods.

For 2011, \$1million has been allocated to the Centre to train and mobilize 500 people into the workforce. Further revenue incentives will also be provided to employers.

An allocation has also been made to assist the Fiji Netball Team to participate in the upcoming World Championships. The level of funding will be subject to the amount of corporate sponsorship the netball association can generate.

#### *Private Sector Initiatives*

Government recognizes that the private sector and in particular, small to medium enterprises and manufacturing have enormous potential, in particular, for import substitution and export and job creation. Yet regrettably, many of these Fijian small to medium enterprises are not accommodated by mainstream commercial banks. Government asks banks to reconsider their policy in this respect to provide the impetus and recognize these small enterprises.

The 2011 Budget sets aside \$3 million to assist businesses whose annual turnover is between \$50,000 and \$500,000. The facility is targeted at non-agricultural ventures and those enterprises which are not accommodated by the mainstream commercial banks.

Government will assist manufacturers where there is true value adding and employment generation with targeted incentives in order to enhance local production, and to encourage exports to Pacific island countries.

There will be a number of revenue measures to assist new entrants and existing manufacturers, which I shall announce later.

Ladies and Gentlemen, I now turn to the salient revenue measures.

## **REVENUE MEASURES**

Government's revenue policies are geared towards improving compliance, stimulating export growth, promoting investment, strengthening revenue collection and provide transparent processes.

In the past three years, Government has reduced corporate tax, increased the taxable threshold for personal income and reduced duty rates and introduced various tax incentives to the levels that have put Fiji as a key attractive investment destination in the Pacific. The focus in 2011 is to streamline the investment approval process and to introduce new targeted incentives for export, manufacturing, tourism, agriculture and energy saving.

## **DIRECT TAX**

### *Export Income Deduction*

The export income deduction incentive that provides significant income tax relief to exporters will be extended to 2015. This incentive, which was introduced in 2001, was to have expired in 2006 but it has been maintained to assist exporters.

### *Tax Deduction for Marketing Expenses*

The Government will introduce a new incentive for exporters in 2011. A 150% tax deduction will be available for marketing expenses of up to \$250,000 incurred for the Pacific Islands market excluding Australia and New Zealand. The incentive will assist local companies to penetrate the Pacific Islands market and further position Fiji as a hub for the supply of various consumer goods.

### Investment Approval Process - Tourism Sector

In an effort to simplify the investment approval process for the tourism sector, FIRCA will no longer require hotel investors to submit approvals from Town and Country Planning for the purposes of obtaining provisional approvals. This will expedite the approval process, provide certainty and will reduce additional financial burden on investors. Investors, given the provisional approvals, will need to implement their projects within one year of the grant of the approval.

### Deduction for Cruise Vessels

The Income Tax Act will be amended to ensure that the capital expenditure allowable under refurbishment and renovation to hotels will now be available to locally registered cruise vessels providing accommodation for 3 nights or more. This amendment will remove the existing anomaly.

### Employment Taxation Scheme

The Employment Taxation Scheme that provides 150% tax deduction for the recruitment of first time school leavers will be extended to 2012. This tax deduction was introduced in 1997 to expire in 2008. In order to provide certainty to employers and incentivize recruitment, the scheme will be extended for another two years.

### Accelerated Depreciation

The accelerated depreciation on buildings in the agriculture, industrial and commercial sectors will be extended to 2012. Accelerated depreciation will now also be available for new plant and machinery used for manufacturing. This new measure is to encourage new and existing businesses in the manufacturing sector.

### Tax Regime for Homestays

The Government has been concerned with the activities involving homestays. A taxation program will be developed soon to cater for all homestay properties in Fiji. This measure will capture lost revenue and also encourage homestays as a legal business. Suffice to say, all homestays will have to comply with the new laws.

### Capital Gains Tax

In order to provide certainty to investors and create transparency, Government will remove the current subjectivity in the application of section 11A of the Income Tax Act. A 10% Capital Gains Tax will come into force 1 January 2011. For Fijians, gains below \$20,000 will not be subject to the Capital Gains Tax. Similarly, there will be an exemption from the Capital Gains Tax for Fijians who gain from the sale of their principal home, provided that the property was held for at least 10 years. In addition to these exemptions, gains from the trading of shares on the South Pacific Stock Exchange by Fijians will not be subject to the Capital Gains Tax.

The Capital Gains Tax will be a more equitable and transparent form of taxation. The Land Sales Tax will be repealed.

### Stamp Duty

Stamp duty will be increased on average by 1% on transfers and 1% on mortgage.

### Business Name Returns

A new requirement by the Companies Office will also be introduced for all holders of business names to file a return on an annual basis. New fees will be introduced from 1 January 2011.

