REPUBLIC OF FIJI

ECONOMIC AND FISCAL UPDATE:
SUPPLEMENT TO THE 2011 BUDGET ADDRESS

"Enhancing Economic Growth and Inclusive Development"

Ministry of Finance
26 November 2010

FOREWORD

The 2011 Economic and Fiscal Update provides an overview of Fiji's economic and financial performance in 2011, examines the general outlook for Fiji's economic and financial performance and outlines Government's fiscal strategy for the medium term.

This report was compiled by the Ministry of Finance with contributions from various Government Ministries and the Reserve Bank of Fiji. The update incorporates all the available economic and fiscal information as of November 2010.

The Economic and Fiscal Update is a "Supplement to the 2011 Budget Address", which details the economic and financial policies underlying the 2011 Budget.

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Acting Permanent Secretary for Finance
November 2010

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CHAPTER 1: ECONOMIC PERFORMANCE AND OUTLOOK (2010-2013)

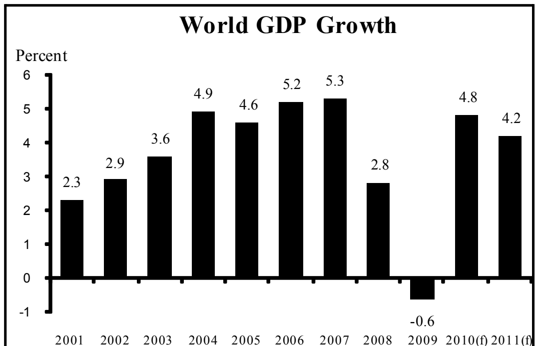
Introduction

1.1 This chapter includes an assessment of the current world economic outlook, the economic prospects of Fiji's major trading partner countries and developments in the domestic economy.

International Outlook

1.2 The global economy strengthened in the first half of 2010, supported by a surge in industrial production and global trade. The International Monetary Fund (IMF) expects the world economy to expand by 4.8 percent in 2010 and 4.2 percent in 2011.

1.3 Emerging and developing countries are expected to grow by 7.1 and 6.4 percent, respectively, in 2010 and 2011. Conversely, lower growth is projected for advanced economies at 2.7 and 2.2 percent respectively over the same period, with unemployment anticipated to remain high. This, combined with the fragility in Europe's core banking sector, poses downside risks to global growth forecasts.



Source: IMF World Economic Outlook - October 2010

1.4 The challenge to achieve a more balanced recovery remains and depends on cohesive policy coordination between the advanced and emerging economies.

Fiji's Trading Partners

1.5 In 2009, all our major trading partner economies contracted, with the exception of Australia. In contrast, all of Fiji's major trading partners are expected to register economic growth this year.

1.6 This year the Australian economy is projected to expand by 3.0 percent and by 3.5 percent in 2011. Recent economic indicators suggest that growth is expected to gain further momentum from now and into next year led by improvements in household spending and capital formation.

1.7 Growth for the New Zealand economy is projected at 3.0 percent this year and 3.2 percent next year. Although latest data indicate some pessimism from declining retail sales and plummeting business confidence, reconstruction following the massive earthquake is expected to support growth this year.

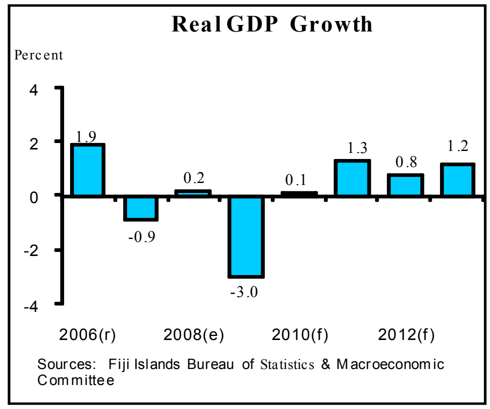
1.8 Notably, the United States economy is expected to grow by 2.6 percent this year, following a contraction in 2009. Unemployment remains high with subdued consumer spending. Looking ahead, a 2.3 percent growth is envisaged for 2011.

1.9 For the Euro-zone, economic growth for 2010 and 2011 is projected at 1.7 percent and 1.5 percent, respectively. Financial conditions have eased in recent months led by unprecedented policy initiatives by the European authorities.

1.10 The Japanese economy is forecast to expand by 2.8 percent this year and by 1.5 percent in 2011. Deflation continues to threaten economic recovery.

Domestic Outlook

1.11 Based on provisional Gross Domestic Product (GDP) data released by Fiji Islands Bureau of Statistics (FIBOS), the economy is estimated to have contracted by 3.0 percent in 2009, after marginally expanding by 0.2 percent in 2008, and contracting by 0.9 percent in 2007.



Overview: 2010

1.12 This year the Fiji economy is forecast to grow marginally by 0.1 percent - a subdued outcome compared to the earlier anticipated recovery of 1.8 percent. Projected negative performances in the agriculture; transport, storage & communication; health & social work; real estate & business services and the other community, social & personal service activities sectors have underpinned this downward revision.

1.13 The dismal performance of the sugar industry, the negative effects of Cyclone Tomas on non-cane agriculture and the projected impact of the drought have contributed to the gloomy outlook for the agriculture sector. In contrast, the forestry industry is anticipated to grow annually by 2.7 percent this year, following a contraction of 8.4 percent in 2009.

1.14 The projected annual decline in the transport, storage & communication sector for 2010 is on account of negative contributions from the telecommunications; cargo handling[1] and air transport categories. In addition, lower Government expenditure expected for 2010 has resulted in projected subdued sectoral performances in the health & social work and the other community, social & personal service activities categories.

1.15 In contrast, the tourism, fish and gold industries have been performing positively in the year to date. Overall, the financial intermediation; fishing; education; manufacturing; hotels & restaurants; mining & quarrying; public administration & defence; construction; wholesale & retail trade; electricity & water and the forestry sectors are expected to provide the impetus for growth this year.

1.16 On the other hand the anticipated declines in the agriculture; transport, storage & communication and the real estate & business services sectors, is expected to affect the overall growth in 2010.

Overview: 2011

1.17 In 2011, the domestic economy is expected to recover modestly with growth projected at 1.3 percent. Growth is anticipated to be broad based led by higher output forecast for the agriculture & forestry; manufacturing; hotels & restaurants; fishing; mining & quarrying; wholesale & retail trade; financial intermediation; electricity & water; real estate & business services and the other community, social & personal service activities sector.

1.18 Notably, the agriculture & forestry sector is anticipated to rebound strongly and expand by 14.1 percent in 2011, driven by expected strong performance in the non-cane agriculture sector. The improved demand for mahogany, woodchips and forestry products is expected to boost the forestry sub-sector by 10.5 percent. Strong performance in offshore fishing and cultivation of oysters for pearl industries are expected to underpin the 3.7 percent growth for the fishing sector in 2011.

1.19 The anticipated 4.1 percent growth in the manufacturing sector is attributed to envisaged expansions in the food products category, except for the manufacture of sugar. Also, an 8.1 percent growth is projected for the beverages and tobacco industry, mainly driven by the expected increase in the demand for mineral water.

[1] Cargo handling, Stevedoring and Storage and Warehousing

1.20 Around 615,000 visitor arrivals are expected next year, an increase of 4.2 percent. As a result, the hotels & restaurants sector is forecast to expand by 3.6 percent. Given the expected positive performance in the tourism industry, the wholesale & retail trade sector is also anticipated to grow by 0.7 percent in 2011.

1.21 The mining & quarrying sector is projected to grow by 16.1 percent next year, mainly due to the expected increase in gold production to 70,000 ounces. Non-government activity is also anticipated to increase by 16.7 percent as a result of increased capital spending and higher surface mining by the Vatukoula Gold Mines Limited (VGML).

1.22 Demand for electricity and financial services (pension funding & insurance) are both expected to increase in 2011, contributing to the expansion of the electricity & water sector by 2.2 percent and the anticipated growth in financial intermediation sector by 0.4 percent.

1.23 The community, social & personal service activities sector is expected to grow marginally by 0.5 percent while no growth is expected in the transport, storage & communications sector.

Overview 2012 & 2013

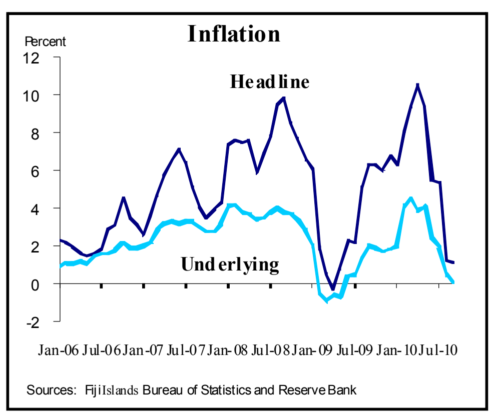
1.24 Broad-based growth is envisaged for 2012 and 2013, hence, the economy is expected to expand by 0.8 percent and 1.2 percent, respectively.

1.25 In 2012, growth is expected to be underpinned by the agriculture & forestry; financial intermediation; manufacturing; transport, storage & communications; hotels & restaurants; wholesale & retail trade; mining & quarrying; electricity & water and the other community, social & personal service activities sectors. In contrast, the fishing; public administration & defence; health & social work; real estate & business services; education and construction sectors are expected to record declines over the year.

1.26 For 2013, the forecast 1.2 percent economic expansion is attributed to anticipated positive performances in the agriculture & forestry; fishing; financial intermediation; manufacturing; hotels & restaurants; mining & quarrying; electricity & water; other community, social & personal services; wholesale & retail trade and real estate & business services sectors. On the other hand, annual contractions are anticipated in the transport, storage & communications; public administration & defence; health & social work; education; and construction sectors.

Inflation

1.27 In 2009, year-end inflation was 6.8 percent, an increase of 0.2 percent from 6.6 percent recorded in 2008. The higher inflation was mainly the result of the devaluation of the Fiji dollar. The impact however, was partly offset by some favourable exchange rate movements in the last quarter.



1.28 Movements in underlying inflation have closely followed the trend in headline inflation. In September 2010, inflation was 1.1 percent, after peaking at 10.5 percent in April. Underlying inflation, on the other hand, was marginal at 0.1 percent.

1.29 Inflation is forecast to be around 4.0 percent by year end, a downward revision from the earlier projection of 5.0 percent. This is mainly underpinned by lower-than-expected crude oil prices and the relatively weaker US dollar which helped ease some price pressures.

1.30 On the domestic front, the one-off impact of the reduction in tariff rates in June for consumers who use less than 130kwh also eased inflation by around 0.7 percentage points.

1.31 For 2011 and 2012, inflation is projected to be around 3.0 percent for both years. This is underpinned by some base effects and the modest economic growth expected for these years.

Exports & Imports

1.32 In 2009, exports declined by 16.4 percent, compared to a growth of 21.6 percent in 2008. This was driven by the decline in earnings from re-exports, sugar, mineral water, timber and garments, which more than offset increased earnings from fish and gold.

1.33 In 2010, exports are projected to grow by 20.2 percent, mainly driven by higher earnings anticipated from re-exports, gold, mineral water, timber and fish and other domestic exports, which are expected to more than offset the decline in earnings from sugar and molasses. The rebound in exports this year is consistent with the recovery in global demand, as well as improved production and strong performances in certain industries in the first half of the year.

1.34 For 2011, exports are projected to grow by 8.9 percent, based on anticipated higher earnings from gold, re-exports, fish, sugar and other domestic exports.

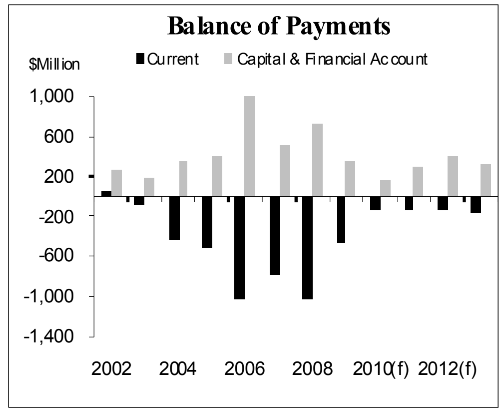
1.35 As for 2012 and 2013, exports are forecast to increase by 6.2 percent and 6.7 percent, respectively, with almost all categories of exports projected to perform better.

1.36 Imports (excluding aircraft), contracted by 20.6 percent last year compared to a 23.0 percent growth in 2008. This was due to decline in all categories of imports. In 2010, imports are projected to rise marginally by 0.5 percent, led by higher payments for mineral fuels, chemicals and manufactured goods which more than offset the lower than anticipated payments for crude materials, machinery & transport equipment and oils & fats.

1.37 For 2011, imports are projected to grow by 5.7 percent, led by higher payments for all categories except manufactured goods. In 2012, growth in imports is expected to slow to 4.5 percent and then pick-up to 5.2 percent in 2013, with mineral fuels, food and machinery & transport underpinning growth.

Balance of Payments

1.38 In 2009, the current account deficit narrowed to 8.1 percent of GDP, compared to a deficit of 18.1 percent of GDP in 2008. The capital & financial account (excluding reserves) surplus on the other hand, was around 13.2 percent of GDP.



1.39 For 2010, the current account deficit is projected to narrow further to around 2.3 percent of GDP, while the capital & financial account (excluding reserves) surplus is expected to be around 2.9 percent of GDP. This improvement is attributed to a lower trade deficit, while the decline in the capital & financial account balance is due to lower net foreign investment in Fiji.

1.40 The current account deficit for 2011 is projected to narrow further to 2.2 percent of GDP. Some improvements are expected in the services balance. The capital & financial account surplus (excluding reserves) is projected at 3.5 percent of GDP.

1.41 For 2012, the current account deficit is projected at 2.1 percent of GDP. The income and current transfers balances are forecast to improve slightly while the trade deficit is expected to widen. As for the capital & financial account surplus (excluding reserves), this is projected to improve to 5.5 percent of GDP.

1.42 In 2013, the current account deficit is forecast to narrow slightly further to 2.0 percent of GDP. The services and current transfers balance are forecast to improve, while the trade deficit is expected to widen. In addition, the capital & financial account (excluding reserves) surplus is expected to be around 5.3 percent of GDP.

Monetary Policy

1.43 Maintaining a low and stable inflation environment, while ensuring adequate levels of international reserves remained the focus of the RBF's monetary policy in 2010.

1.44 With foreign reserves at comfortable levels and inflation trending downwards during the year, the RBF removed the lending and interest rate spread policies previously imposed on commercial banks. Following the build up in bank liquidity, the Bank raised the statutory reserves deposit ratio (SRD) over two occasions from 7 percent to the current level of 10 percent. These policy actions were complemented by the implementation of a new market-based monetary policy framework in May to help enhance effectiveness in the implementation of monetary policy.

1.45 Liquidity remained at more than adequate levels in the first 9 months of the year, averaging around $280 million. The SRD was increased to 10 percent in view of the potential risks that a high liquidity environment could pose to foreign reserves and inflation. Additionally, liquidity management was complemented by open market operations, in line with the implementation of the new monetary policy framework. As a result, liquidity levels have fallen from $349 million in April to current levels of around $312 million[2].

1.46 The Reserve Bank has rationalised its Export Finance Facility and Import Substitution Facility into one facility called the Import Substitution and Export Finance Facility (ISEFF). The facility has an available credit line of $40 million and is aimed at supporting local businesses in the agricultural sector, as well as those that need financing to export. Looking ahead, the Reserve Bank will continue to closely monitor economic and financial developments, and make necessary adjustments to safeguard its objectives of monetary policy.

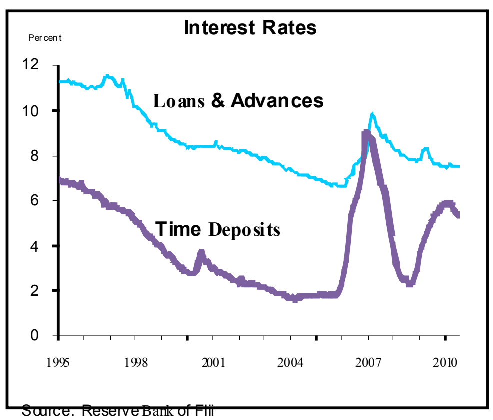
Money and Credit

1.47 Monetary and credit aggregates growth rate in 2010 was moderate until September, whereas growth in broad money decreased from 7.4 percent to 5.9 percent at the end of last year. This was driven by the decline in quasi money mainly due to a significant drop in time deposits from 20.3 percent to 0.8 percent.

1.48 Domestic credit grew by 1.6 percent in September this year compared with 4.1 percent at the end of 2009. The deceleration was attributed to annual decline in claims on official entities, a slowdown in the growth of net credit to government as well as lower growth in private sector credit.

Interest Rates

1.49 In line with surplus liquidity in the system, commercial banks' lending and deposit rates were lower in 2010 compared with the same period last year.



1.50 As at September 2010, the commercial banks weighted average outstanding and new lending rates were at 7.47 and 7.39 percent, respectively. This represented a decline of 0.17 and 1 percent respectively, when compared with the corresponding period in 2009. Also during the same period, the existing and new bank time deposit rates fell by 0.26 and 1.6 percent to 5.14 and 4.15 percent, respectively.

Exchange Rates

1.51 Bilateral exchange rate movements showed that in October 2010, the Fiji dollar strengthened against the Euro and the US dollar but weakened against the Japanese Yen as well as the Australian and New Zealand dollars, compared to the same period last year. More specifically, the Fiji dollar appreciated against the Euro by 7.6 percent and the US dollar by 4.5 percent. However, the domestic currency depreciated by 8.4 percent against the Japanese Yen and the Australian and New Zealand dollars by 4.5 and 0.01 percent, respectively.

[2] Figure as at 29 October 2010

1.52 The Nominal Effective Exchange Rate (NEER)[3] index rose marginally over the month of October by 0.3 percent, indicating a marginal appreciation of the Fiji dollar against its major trading partners' currencies. Similarly, on an annual basis, the NEER index rose by 0.7 percent.

1.53 Likewise, the Real Effective Exchange Rate (REER)[4] index increased slightly by 0.5 percent on an annual basis, indicating a slight erosion of Fiji's international competitiveness against major trading partner currencies.

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

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

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

Introduction

2.1 The Roadmap for Democracy and Sustainable Socio-Economic Development (RDSSED) 2009-2014 sets out the framework to achieve sustainable democracy, good and just governance, socio-economic development and national unity.

2.2 The key foundation of the Roadmap is the Peoples Charter for Change Peace and Progress (PCCPP) which was compiled through an unprecedented nationwide consultation process, involving a wide range of stakeholders.

2.3 The Roadmap is aligned to the mandate handed down by His Excellency, the President in 2007, as well as the Strategic Framework for Change announced by the Prime Minister on 1st July 2009.

2.4 The Vision is a statement of Fiji's aspirations in the short, medium and long term. The Mission and Guiding Principles summarise the approach and philosophy that Government will take in designing and implementing policies to achieve the Vision.

2.5 The objective of the Roadmap is to implement policies to achieve the Vision of *"A Better Fiji for All"* which is consistent with the Peoples' Charter. To achieve this vision, the overarching objective is to rebuild Fiji into a non-racial, culturally vibrant and united, well governed, truly democratic nation that seeks progress and prosperity through merit-based equality of opportunity and peace.

Key Focus Areas

2.6 Government's Mission is to develop and implement the best political, social and economic policies in order to advance the goals of Good Governance, Prosperity and Peace and National Unity.

2.7 Government has consulted widely with the private sector and with non-Government organizations to identify the policies appropriate to the current social and economic situation in Fiji. Based upon these shared priorities, the Roadmap will best serve the needs of national unity, peace and harmony.

2.8 The table below highlights the medium term strategies aimed at strengthening good governance, and socio-cultural and economic development.

Table 2.1 – Medium Term Strategy

STRENGETHENING GOOD GOVERNANCE	ECONOMIC DEVELOPMENT	SOCIO–CULTURAL DEVELOPMENT
Formulation of a New Constitution ➢ A just and fair Constitution that provides a solid foundation and framework for rebuilding Fiji. ➢ Implementation of Constitutional reforms set out under the Peoples Charter in 2012-13. **Electoral and Parliamentary Reforms** ➢ Legal framework for electoral and parliamentary reforms established under the new Constitution. ➢ Development of an electronic voter registration system and other measures to improve electoral administration completed before the next general elections. **Strengthening Law and Justice** ➢ Strengthening the accountability of the judiciary, improving community policing and reducing recidivism through rehabilitation initiatives. ➢ Legal Aid services to be extended to all major centres within the country. **Strengthening Accountability and Transparency** ➢ Effective capacity building initiatives will be established to strengthen the accountability and transparency of Government's processes. **Ensuring Effective, Enlightened and Accountable Leadership** ➢ Development and adoption of a leadership model	**Maintaining Macroeconomic Stability** ➢ Maintaining macroeconomic stability to facilitate social and economic development. **Export Promotion** ➢ Raising exports through the implementation of the National Export Strategy. **Food Security** ➢ Supporting food security and income generation initiatives to increase self-reliance and reduce imports. **Raising Investment Levels** ➢ Raising investment level to 25 percent of GDP through the creation of an enabling environment. **Making More Land Available for Productive and Social Purposes** ➢ Establishment of the Land Use Bank. ➢ Ensuring equitable returns for land owners and security of tenure for lessees. ➢ Increasing land rentals from UCV (Unimproved Capital Value) rates to market rates. **Enhancing Global Integration and International Relations** ➢ Re-engaging with bilateral and multilateral partners. ➢ Establishing bilateral relations with Asian countries, South America, and the Middle East to enhance investment and	**Reducing Poverty to a Negligible Level** ➢ Enhancing Government efforts to reduce poverty. ➢ Strengthening assistance from CSO's and NGO's in accordance with government's programs and efforts. ➢ Targeted social welfare assistance based on a means test. **Making Fiji a Knowledge Based Society** ➢ Improving access to quality and affordable education for all. ➢ Improving education infrastructure and facilities. ➢ Establishment of TVET competency based curriculum piloted at secondary schools. ➢ Establishment of the National Employment Centre. ➢ Establishment of the National Qualification Framework **Improving Health Service Delivery** ➢ Reducing non-communicable diseases through education and awareness. ➢ Ensuring appropriate levels of medical professionals. ➢ Outsourcing of non-essential services within the health system. **Developing a Common National Identity and Building Social Cohesion** ➢ Strategies to build a peaceful, non-racial, inclusive and united society include: adopting a common name for all citizens;

encompassing political, traditional, multi ethnic and public service. **Enhancing Public Sector Efficiency, Effectiveness and Service Delivery** ➢ Reducing the size of the civil service through a review of government machinery. ➢ Reform of all i-Taukei institutions to enhance their capacity to meet the needs of i-Taukei communities. ➢ Corporatisation of identified government departments. ➢ Outsourcing of Government services to improve efficiency and service delivery. **Developing an Integrated Development Structure at Divisional Level** ➢ Integration of all government efforts towards the Integrated Rural Development Framework (IRDF).	trade opportunities.	implementation of Civic Multicultural Education; Teaching of Vernacular languages; Studies on religion and culture; and flag raising and singing of national anthem in schools.