### Audio Visual Incentives

Similar to the changes in the tourism sector, Government will also simplify the existing tax laws to further promote audio-visual production in Fiji. Apart from the film tax rebate which was increased from 15% to 35% in 2009, from 1 January 2011, a number of significant amendments will be made to the relevant law to further entice production of feature films and TV commercials. One such incentive will be the reduction in the threshold for TV commercials from the existing \$250,000 to \$50,000.

### TIN requirement

In order to assist the microfinance initiatives currently undertaken by Government and the private sector, the Tax Identification Number (TIN) requirement will not apply to facilities made available under it. Furthermore, the requirement for existing bank account holders to provide TIN to FIRCA has been extended from 31 December 2010 to 31 March 2011.

## **INDIRECT TAXES**

### Value Added Tax Rate

Government will increase the VAT rate from 12.5% to 15% in 2011.

The 2.5 percent increase will generate additional revenue for the Government to effectively deliver its economic and social program. The increase in VAT will ensure that Fiji is able to sustain its debt repayments now and in the future. It should be noted that the Income Tax threshold has jumped from \$9,000 to \$15,000. A number of basic food items are also zero rated.

Those basic food items and pharmaceuticals which are currently VAT exempt will continue to be so until such time as a comprehensive safety net is in place and income levels rise.

### Duty Suspension Scheme

The Duty Suspension Scheme will be made more attractive to exporters as importation of any Plant and Machinery directly used in the production process will attract zero percent fiscal duty.

### Protection of Domestic Industry

Government will continue to provide adequate protection to local industries through the imposition of higher duty on several imported items. In 2011, the following changes will be made to the Customs Tariff Act to protect the local industries:

- Increase in duty on imported fruit juice from 15% to 32%.
- Increase in import excise duty on imported mineral water from 10% to 15%.
- A 10 percent import excise will be imposed on all imported vegetables in addition to an increase in fiscal duty from 15% to 32% for some.
- Imposition of 15% import excise on imported snacks and confectionaries.
- Increase in fiscal duty on imported canned fish from 0% to 15%
- Increase in fiscal duty on imported cables and PVC pipes from 15% to 32%.

In addition to the increase in fiscal duty on canned fish, Government will also assist the fishing industry by exempting VAT on the supply of fish by both foreign and local fishing vessel owners directly to local fish processors in Fiji.

Additionally, Government will provide further benefits to the agriculture sector through the reduction in fiscal duty from 15 % to 0% on plastic crates used for packaging purposes.

#### Alcohol and Tobacco

The local excise and import duty applicable on cigarettes, tobacco and alcohol will increase by 3%.

#### Environment and Renewable Energy

Government will also make tariff changes in 2011 to encourage investment on renewable energy projects as follows:

- Firstly, the imposition of a 15% import excise on fluorescent tubes and bulbs to entice demand for energy saving light bulbs that are currently imported duty free;
- Secondly, the importation of non-biodegradable plastics will be banned and local manufacturers of such plastics will be given 6 months to adjust their processes towards the production of biodegradable plastics.

Further, Government will promote the importation of more LPG, CNG and solar powered vehicles in 2011. For these vehicles, the age restrictions on the importation of vehicles will be extended from 5 years to 8 years. The new 8 year age limit restriction will also apply to the importation of specialized vehicles used in mining, agriculture and road construction and maintenance.

To encourage proper sanitation, the duty on desalination and sewerage treatment plants will be reduced from 5% to 0%.

#### Duty on Vehicles

Government will reduce the fiscal duty on motor vehicles below 2500 engine capacity from 32% to 15%. The duty on heavy machinery will also be reduced from 32% to 15%. We believe that the low tariff regime for heavy machinery will assist in the completion of large capital projects and accelerate economic development.

The reduced duty concession on the importation of buses will continue to improve the quality of public transportation.

#### Duty on Smart Phones

Government will reduce fiscal duty on smart phones from 32% to 5%. This reduction will make these phones available to a wider cross section of the society and increase connectivity through the provision of broadband. It is expected that the telecommunications companies will pass on this benefit to consumers.

#### Passenger Allowance

The passenger allowance available for persons coming into Fiji will be increased from \$400 to \$1000 and FIRCA will not require passengers to seek service of Customs agents for personal importation. In other words, duty can be paid at the border by individuals for personal importation and immediate clearance.

### Duty Changes for Tourism Sector

The following Customs changes will be introduced to support the tourism sector:

- Wedding apparel imported by foreigners for the purpose of getting married in Fiji will be duty free;
- The duty on golf cars powered by solar will be reduced from 32% to 0%. Golf cars powered by other sources will be reduced from 32% to 5%.
- The Tourist VAT Refund Scheme provisions will be amended to allow tourists to claim refunds for goods purchased over any period of their stay and from any number of licensed operators.