CHAPTER 3: MEDIUM-TERM STRATEGY

Introduction

3.1 This chapter discusses Government's fiscal strategy for the medium-term. The chapter begins with an overview of Government's macro-economic objectives; it then outlines the medium term fiscal strategy, fiscal targets and the broad-fiscal measures that aim to build a solid platform for sustainable economic growth. The chapter concludes with an update on the progress, and anticipated course of reforms over the medium term.

Medium Term Macroeconomic Objectives

3.2 Government's macroeconomic targets are clearly articulated in the People's Charter for Change, Peace and Progress, the Strategic Framework for Change and the Roadmap to Democracy and Sustainable Socio-Economic Development. The overarching objective of the Charter is focused on "rebuilding Fiji into a non-racial, culturally vibrant and united, well-governed, truly democratic nation; a nation that seeks progress and prosperity through merit-based equality of opportunity and peace".

3.3 As such, achieving the following key macro-economic targets will remain the focus of Government's policies in the medium term:

- Growing the economy by 5 percent annually;
- Maintaining inflation at around 2-3 percent on average;
- Maintaining foreign exchange reserves at 4-5 months of import cover;
- Reducing the rate of poverty to a negligible level;
- Reducing fiscal deficits in line with objective of reducing Government debt;
- Reducing Government debt to sustainable levels; and
- Raising investment levels to 25 percent of GDP.

Medium Term Fiscal Framework

3.4 The Government's fiscal strategy over the medium term aims to ensure that prevailing and medium term economic challenges are addressed while fiscal prudence is maintained. Sustainability is a core requirement of fiscal policy since Government has a responsibility to ensure that it can meet its current as well as future spending and debt commitments. A sound fiscal position provides greater certainty for decision-makers to formulate policies that support broader economic sustainability (including macroeconomic stability).

Key elements of a sustainable fiscal strategy

3.5 The objectives of Government's medium-term fiscal strategy include:

- Maintaining a net deficit of 3.5 percent of GDP or lower, over the medium term;
- Setting targets for both revenue and expenditure as a share of GDP consistent with the medium term objective for net deficit;
- Reducing the debt level as a share of GDP;
- Maintaining sound risk management principles;
- Maintaining a competitive business and taxation environment;

- Prioritising investment in infrastructure to support the delivery of government services and to foster economic and industry development; and
- Improving the quality and effectiveness of spending, particularly for infrastructure development.

Fiscal Targets

3.6 The 2011 Budget is focused on *"enhancing growth and inclusive development"*. As illustrated in Table 3.1 below, the net deficit for the 2011 Budget is set at 3.5 percent of GDP, with revenue forecast at $1,745.7 million and expenditure at $1,961.7 million.

Table 3.1: 2011 Fiscal Framework and Medium Term Targets

	2011 Budget ($M)	2012 Target ($M)	2013 Target ($M)
Revenue:	1,745.7	1,733.1	1,804.5
As a % of GDP	28.3	27.0	27.0
Expenditure:	1,961.7	1,925.7	1,971.6
As a % of GDP	31.8	30.0	29.5
Net Deficit	**(216.0)**	**(192.6)**	**(167.1)**
As a % of GDP	**3.5**	**3.0**	**2.5**
Debt	3,593.9	3,786.5	3,953.6
As a % of GDP	58.1	58.9	59.2
GDP at Market Prices	*6,177.0*	*6,418.9*	*6,683.5*

Revenue Policy

3.7 Revenue policy is geared towards improving the efficiency of existing revenue collecting agencies and to carry out a comprehensive review of the existing tax framework. It is also expected that as policies to drive economic growth take effect, this should translate to increased revenue.

3.8 To enable Government to reach its medium term revenue targets, efforts will be focused on ensuring that compliance is strengthened for both tax and non- tax revenue. FIRCA and revenue collecting Ministries and Departments will be required to place greater emphasis on collection of arrears as well as improving current compliance and collections.

3.9 Revenue and taxation policies for the 2011 Budget will be guided by the following key principles:

- Ensuring a simple, transparent and equitable tax system;
- Simplifying and streamlining bureaucratic tax administrative processes;
- Improving compliance and collection of revenue and arrears;
- Promoting the user-pay principle;
- Improving collection of non-tax revenue specifically fees, fines and charges; and
- Widening the tax base.

3.10 In line with Government's revenue policy direction, revenue measures in the 2011 Budget will focus on achieving the following key policy objectives:

a) Support private sector investment and export development with particular focus on resource-based sectors and industries, as well as promote value-adding activities;
b) Strengthen compliance through mandatory tax identification registration and simplification of tax administration processes and procedures;
c) Promote environment protection and conservation;
d) Assist the private sector through timely processing and payment of VAT refunds; and
e) Continue review of Government fees, fines and charges on cost recovery basis.

3.11 Chapter 9 highlights specific taxation and revenue policy measures of the 2011 Budget.

Expenditure Policy

3.12 For the 2011 Budget, expenditure policy focuses on improving the quality and efficiency of public expenditure. The rationale for expenditure policy would be to deliver the following results:

- Increased efficiency and productivity;
- Increased economic activity to generate employment creation;
- Development of entrepreneurship; and
- Increased prospects and opportunities to realise sustainable GDP growth.

3.13 Whilst gradually consolidating finances over the medium term, Government will need to continue to strive towards increasing its operating savings by confining increases in operating expenditures at or below the growth in operating revenues.

3.14 In terms of personnel emoluments, for 2011, the filling of vacant posts will continue to be limited to critical technical and professional positions, as well as positions which are necessary for facilitating investment, growth, and addressing government's priority concerns. Existing expenditure control measures such as the freeze on new appointments to project positions, including the recruitment of casual laborers and temporary officers will continue in 2011. However, these control measures will be applied on a case by case basis and exceptions will be made where warranted. Other costs such as the payment of allowances for overtime, leave compensation, and meal claims will be closely controlled.

3.15 Recurrent expenditures such as telecommunications, subsistence, travel, fuel and oil, and power supply will also be strictly monitored to ensure that spending is contained within approved allocations.

3.16 *Sectoral Allocations*: For 2011, resources are being channeled to sectors that can boost long-term growth and contribute to improved human development outcomes. Apart from the quantum of spending, the efficiency of expenditures and how well they are targeted are equally critical.

3.17 In addition, provisions towards human development and social protection such as poverty assistance and housing have been increased, while health and education have been provided adequate funding. To improve the livelihoods of our rural communities and increase their contribution to the economy, adequate allocations have also been provided towards rural development initiatives.

3.18 To facilitate an environment conducive to investment, the Law and Order sector including the Judiciary, Director of Public Prosecutions, Attorney Generals Chambers and the Disciplined Forces will be adequately resourced. Law reforms to modernise existing legislations will continue to address existing barriers to trade and commerce. In addition, agencies dealing with investment approval processes have also been provided adequate funds in 2011.

Debt Policy

3.19 The overarching goal of Government's debt strategy is to ensure long-term sustainability of public debt by reducing risk-exposure through well-formulated debt management strategies.

3.20 Debt policy in the medium term will focus on achieving the following objectives:

- maintaining a sustainable debt level consistent with the broad macroeconomic goals;
- keeping debt servicing costs low and stable over time, while ensuring that a well functioning market for Government securities facilitates refinancing of any maturing debt;
- achieving optimum maturity structure of the debt portfolio;
- developing and expanding the domestic bond market – more focus on liquidity, transparency, secondary market trading, settlement mechanism, and investor diversification;
- minimising external debt vulnerability by strengthening risk assessment of foreign borrowing in line with debt sustainability;
- optimal financing mix – based on the availability of financing alternatives, the depth of Government securities market, and the fiscal policy stance;
- managing contingencies[5] and the rate of default on loans of state-owned entities by putting in place rigorous due diligence requirements for any additional contingencies; and
- ensuring that all proceeds from future sale of Government Assets to be redirected to debt servicing.

3.28 The following factors will be taken into consideration when striving to achieve long-term sustainability of Government debt:

- overall impact of externally financed projects/investments on debt levels and the ability of such projects to generate returns and effectively contribute towards desired policy goals;

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

- over-reliance on the domestic financial market and risks of prevailing high interest rates; and

- expenditure or budget risks associated with the settlement of liabilities of non-performing public enterprises.

Structural Reforms

3.21 Reforms are critical for achieving sustained growth and development in the long term. The ensuing paragraphs provide an update on the progress of structural reforms to date, as well as the focus for the medium term:

Civil Service Reforms

3.22 Government is committed to driving Civil Service Reforms throughout the Public Service with the aim of improving efficiency, productivity, accountability and transparency in the provision of public goods and services. The three key components of the civil service reform are:

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

3.23 *Human Resources Development*: The mandate to improve and upgrade training and development in the civil service is stipulated in the Roadmap.

3.24 The Public Service, despite its limitations and constraints, still remains an important player for the implementation of government policy and is therefore critical for the realization of government goals and development objectives. Government should therefore continuously seek new and better ways to build service institutions.

3.25 Capacity building has been identified as critical to improving the performance, productivity, efficiency and effectiveness of the civil service. The purpose of human resource capacity building efforts is to raise the level of performance of the public sector to cope with the rising and ever-changing demands of the economy and population.

3.26 In addition, recent reforms have also necessitated more training and capacity building programmes. These included the rightsizing program and the new retirement policy, whereby the retirement age has been decreased to 55 years. With the exit of a large number of senior managers, succession planning and training has become more necessary.

3.27 To attain this objective, one hundred and fifteen (115) staff development courses have been conducted this year in addition to thirty six (36) service examinations. In the 4th quarter, mandatory leadership training will be conducted at all levels of the Senior Executive Services (SES) cadre with the aim of building and strengthening leadership skills.

3.28 In line with the workforce needs of the nation, Government has continued to provide pre-service and in-service long term sponsorship at local and overseas intuitions in addition to the facilitation of short term training sponsored by various donors.

3.29 *Productivity Management*: Government in 2008 re-introduced the Service Excellence Framework as an important tool to facilitate productivity management. The Framework focuses on Leadership and Management; Strategic and Planning Process; Data, Information and Knowledge; People; Customer Focus; Processes, Goods and Service and Organisation Performance.

3.30 An Achievement Award and a Commitment Award are competed for during the year. In 2009, a total of 5 Government Agencies received the highest award (Achievement Award) while twenty one (21) won the next level (Commitment Award). Fifteen (15) were either not disqualified or did not participate at all.

3.31 In 2010 the number of Achievement Awards increased markedly whilst the numbers for Commitment has decreased. This shows that ministries/departments are seriously committed towards improvement in organisational performance and productivity.

3.32 The Service Excellence Programme is expected to continue in 2011 to further enhance and promote productivity throughout the Public Service.

3.33 *Organisational Management*: This year the Commission pursued the reorganisation and restructure of the following government entities:

- Hydrographic Section of FIMSA transferred to the Fiji Navy;
- Government Shipping Services transferred to the Fiji Navy;
- Department of Water & Sewerage restructure;
- Government Supplies has been closed and replaced by the Fiji Procurement Office;

3.34 *Functional Review*: In 2011, the Commission in consultation with the Ministry of Finance will undertake a functional review across Ministries and Departments to determine the appropriate staff establishment at whole of Government and for each agency. This initiative is expected to identify surplus staffing positions in the various agencies and facilitate redeployment to those Ministries that require additional capacity for effective service delivery. The review will initially focus on the four largest ministries, namely Education, Health, Agriculture, Works and Public Utilities.

3.35 *Outsourcing of Services*: Cabinet in July 2010 approved the policy on outsourcing of government services followed by the establishment of an Outsourcing Committee chaired by the Permanent Secretary for Public Enterprise. The aim of the Committee is to identify selected functions of Government that can be outsourced.

3.36 *Government Quarters*: The commercialisation of Government quarters introduced at the beginning of this year is expected to generate additional revenue for government. Additionally, the State Mansion, Borron House is now exclusively available on a selective basis for short term stays and hosting of private functions. However, it will continue to be preserved as a VIP State Guest House and it will only be hired out if it is not being used by the State.

3.37 *Rationalisation of Government Offices*: The rationalisation of Government Offices is being enhanced and facilitated with the aim of containing rental costs of Government. The Ministry of Lands in consultation with the Solicitor General's Office will review all Government lease contracts with the view to aligning rental with market rates. This is envisaged to remove any preferential contracts, which should result in significant savings for Government on office rental costs. For 2011, the budget allocation for Office rental has been transferred to the Public Service Commission.

3.38 *Public Awareness on Government Services*: The Government Information and Referral Centre (GIRC) was established last year with the aim of providing awareness and display of Government Services to the public. The Centre has different modes of communication including telephone, fax, email, as well as face-to-face communication. Facilities are also available for citizens to access forms and other documents on-line and to have them completed and despatched from the centre. Furthermore, the Centre will become the focal point for information and referral to all other ministries/departments. In 2011, Government will continue to encourage public use of the Centre through exhibits and awareness programs.

Public Enterprise Reforms

3.39 The Department of Public Enterprise continues to provide sound and practical advice on strategies for reforming public enterprises into commercially viable entities and improving their contributions to the national economy. Currently the Public Enterprises (PE) portfolio consists of eighteen (18) corporate entities including two subsidiary companies.

3.40 The operations of entities within the Public Enterprises are closely monitored to ensure that their operations are managed with effective corporate governance practices and internationally accepted standards.

3.41 The following entities are currently undergoing reforms under the mandate of the Public Enterprises Act:

- Fiji Islands Maritime Safety Administration;
- Fiji Meteorological Office;
- Quarantine & Inspection Department;
- Fiji Broadcasting Corporation Ltd;
- Fiji Electricity Authority;
- Fiji Hardwood Corporation Ltd;
- Fiji Meat Industry Board;
- Housing Authority; and
- Public Rental Board.

3.42 *Fiji Islands Maritime Safety Administration (FIMSA):* The reorganisation of FIMSA into the Maritime Safety Authority of Fiji, a Commercial Statutory Authority, is an essential part of reforms within the maritime industry. A comprehensive review of the Marine Act with other maritime related legislations will be undertaken to ensure non-duplication of roles and conformity with International Maritime Standards. This should provide a suitable regulatory framework for supervising maritime services to enhance safety at sea and improve shipping services to outlying islands.

3.43 *Fiji Meteorological Office*: Government is reviewing the Fiji Meteorological Office to determine a structure that will optimise human resource capacity, adherence to World Meteorological Organisation standards, and meteorological services to the nation and the region.

3.44 *Department of Quarantine*: The promulgation of the Biosecurity Law (2008) provides the legal framework for the establishment of the Biosecurity Authority of the Fiji Islands (BAFI). This reorganisation will bring about general improvements to quarantine services and ensure its compliance with international practices and standards, thereby opening market access for commodity exports to overseas markets.

3.45 *Fiji Broadcasting Corporation Ltd*: The completion of the $17.8 million infrastructure upgrade is earmarked for mid 2011. This will include upgrade of the transmission sites, central offices, studio equipment and the establishment of a new television venture.

3.46 *Fiji Electricity Authority*: In line with its commitment to reform the energy sector, Government has initiated the restructure of FEA to separate the Authority's regulatory functions from its commercial arm. This move enables the deregulation of the energy sector and paves the way for more competition, resulting in the provision of better and more affordable energy services to Fiji consumers.

3.47 The FEA is constructing the Nadarivatu dam which is expected to be completed in August 2011. The new dam will complement the existing Monasavu dam and provide hydro-power to 80 percent of the nation, reducing the use of diesel-powered generators, and increasing the appeal of Fiji to investors.

3.48 *Fiji Hardwood Corporation Ltd:* The implementation phase of the Mahogany Industry Development Decree of March 2010 is being pursued under the guidance of the Mahogany Council.

3.49 *Fiji Meat Industry Board (FMIB):* Following Cabinet approval in September 2010, private sector participation is being sought for the purchase, management and expansion of value added abattoir products and services in Fiji.

3.50 *Housing Authority and Public Rental Board:* The feasibility of the merger of the two entities is being reviewed and implementation will proceed thereafter. The merger is expected to bring about significant synergies between the two entities which will lead to an effective and efficient organisation.

3.51 In addition to the above, other entities that will also undergo reforms include Post Fiji Ltd, Rewa Rice Ltd and Food Processors (Fiji) Ltd.

Financial Management Reforms

3.52 To improve financial reporting within Government, the phased implementation of cash basis International Public Sector Accounting Standards (IPSAS) will continue in 2011. IPSAS aims to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of resource allocation decisions made by government, thereby increasing transparency and accountability.

3.53 The adoption of cash basis IPSAS paves the way for the adoption of accrual accounting and will ensure that government accounting processes and systems is up to international standards.

3.54 The Pacific Financial Technical Assistance Centre (PFTAC) provided technical advice on the proposed transition from Cash to Accrual Accounting. However, after carrying out its assessment, the PFTAC has recommended that Government improve its existing cash based accounting system to be complaint with Cash-basis IPSAS before considering the move to full accrual accounting.

3.55 In this regard, the PFTAC has prepared a guidance note to facilitate the implementation of the Cash-basis IPSAS as a precursor to the adoption of the accrual accounting by Government. The guidance note identified existing gaps in Government's accounting practices and provided recommendations to address these gaps. The Ministry of Finance will continue to implement these recommendations in 2011.

3.56 *Review of Internal Audit*: A review of internal audit was also undertaken to identify the current situation as well as steps to strengthen auditing capacities. Work is underway to enhance technical capabilities of staff and to ensure sustainability through the development of audit manuals to serve as the foundation of future audits. The decentralisation of the audit staff of the Ministry of Finance to large ministries has been implemented to ensure effective and efficient delivery of audit services, as well as evaluation of risk management and internal controls.

3.57 *Review of Finance Instructions*: The review of the Finance Instructions (FI) 2005 was brought about to accommodate the changes to accounting procedures and processes. These changes are the result of the implementation of an automated Financial Management Information System (FMIS) across Government and the introduction of new policies and changes to existing ones that have been undertaken post 2004.

3.58 The review of the FI had to be undertaken simultaneously with the formulation of the Procurement Regulations 2010 which, legally established the FPO and at the same time provides details of procedures and processes for procurement of goods and services. This is due to the fact that the major portion on procurement that was initially captured in the FI is now reflected in the Procurement Regulations including the procurement and tender procedures as well as the functions and responsibilities of the Government Tender Board.

3.59 The FI review exercise commenced in November 2009 and is now complete. Cabinet, in November endorsed the repeal of the FI 2005 and approved the FI 2010. The FI 2010 will be gazetted in due course and will become the standing finance instructions across Government.

3.60 *Financial Management Information System (FMIS):* The development of human resource capacity to meet the needs of the FMR presents a significant challenge. The success and sustainability of FMIS, largely depends on the ability of operational personnel and management to implement the reforms. In this regard, the FMIS Unit within the Ministry of Finance has been tasked with providing both functional and technical support to agency users through strategic training and capacity building programmes;

3.61 The Ministry of Finance is currently implementing the FMIS in the Ministry of Health, with the targeted go-live date scheduled for early January 2011. Consideration is also being made to roll-out the FMIS to the Department of National Roads. In 2011, the Ministry also plans to centralise payments at whole of government by the second quarter.

3.62 *Centralisation of Payments at Whole of Government*: To ensure that the financial information is reported more accurately and in a timely manner, the Ministry of Finance is considering centralisation of payments for whole of Government. This would see all Ministries and Departments continuing to process Local Purchase Orders, whist the payment of goods and services is centralised at the Ministry of Finance. At present, Government operates approximately 60 Drawings Accounts from which Ministries and Departments draw cheques. Under the current arrangement, it is noted that Government spends a substantial amount on the printing of cheques for each of these 60 Drawings Accounts.

3.63 With the centralised payment system, Government may choose to operate only four Drawings Accounts across the four commercial banks, making the Ministry of Finance responsible for all Government payments. This new arrangement will ensure that payment for all goods and services are done in a more controlled manner at the same time, reduce the cost of printing cheques. In addition, the Ministry of Finance will also be able to control the high level of unpresented cheque balances at the end of the year and ensure that bank reconciliations are updated on time.

3.64 In addition, SEGs 1 and 2 will be placed under Fund Accounting in the FMIS from next year. This essentially ensures that payment of salaries and wages is maintained within Ministries and Departments' approved budgets.

3.65 *Proposed Activities for 2011*: To further improve the effectiveness of Government's overall accounting system, the following activities are earmarked for 2011:

- Gradually implement in-house, a number of recommendations to become IPSAS compliant;
- Implementation of new National Standards for Cash Accounting across Government;
- Production of a cash-basis compliant financial statement for Whole of Government;
- Implementation of FMIS within the Department of National Roads;
- Continuation of FMR and FMIS training and capacity building programs;
- Implementation of the Centralisation of Payments at Whole of Government; and
- SEGs 1 & 2 placed under Fund Accounting.

Land Reforms

3.66 Land reform is crucial to unlocking the economic potential of the nation. Making more land available for productive purposes is the main objective of the land reform programme. In addition, the reforms will strive to ensure equitable returns to both the tenant and the landlord, via long term leases for the tenant and market based returns for the resource owners.

3.67 Government promulgated a new Land Use Decree in July this year. The thrust of the Decree is to provide security of tenure to tenants through long term leases up to 99 years and provide fair and market based returns to landowners in the assessment of land rentals.

3.68 The Land Use Decree also sets out the establishment of a Land Bank within the Ministry of Lands which would be a tool for attracting potential investors. Landowning units can voluntarily lease their land to Government through the Land Bank which will then seek potential investors to develop the land based on its optimal use.

3.69 The initiative has received favorable response from the community with a number of landowning units currently in the process of consultation with the Ministry of Lands to lease their land to the Government. For 2011, Government envisages setting up the necessary land information interactive system within the Ministry of Lands that would eventually evolve into the Land Bank. A sum of $5.0 million is allocated in the 2011 Budget to fund this reform programme.

3.70 In addition, the Committee for the Better Utilisation of Land (CBUL) has been provided a sum of $1.5 million in the Budget to continue subsidy payments to landowners for land leases based on unimproved capital value of 10 percent.

Sugar Industry Reform

3.71 A key priority of Government is to revitalise the Sugar Industry given that more than 200,000 people, particularly the rural based communities, depend on the industry for their livelihoods.