### Streamlining of Customs Concessions

In recognition of new investment opportunities in the ICT Sector, the existing duty concessions of Free Fiscal Duty and Import Excise applicable on computers, computer parts and accessories, specialized plant, equipment and fittings, and specialized furniture to ICT/BOP Business Operators (Approved Companies) will be extended by 12 months. Further, the incentives will be available to both new and existing ICT Operators.

### Fuel Concession

FEA's Fuel Concession will be removed from 2011 given that a new pricing tariff structure has been determined by the Commerce Commission.

The Bus Fuel Concession will be reduced from 18 cents to 15 cents a litre. The gradual reduction of this concession is timely and appropriate given the various incentives given to the bus industry and the price modeling of bus fares which is to take account of the operational costs of bus companies.

### Fish Levy

To encourage value adding in the fishing industry, a levy of \$350 per tonne will be imposed on fish brought in for transshipment purposes.

All fish caught in high seas for export will be exempt from VAT and fiscal duty. Those sold in the domestic market will pay the applicable VAT and fiscal duty. To ensure transparency, registered processors will need to declare the volume of fish for local consumption and exports.

Companies contracted to supply fish to businesses based in Fiji for the production and export of fish loin from Fiji will be exempted from VAT and fiscal duty.

### Water Resource Tax

The Government has also reviewed the Water Resource Tax Promulgation that was introduced in 2009 to provide an appropriate tax regime for the extraction of ground water for the purpose of bottling for human consumption. From 2011, the extraction of water per month of more than 3.5 million litres will attract a tax of 15 cents per litre. The tax rate for the extraction of water below 3.5 million litres per month will remain at the existing rate (0.11 cents per litre).

### FIRCA Administration

Government will also introduce the following measures in 2011.

- **Firstly**, in a move to harmonize revenue collection, the Airport Departure Tax Act and the Stamp Duty Act will be administered by FIRCA from 1 January, 2011 and 1 April, 2011 respectively. To complement this policy, the Government will put in place a legal framework requiring travel agents, airlines and other stakeholders to remit the departure tax collected from departing passengers to FIRCA within two weeks from the date of the issuing of tickets. The collection and administration of Stamp Duty and Airport Departure Taxes by FIRCA will improve compliance and the rationalization of revenue functions undertaken by other agencies.
- **Secondly**, importers of vehicles for machinery that are given concessionary rates such as bus chassis, tractors and other machinery shall be required by law to inform purchasers of the landed cost of each item by way of proper documentation before a sale.

- **Thirdly**, FIRCA will finalize its implementation plan for the introduction of the income tax self-assessment regime from 2012. The self-assessment system will provide enormous benefits to taxpayers;
- **Fourthly**, FIRCA will implement a presumptive tax regime from 2013 that will provide a simplified tax regime for small business enterprises.

Ladies and Gentlemen, a complete list of the tax policies is provided in the 2011 Budget Supplement.

Your Excellencies, Ladies and Gentlemen, I wish to acknowledge Government's appreciation of those development partners who have extended their assistance to Fiji. I wish to reiterate that Fiji seeks your support in national development, promoting good and transparent governance.

We appreciate your assistance in developing basic infrastructure, in particular in the areas of medical and educational facilities and capacity building. Like you, we are also keen to meet our millennium development goals. We are focused on enhancing economic growth and inclusive development.

As evident from the 2011 Budget, Government is committed to continuously putting in place financial and accounting practices that are based on accuracy, and a true reflection of our financial position.

It is only then through such a transparent process that we will be able to generate investor confidence, social confidence, a sound economic platform and sustained economic growth and prosperity which Fiji is capable of.

In this process of realignment and restructuring, tough decisions will need to be made. Revenue measures will need to be implemented. Yet at the same time, targeted assistance and the provision of a social and economic safety net will be provided to those who need it.

It is also evident from the 2011 Budget that Government is committed to and believes that whilst assistance can be provided to business houses and investors, concomitantly those Fijians who require socio-economic assistance can also be accommodated.

As demonstrated through the 2011 Budget, Government is committed to providing the economic impetus and trajectory through its developmental projects, capital projects and rescue packages. However, it is imperative that in this process all stakeholders, employers, employees, business houses, trade unions, retailers, and manufacturers are transparent, give full disclosure, and are Fiji focused.

It is in this spirit that the recent deferment of the proposed increase in wages by the Wages Council must be brought forward through a negotiated timeline that will be beneficial for employers and employees.

## **CONCLUSION**

Your Excellencies, Ladies, Gentlemen, business houses, entrepreneurs, civil society groups, employer and employee groups and all fellow Fijians, the 2011 Budget is focused on enhancing economic growth and inclusive development.

Its framework and objectives can be achieved through co-operation, collaboration, commitment and diligence.

I now commend the 2011 Budget to the nation of Fiji and do so with the support of the Prime Minister and Cabinet.

Vinaka Vakalevu.