3.72 Earlier this year, Government commissioned a fact-finding mission to ascertain FSC's financial position. The review confirmed the weak financial position of the Corporation which led to Government's decision to acquire control of the company to ensure continued operations and future viability of the industry. From 2011, Government will directly fund the operations of FSC including its debt repayments.

3.73 To spearhead sugar industry restructure, the Sugar Taskforce was established to develop a comprehensive Reform Plan. The Plan specifies strategies for reorganising critical facets of the industry such as institutional arrangements, cane production, harvesting and transport systems, as well as milling operations. Consultations on the Reform Plan will be carried out to seek the views of relevant stakeholders.

3.74 Cost cutting measures have been imposed by the new FSC management as an immediate strategy to reduce operating losses. In addition, all income and expenditures of FSC will be closely monitored and controlled by Government to reduce any further contingent liability risks.

3.75 Government has allocated $110 million in the 2011 Budget to support FSC and the Sugar Industry as a whole. Government is also actively seeking technical assistance from development partners to assist its reform efforts for FSC.

Financial Sector Reforms

3.76 Financial System Policy Development: The Reserve Bank, as supervisor to all licensed financial institutions, the capital markets and the Fiji National Provident Fund (FNPF), continues to work on financial supervision policies to support its role of maintaining a sound financial structure in Fiji and safeguarding Fiji's financial system, aligning it with international best practices and standards.

3.77 The Operational Risk Management Policy for Banks and Credit Institutions, higher capital adequacy requirements for licensed Banks and Credit Institutions and the Minimum Guidelines for Risk Management Frameworks of Licensed Insurers were finalised and implemented in 2010.

3.78 Policies that are currently either in draft form or undergoing industry consultation include the Banking Supervision Policies on Interest Spread Disclosure Requirements for Banks;

revised Accountability and Disclosure Guidelines on Interest Rates; Fees and Charges for Licensed Financial Institutions and Insurance Supervision Policies for Minimum Requirements for the Role of Insurance Actuaries in Fiji; and Public Disclosure Requirements for Licensed Insurers.

3.79 *Financial Sector Assessment Program (FSAP):* The RBF continues to coordinate the implementation of the recommendations of the IMF and World Bank's Financial Sector Assessment Program Mission Report. In this regard, the RBF has taken on the role of actively engaging with stakeholders on Microfinance and SME development in Fiji.

3.80 The National Financial Inclusion Taskforce was established in February 2010, to formulate and implement targeted strategies to promote greater financial inclusion. The goal of the Taskforce is "to reach 150,000 unbanked clients by 2014 through a national coordinated effort, supported by a variety of financial service providers, offering a broad range of relevant, accessible, affordable and cost effective financial services."

3.81 The Reserve Bank plans to undertake consultation with Credit Union industry stakeholders in 2011, to review the legislative requirements of Credit Unions with the view to improving governance standards and prudential supervision of Fiji's Credit Union industry.

3.82 *Superannuation Industry*: Major reforms currently being undertaken Fiji National Provident Fund (FNPF) include the review of withdrawal policies, FNPF Act, IT strategic review and reform, pension reforms, investment rehabilitation, group consolidation and business process re-engineering. To safeguard the retirement interest of members, plans to explore the possibility of deregulating the superannuation industry including the formulation of separate superannuation legislation have been put on hold.

3.83 As part of its responsibilities under the Insurance (Amendment) Act 2003, the Reserve Bank continues to conduct routine and targeted onsite and offsite examinations, as part of a risk-based supervisory framework for the FNPF.

3.84 *Complaints Management*: In 2009, the Reserve Bank of Fiji (RBF) set up a complaints management unit, and a complaints management policy governance framework for Fiji's financial sector. A key objective of the framework is to ensure that there are effective and efficient procedures and processes put in place by regulated financial institutions to ensure that customer complaints are addressed satisfactorily and promptly.

3.85 To date, complaints management policies have been issued to commercial banks, licensed credit institutions, licensed insurers and the Fiji National Provident Fund (FNPF). Similar policies have been drafted for the capital markets participants, foreign exchange dealers and the insurance brokers, and are also expected to be issued in 2010. To promote inclusiveness for the regulator, the RBF has drawn up a complaints management policy which outlines procedures and processes to ensure that complaints received by the RBF are adequately addressed.

3.86 In recognition of the critical importance for regular consultation between relevant stakeholders, such as financial institutions, customer advocates, regulatory bodies and other relevant organisations, the RBF expects to form a complaints management forum by the end of the year. This advisory group, comprising members of the wider community, is expected to meet on a six monthly basis.

3.87 *Capital Market Development*: The development of the capital markets in Fiji remains a priority. As per the recommendations of the IMF/World Bank FSAP Report of 2007 and an IMF TA in 2006, the Reserve Bank will continue to explore measures to develop the secondary bond market in Fiji in 2011.

3.88 The RBF continues to work with the South Pacific Stock Exchange (SPSE) to develop an investment Board for small to medium sized enterprises (SMEs). This Board should offer capital raising opportunities in the capital markets for SMEs and provide them with much needed cash injection to grow their companies. Guidelines are still being developed although implementation has been delayed due to prioritisation of the SPSE's activities in 2010.

3.89 *Microfinance Units*: The commercial banks have made good progress this year on the set-up microfinance units in all branches - identifying and developing suitable products and appointing new staff, as well as opening new branches.

3.90 In addition, Micro-insurance is another initiative being pursued by the RBF. In 2011, the RBF will continue to explore with willing licensed insurers and the Pacific Financial Inclusion Programme, the nature of the demand for micro-insurance services and the development of products most suited for the people of Fiji.

3.91 *Financial Literacy:* The Reserve Bank supports financial literacy as a necessary tool for economic growth and continues to work closely with the Financial Literacy Working Group in developing and implementing specific strategies. The National Financial Inclusion Taskforce has implemented a number of strategic projects which include the integration of financial education into the school curriculum for Class 1 to Form 7, as well as adult or household financial competencies.

3.92 Technical expertise has been sought to work with the Ministry of Education and also, to conduct a low-income household survey that will provide the basis for policy makers to design appropriate policies to achieve financial literacy for all citizens.

3.93 *Export Assistance and Import Substitution*: In July 2010, the Reserve Bank of Fiji rationalised its Export Finance Facility and Import Substitution Facility into one facility called the Import Substitution and Export Finance Facility (ISEFF), which focuses on improving Fiji's balance of payments position. A total of $40 million was made available through the new scheme to eligible businesses. Utilisation has improved since the new facility has reduced administrative requirements, streamlined the approvals process and removed certain eligibility requirements.

3.94 *Export Proceeds Monitoring*: Export Proceeds Monitoring Unit (EPMU) was to ensure that all export proceeds are repatriated to Fiji as required under the Exchange Control Act. The Unit carries out role under the guidance of the Inter-Agency Committee made up of senior representatives from FIRCA, the FIU and the RBF. In the period up to the end of September 2010, the EPMU was able to reconcile $0.9 billion of the initial $1.4 billion of un-reconciled export proceeds.

3.95 *Financial Intelligence Unit & Anti-Money Laundering Measures*: New financial sector players namely the mobile phone banking and electronic money service providers are now covered under the anti-money laundering framework provided under Financial Transactions Reporting Act and enforced by the Financial Intelligence Unit.

3.96 Fiji is generally compliant with international standards on anti-money laundering and combating the financing of terrorism. However, Government will continue to introduce various amendments to the existing laws to ensure that criminals are subject to early detection and investigation. Furthermore, relevant law enforcement agencies will work closely and collaboratively in order to restrain and confiscate criminal assets.

CHAPTER 4: GOVERNMENT'S FISCAL POSITION

Introduction

4.1 This chapter summarizes Government's fiscal position over the period 2009 to 2011. The chapter begins with an overview of Government's fiscal performance for 2009 and 2010 and then highlights the projected revenue, expenditure, and budget deficit for 2011.

2009 Overview

4.2 With a theme of *'Raising Economic Growth and Alleviating Poverty'* the 2009 Budget was focused on building a solid platform for sustained economic growth and poverty alleviation. The target net deficit for 2009 was set at 3.0 percent of GDP.

4.3 At the closure of 2009 Accounts, Government recorded a net under spending of $70.5 million. The total actual expenditures for the year, excluding principal repayments, stood at $1,644.7 million (incl. VAT), whilst actual total revenue collections amounted to $1,415.9 million (incl. VAT). This resulted in a net deficit of $228.9 million or 3.8 percent of GDP.

2010 Budget

4.4 The theme of the 2010 Budget focused on *"Strengthening the Foundation for Economic Growth and Prosperity"*. The budget attempted to provide appropriate policy measures to cushion the impact of the global economic crisis and secure macroeconomic stability.

4.5 The net deficit target for 2010 was set at $218.9 million or 3.5 percent of GDP. This was derived from total budgeted expenditures of $1,715.5 million (VAT incl.) against total budgeted revenues of $1,496.5 million (VAT incl.).

4.6 The revised revenue forecast for 2010 stands at $1,503.7 million (VAT incl.). On the other hand, total expenditure, excluding principal repayments, is anticipated at $1,715.5 million (VAT incl.). Thus, the revised net deficit for 2010 is projected at $211.8 million, equivalent to 3.6 percent of GDP.

2011 Budget

4.7 Government's cashflow is shown in Table 4.1 below. Government's fiscal position is the net result of receipts (revenue) and payments (expenditure). The table separates cash flows associated with operating activities from those relating to investing activities.

4.8 All figures in the cash flow are VAT exclusive[6]. The 2009 data illustrates actual outturn whereas 2010 data shows revisions based on recent fiscal performance. The 2011 data show cash flow projections for the 2011 Budget.

[6] This means, the VAT Government pays to itself is excluded from expenditure and a similar amount is excluded from revenue.

Table 4.1 Statement of Cash-flows, 2009-2011

$M	2009	2010(R)	2011(B)
Receipts			
Direct taxes	451.94	435.53	**454.52**
Indirect taxes (excl. govt. VAT)	708.72	800.06	**900.12**
VAT	351.08	428.65	**532.00**
Customs	332.39	344.53	**356.80**
Hotel turnover Tax	24.96	26.34	**27.76**
Water Resource Tax	0.30	0.53	**22.76**
Departure Tax	0.00	0.00	**51.00**
Fees, Fines & Charges	97.62	121.64	**111.01**
Sales Revenue	0.06	0.04	**0.04**
Grants in aid	6.23	8.60	**8.32**
Dividends from Investments	22.83	26.22	**30.15**
Reimbursement & Recoveries	14.90	11.05	**14.74**
Other Revenue & Surpluses	24.27	44.77	**34.96**
Total Operating Receipts	1,326.56	1,447.91	**1,634.86**
Payments			
Personnel	597.23	562.63	**566.85**
Transfer payments	238.70	300.01	**324.11**
Supplies and consumables	179.08	145.98	**159.79**
Purchase of outputs	46.66	49.05	**54.34**
Interest paid	191.70	223.63	**270.42**
Other operating payments	4.78	5.84	**8.41**
Total Operating Payments	1258.15	1287.16	**1383.91**
Net cash flows from Operating Activities	68.41	160.76	**259.95**
As a % of GDP	1.1%	2.7%	**4.2%**
Receipts			
Sale of Government Assets	0.30	0.00	**40.17**
Interest from Bank Balance	30.75	10.34	**8.84**
Repayment of Term Loans Receivable	0.00	0.00	**0.00**
Return of Surplus Capital from Investment	1.16	0.02	**0.02**
Gain From Foreign Mission	5.51	0.00	**0.50**
Total Investing Receipts	37.72	10.35	**49.53**
Payments			
Loans	0.76	1.00	**1.00**
Transfer Payments	131.40	191.70	**308.04**
Purchase of physical non-current assets	202.86	190.19	**216.49**
Total Investing Payments	335.01	382.89	**525.53**
Net cash flows from Investing Activities	(297.29)	(372.54)	**(476.00)**
As % of GDP	-5.0%	-6.4%	**-7.7%**
Net (Deficit)/Surplus	**(228.9)**	**(211.8)**	**(216.0)**
As % of GDP	**-3.8%**	**-3.6%**	**-3.5%**

Source: Ministry of Finance

Note: The 2011, 2012 and 2013 fiscal targets in this table will not match with comparable figures in the other tables or Budget documents.

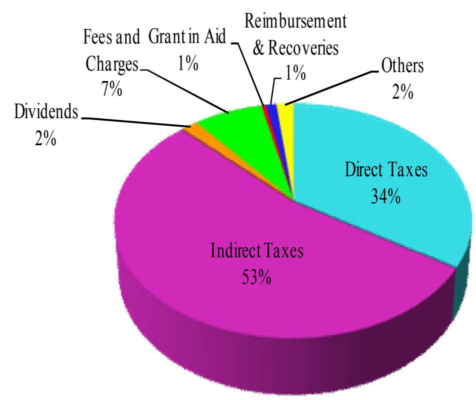
4.9 The revised year-end revenue projections for 2010 takes into account actual collections up to end of October 2010 as well as revisions to anticipated economic growth levels. However, expenditures on the other hand, have been maintained at budgeted levels. The 2011 projections encompass new policy measures as well as expenditure allocations in the 2011 Budget.

Government Operating Receipts

4.10 The major components of Government's operating revenue are:

- Direct Taxes (Corporate Taxes, PAYE, Others);
- Indirect Taxes (VAT, Customs);
- Hotel Turnover Tax;
- Water Resource Tax;
- Super Yacht Charter Fees;
- Fees, Fines, Charges and Penalties;
- Sales Revenue;
- Dividend from Investments;
- Grants in Aid;
- Reimbursement & Recoveries; and
- Other Revenue and Surpluses.

Figure 4.1: Composition of Operating Revenue



Source: Ministry of Finance

4.11 Figure 4.1 indicates the composition of each revenue category in 2009. Indirect taxes constitute the largest component of Government's revenue, accounting for 53.4 percent of total operating revenue. Direct taxes contributes around 34.1 percent, with the remaining 12.5 percent emanating from other non-tax revenues such as: fees, fines, charges and penalties; interest from dividends; grants in aid; reimbursement and recoveries; and other revenue and surpluses.

Direct Taxes

4.12 Direct taxes are income taxes comprising of corporate taxes, personal or PAYE taxes, dividend taxes, capital gains taxes and other minor taxes.

4.13 The 2010 revised forecast for direct taxes stands at $435.5 million, 3.6 percent or $16.4 million below the 2009 outturn of $451.9 million. The lower outturn expected for 2010 is due to lower collections from corporate taxes.

4.14 Direct taxes in 2011 are expected to total $454.5 million, approximately $19.0 million or 4.4 percent above the expected collections for 2010. The increase is largely due to additional proceeds from a new capital gains tax regime to be introduced in 2011.

Indirect Taxes

4.15 Indirect taxes comprise of VAT collections, Hotel Turnover Tax, Water Resource Tax, Super Yacht Charter Fees collections, Departure Tax and revenue from Customs Duties comprising of fiscal, excise, import & local excise, export duties and other customs fees and charges.

4.16 The revised projection for indirect taxes in 2010 is expected to be higher than the 2009 collections by $91.3 million or 12.9 percent. Indirect taxes in 2011 are expected to total $990.1 million, approximately $190.1 million or 23.8 percent above the expected collections for 2010.

4.17 Total VAT collections for 2009 amounted to $351.1 million and are forecast to stand at $428.7 million in 2010, an increase of 22.1 percent over 2009 collections. This is attributed to an increase in overall consumption spending this year.

4.18 VAT collections for 2011 are expected to accumulate to $532.0 million, surpassing anticipated receipts for 2010 by $103.3 million or 24.1 percent. This large variance is attributed mainly to the upward adjustment in the VAT rate from 12.5 percent to 15.0 percent in 2011.

4.19 Collections from customs duties are expected to total $344.5 million at the end of 2010, an increase of $12.2 million above 2009 actual collections. Customs receipts for 2011 are forecast at $356.8 million, surpassing the estimated outturn for 2010 by $12.3 million or 3.6 percent.

4.20 Anticipated proceeds from customs duties in 2011 are as follows:

- Fiscal Duty ($256.3 million);
- Excise Dues ($85.6 million);
- Export Duty ($5.6 million);
- Import Excise Duty ($24.4 million); and
- Miscellaneous Fees ($5.0 million).

4.21 Fiscal duty is expected to amount to $248.7 million in 2010 compared to a forecast of $256.3 million in the 2011 budget.

4.22 Excise dues for 2011 are projected at $85.6 million, a slight increase from the 2010 expected outturn of $81.2 million. Excise duties are applied mainly on “sin goods” such as cigarettes and alcohol.

4.23 Import excise duty is anticipated to generate $24.4 million in 2011, an increase of $4.8 million or 24.5 percent from the 2010 revised projection.

4.24 Export duty collection is estimated at $5.6 million in 2011, a decrease of $3.8 million or 41.0 percent from the 2010 revised collections. This variance is attributed to the removal of export tax from sugar and molasses.

4.25 Other indirect tax collections for 2011 are expected from the following categories:

- Hotel Turnover Tax ($27.8 million);
- Water Resource Tax ($22.6 million); and
- Departure Tax ($51.0 million).

4.26 Anticipated receipts for Hotel Turnover Tax (HTT) in 2010 are expected to rise above 2009 collections by $1.5 million, reflecting the buoyant trends in visitor arrivals this year. This trend is expected to continue in 2011 with HTT proceeds expected to increase further to $27.8 million.

4.27 Similarly, Water Resource Taxes are expected to increase considerably from $0.5 million in 2010 to $22.6 million in 2011. This is due to the application of a newly revised tax rates for water resource taxes in 2011.

4.28 From 2011, FIRCA[7] will be taking over the responsibility of collecting departure taxes from Airports Fiji Limited. Total departure tax collections for 2011 are forecast at $51.0 million.

Fees, Fines, Charges and Penalties

4.29 Fees, fines, charges and penalties include collections from revenue items such as water rates, sale of passports and court fines. In 2009, $97.6 million was generated through fees, fines, charges and penalties while $121.6 million is expected for 2010.

4.30 The forecast for 2011 is $111.0 million, a decline of $10.6 million or 8.7 percent from 2010 collections. This variance is largely the result of transferring the departure tax component to indirect taxes; hence this has resulted in the departure tax proceeds not being recorded under the fees, fines and charges category.

Sales Revenue

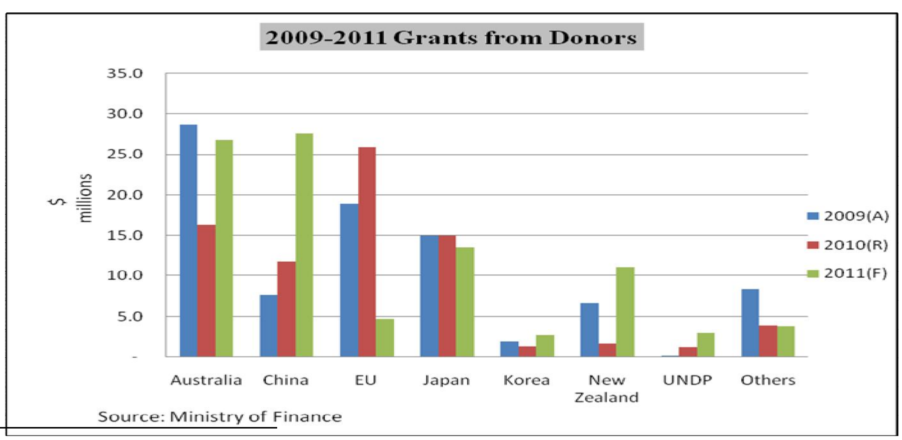
4.31 There are two types of sales revenue. The first type records sales between Government agencies[8]. The second, records sales proceeds collected by Government departments for goods or services sold to other agencies outside Government.

4.32 In 2009, $0.06 million was collected from sales revenue, and slightly lower amounts are expected for 2010 and 2011.

Grants in Aid

4.33 Grants in aid from donors come in two forms, namely, cash and aid-in-kind. Government received $6.2 million as cash grants in 2009. The revised forecast for 2010 is $8.6 million while $8.3 million has been projected for 2011. **Figure 4.2** depicts the major Grants from Donors.

Figure 4.2: Grants from Donors



[7] Fiji Islands Revenue and Customs Authority.

[8] That is, it shows collections received by a Government agency for goods or services rendered to another Government department.

4.34 Major sectors and projects expected to be funded through cash and aid-in-kind in 2011 are listed below:

Education – $20.9 million
- JICA Assistance - Japan Training
- Australian Development Scholarship/Australian Regional Development Scholarship
- Australia Aid on Future Support to Education Sector
- Human Development and Human Security ICT Project JICA

Health – $29.6 million
- Fiji Health Sector Improvement Programme (AusAID)
- Relocation & Construction of New Navua Hospital (China)
- Assistance for Construction of New Nacavanadi Nursing Station - Gau (NZAID)
- Assistance for Malaria (Global Fund)
- Assistance from WHO
- In- Service Training for Community Health Nurses (JICA)

Infrastructure – $12.4 million
- Fencing of Government House (China)
- Somosomo Mini Hydro Scheme Project (China)
- Construction Machinery and Equipment (China)
- Rehabilitation of Lami Dump (EU).

Disaster Management Rehabilitation- $8.2 million
- Assistance for Flood Recovery (AusAid/ NZAid)
- Assistance for Cyclone Mick and Tomas & Home Rehabilitation (AusAid/ NZAid)
- East Asia Climate Change Partnership (Korea)
- Disaster Management Reinforcement Programme (JICA).

Labour – $ 0.7 million
- Descent Work Country Programme (ILO)

Others – $29.4 million
- Waste Minimization and Recycling Promotion Project (JICA)
- Support for Informal Settlements(NZAID)
- Civil Society Support for Social Services and Economic Opportunity (NZAID)
- Supply of a Multi-purpose Fishing Vessel (China)
- Financial Inclusion (AusAID)

Dividend from Investment

4.35 This category comprises of dividend receipts from annual net profits of Government Commercial Companies and Commercial Statutory Authorities, such as ATH, AFL, Air Pacific and FINTEL. In 2009, total dividends received amounted to $22.8 million. Dividend collections for 2010 and 2011 are expected to amount to $26.2 million and $30.2 million, respectively.

Reimbursement and Recoveries

4.36 This category comprises of revenues from: contributions for capital projects; reimbursed funds for Government services; refund of Government payments and contributions for overseas peacekeeping duties. Receipts from reimbursement and recoveries are expected amount to $11.1 million in 2010; $3.8 million lower than the 2009 collection. The decrease is largely attributed to lower contributions expected from Multinational Force and Observers (MFO) troops. Total receipts for 2011 are estimated at $14.7 million.

Other Operating Revenue and Surpluses

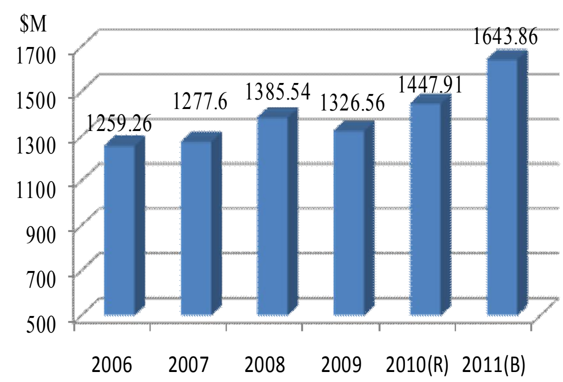
4.37 Other operating revenue and surpluses encompasses proceeds from rent of Government property, surplus from Government agencies, commission revenue and other miscellaneous revenue.

4.38 Collections from other revenue and surpluses for 2009 amounted to $24.3 million whereas; the projected receipts for 2010 and 2011 are expected to increase to $44.8 million and $35.0 million, respectively.

Total Operating Revenue

4.39 Total operating receipts for 2010 are expected to amount to $1,447.9 million. This is higher than the 2009 collections of $1,326.6 million. The variance is mainly due to the expected increase in collection from indirect tax, fees, fines and charges and other revenues and surpluses.

Figure 4.3: Total Operating Receipts 2006-2011



Source: Ministry of Finance

4.40 For 2011, total operating revenue is forecast at $1,643.9 million. This is an increase of $196.0 million over 2010 receipts. The upbeat performance in 2011 emanates largely from indirect taxes and non-tax revenues.

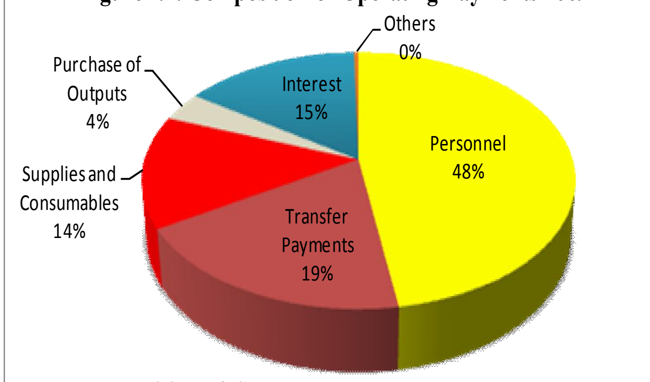
4.41 Figure 4.3 illustrates the level of operating revenue in the period 2006 to 2011.

Operating Payments

4.42 Government's operating expenditure includes:

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

Figure 4.4: Composition of Operating Payments 2009



Source: Ministry of Finance

4.43 The largest component of operating expenditure in 2009 comprised of personnel costs which accounted for 47.5 percent of total operating expenditure (see Figure 4.4). The second largest component, transfer payments, accounted for 19.0 percent, supplies and consumables 14.2 percent and interest payments 15.2 percent. Purchase of outputs and other operating payments make up the remaining 4.1 percent.

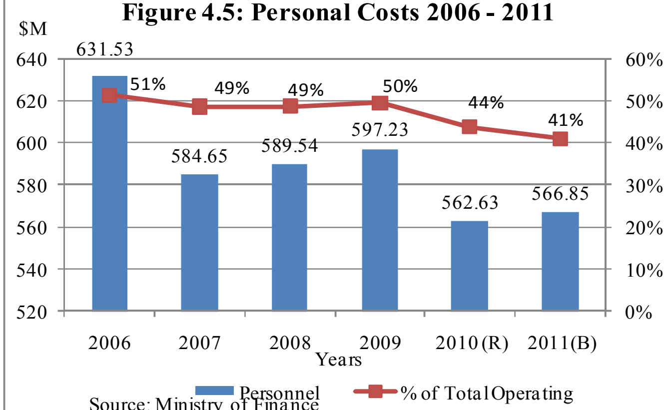
Personnel

4.44 Personnel costs are the salaries and wages of Established Staff and Government Wage Earners.

4.45 Figure 4.5 provides a summary of personnel expenditure since 2006.

4.46 In 2010, personnel costs are expected to be $562.6 million, a reduction of $34.6 million or 5.8 percent from 2009 payments. The 2011 budget estimates personnel costs at $566.9 million which is slightly above the 2010 levels by $4.2 million or 0.8 percent. The reduction in personnel costs for 2010 relative to 2009 reflects the impact of measures adopted in the 2010 Revised Budget to help contain operational costs within financing constraints.

Figure 4.5: Personal Costs 2006 - 2011



Source: Ministry of Finance

Transfer Payments

4.47 Transfer payments are made to entities outside Government, for which Government does not expect to receive any direct returns. Social welfare payments and pensions are two examples of these payments.

4.48 Total transfer payments made in 2009 amounted to $238.7 million. In 2010, this is expected to reach $300.0 million, an increase of 25.7 percent over payments made in 2009.

4.49 Transfer payments for the 2011 have been budgeted at $324.1 million. This is above 2010 levels by $24.1 million or 8.0 percent. Major operating grants and transfers for 2011 are highlighted in Table 4.2 below.

Table 4.2: Major Grants (SEG 6)

Activity	2011 Allocation
Bio Security Authority of Fiji	$1.3 million
Bus Fare Assistance	$12.0 million
Care and Protection Allowance	$4.4 million
Commerce Commission	$1.8 million
Family Assistance	$15.0 million
Fee-Free Education – Classes 1-8	$6.6 million
FICAC	$7.9 million
Fiji Servicemen's After-Care Fund	$5.6 million
Fiji Trade and Investment Bureau	$1.1 million
FIRCA Grant	$34.0 million
FNU Grant	$21.0 million
Food Voucher Programme	$11.0 million
FSM Scholarship	$2.0 million
Grant to FAB	$2.0 million
Grant to Fiji Shipping Corporation Ltd.	$1.5 million
Grant to Tourism Fiji	$3.0 million
iTaukei Affairs Scholarships	$10.0 million
Lieu of Rates to Crown Land Grant	$1.4 million
LTA Grant	$10.0 million
Multi-Ethnic Scholarships	$5.5 million
Naboro Landfill	$1.2 million
Overseas Scholarship Scheme	$2.0 million
Provincial Council	$1.0 million
PSC Training and Scholarship Grant	$4.0 million
Telecom Authority of Fiji	$1.5 million
TPAF Levy	$1.3 million
Tuition Fees – Forms 1 - 7	$11.7 million
University of Fiji	$3.0 million
USP Grant	$36.6 million
Water Authority of Fiji	$37.8 million

Source: Ministry of Finance

Supplies and Consumables

4.50 Supplies and consumables are those inputs that are used by Government agencies in the production of public goods and services. They relate to costs associated with travel, communications, maintenance, operations, and the purchase of goods and services.

4.51 In 2009, Government spent $179.1 million on supplies and consumables. Total expenditures for 2010 are expected to reduce to $146.0 million whilst the budget for the 2011 has been set at $159.8 million.

Purchase of Outputs

4.52 The purchase of outputs comprises of special expenditures unique to a Ministry or Department, such as special projects, reviews or training for staff. Expenditures by Government agencies on special outputs in 2009 were valued at $46.7 million. In 2010, spending for this category is expected to rise to $49.1 million. The purchase of outputs in 2011 is forecast at $54.3 million or $5.3 million more than the estimated amount for 2010.

4.53 Planned spending for special outputs in 2011 are highlighted in Table 4.3 below:

Table 4.3: Major Purchase of Outputs (SEG 7)

Activity	2011 Allocation
Duty on Government Purchases	$1.7 million
Establishment of New Mission- (Indonesia, Brazil and South Africa)	$2.7 million
FMR Annual Maintenance Fee	$1.0 million
Integrated Human Resource Development	$1.5 million
Land Bank Investment	$5.0 million
Military Servicemen Compensation	$1.5 million
National Employment Centre	$1.0 million
National Export Strategy	$1.0 million
Voter Registration Exercise	$1.0 million
Workmen's Compensation	$1.0 million

Source: Ministry of Finance

Interest Paid

4.54 At the closure of 2009 accounts, interest payments stood at $191.7 million. The expected outturn for 2010 is $223.6 million, an increase of 31.9 million or 16.7 percent over interest payments in 2009.

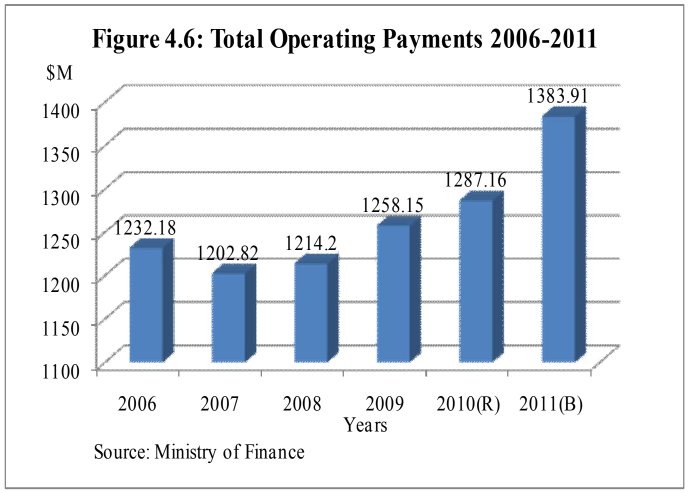
4.55 Interest payments for 2011 are expected to rise further to $270.4 million, a 20.9 percent increase over the 2010 levels.

Other Operating Payments

4.56 Other operating payments are those miscellaneous expenditures associated with debt repayments. In 2009, miscellaneous payments totaled $4.8 million and the 2010 revised forecast stands at $5.8 million. Other operating payments are projected at $8.4 million for 2011.

Total Operating Payments

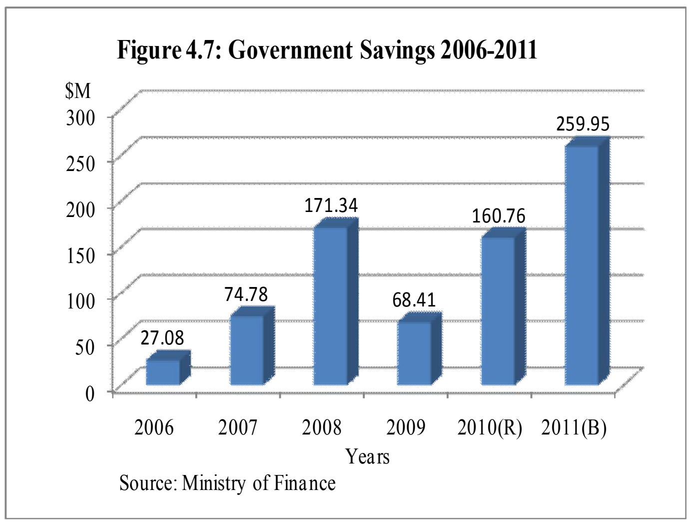
4.57 In 2010, total operating payments are expected to total $1,287.2 million, equivalent to 77.1 percent of total expenditure.



4.58 The operating expenditure forecast for 2011 is projected at $1,383.9 million, an increase of $96.8 million or 7.5 percent relative to 2010. This is due to anticipated increases in transfer payments, supplies and consumables and interest paid on domestic and external borrowings.

Government Savings

4.59 Government savings is simply the net flows from operating activities and is measured by the difference between operating revenue and operating expenditure. Figure 4.7 shows Government savings over the period of 2006-2011.



4.60 In 2009, Government recorded savings of $68.4 million or 1.1 percent of GDP. Likewise, savings of 160.8 million or 2.7 percent of GDP are expected to be realized in 2010.

4.61 Government has a projected operating savings or surplus of $260.0 million for 2011. The expected saving is due to an anticipated increase in tax and non-tax collections.

Government Investing Receipts

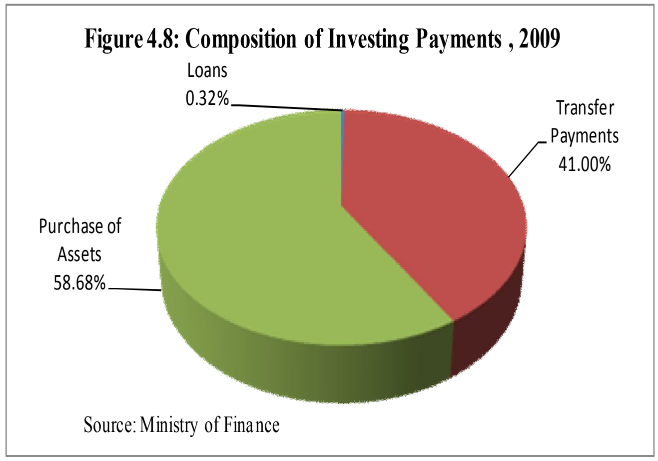
4.62 Total investing receipts, comprises of: the sale of Government equities, interest from bank balances, repayment of term loans, and return of surplus capital from investment.

4.63 Total investing receipts in 2009 amounted to $37.7 million. In 2010, the estimate for total investing receipts is $ 10.4 million and the forecast for 2011 stands at $49.5 million. The significant increase in 2011 is attributed to the anticipated sale of Government shares in Fiji TV, Kalabu Tax Free Zone, Fiji Investment Corporation Limited and Government owned foreign properties, as well as Government Printing.

Government Investing Payments

4.64 Figure 4.8 shows the composition of investing expenditure in 2009, which comprises of:

- Loans;
- Transfer payments; and
- Purchase of physical non-current assets.



Loans

4.65 In 2009, loans of $0.8 million were disbursed to tertiary students. Loan payments for 2010 and 2011 are both estimated at $1.0 million.

Transfer Payments

4.66 Transfer payments under investing expenditure refer to grants and transfers for capital purposes. Expenditures under this classification amounted to $131.4 million in 2009 and are expected to total $191.7 million in 2010. The 2011 allocation is $308.0 million.

4.67 Some of the major capital transfers are highlighted in Table 4.4 below.

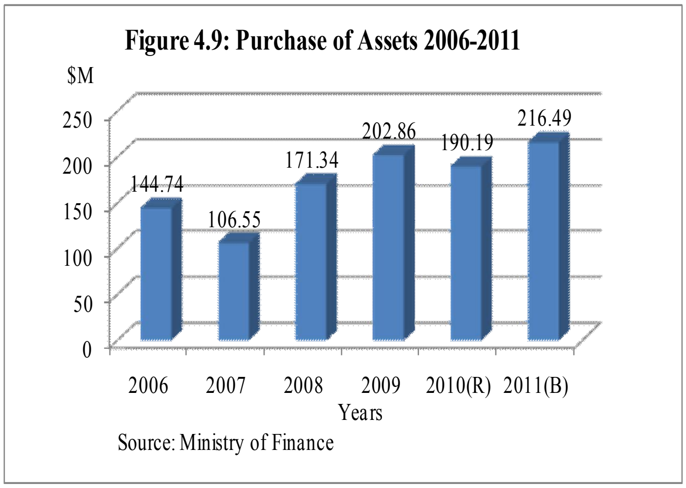
Table 4.4: Major Transfer Payments (SEG 10)

Activity	2011 Allocation
Bio Security Authority of Fiji	$1.2 million
Central Coordinating Agency for Roads	$4.6 million
Disaster Rehabilitation Fund	$1.0 million
Divisional Development Projects	$8.7million
Drainage Subsidy	$1.5 million
Emergency Flood Rehabilitation	$2.0 million
FEA Subsidy	$3.5 million
Fiji Dairy Cooperative Establishment	$2.0 million
Fiji National University	$4.0 million
Financial Restructure of FSC	$110.0 million
FIRCA Capital Grant	$3.0 million
Grant Water Authority of Fiji	$40.3 million
HART	$1.0 million
Housing Assistance to First Home Buyers	$10.0 million
LTA Capital Grant	$2.0 million
National Fire Authority	$1.0 million
Northern Development Programme	$1.0 million
Rural & Outer Island Agriculture Development Programme	$1.5 million
Rural Electrification Projects	$2.0 million
Rural Housing Assistance	$1.0 million
Self- Help Projects	$1.0 million
Start Up and Medium Enterprise Development	$2.0 million
Tourism Fiji Marketing Grant	$23.5 million

Source: Ministry of Finance

Purchase of Physical Non-Current Assets

4.68 The purchase of physical non-current assets is the biggest component of Government's investments. This category includes investment in new roads, schools and hospitals.



4.69 Figure 4.9 shows spending on non-current assets in the period 2006-2011.

4.70 In 2009 the total purchase of physical assets amounted to $202.9 million. Purchases in 2010 are expected to reach $190.2 million, $12.7 million below the 2009 outturn.

4.71 Around $216.5 million is budgeted for this category in 2011. This is a increase of $26.3 million relative to 2010. Some of the major purchases are highlighted in Table 4.5 below.

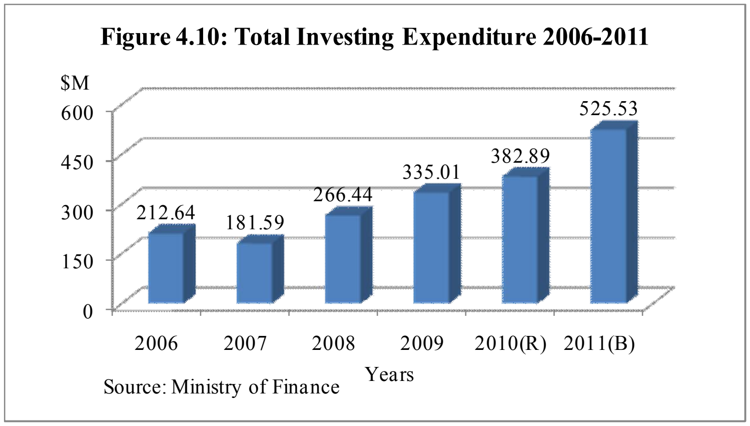
Table 4.5: Major Purchase of Physical non-Current Assets (SEG 8 and 9)

Activity	2011 Allocation
Fiji Road Upgrading Projects Stage III	$39.0 million
Road Upgrading Suva/ Nausori Corridor	$2.5 million
Upgrading of Rural Roads	$3.6 million
Periodic Maintenance – Roads and Bridges	$11.4 million
Vehicle Leasing	$5.6 million
Rural Laboratories	$1.0 million
Upgrading and Replacement of Bridges	$3.0 million
Magnetic Resonance Imaging Scan	$2.0 million
Purchase of Replacement Vessels- GSS	$3.0 million
Upgrading and Maintenance of Urban Hospitals and Institutional Quarters	$3.0 million
Upgrading of Outer Island Jetties	$3.0 million
Squatter Resettlement	$1.5 million
Routine Repair and Upgrading of Public Buildings	$1.0 million
Kula Patrol Boat Life Extension Programme	$2.0 million
Upgrading of Schools and Institutional Quarters	$1.5 million
Road Rehabilitation Works	$1.9 million
Purchase of Bio- Medical Engineering Equipment	$1.5 million
Maintenance of Government Pool Quarters and Office fittings	$1.5 million
Construction of Suva Remand Center	$4.5 million
Export Promotion Programme	$1.0 million
Purchase of Plant and Machinery	$2.0 million
Food Security Programme	$1.0 million

Source: Ministry of Finance

Total Investing Payments

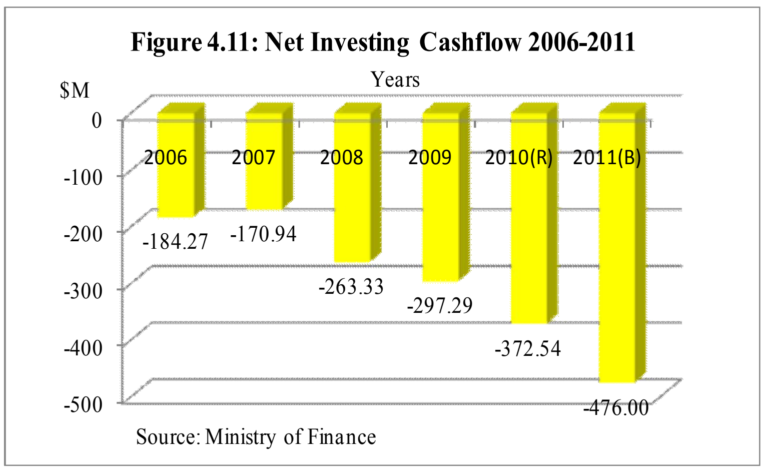
4.72 Total investing payments were $335.0 million in 2009 or 21.0 percent of total expenditure. This is expected to increase further by $47.9 million in 2010 due to increases in transfer payments.



4.73 Total investing payments in 2011 are expected to amount to $525.5 million. Figure 4.10 shows total investing payments since 2006.

Net Cash Flows from Investing Activities

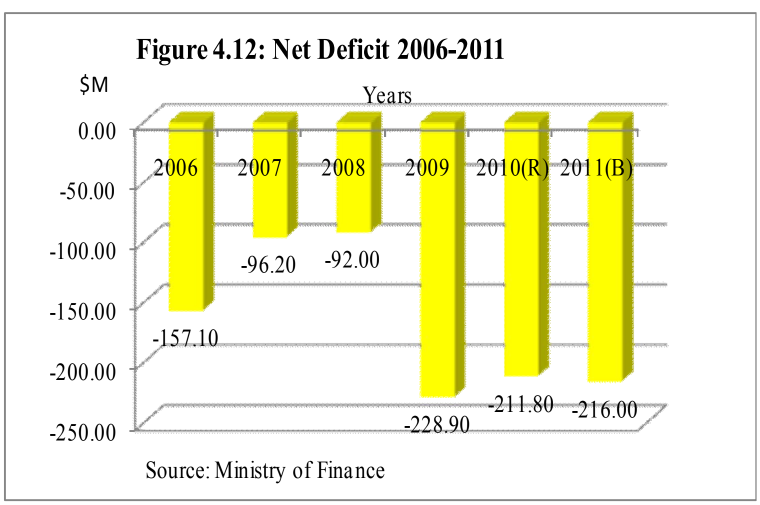
4.74 The net investing cash flow position represents the difference between Government investing revenue and investing payments. In 2009, Government posted a net investing deficit of $297.3 million. For 2010 and 2011, the net investing deficits are projected at $372.5 million and $476.0 million, respectively.



4.75 Figure 4.11 summaries the net cash flows from investing activities from 2006 to 2011.

Net Deficit

4.76 The net cash flow position, or the net deficit or surplus, is a key indicator of the financial performance of Government. It indicates the amount of new borrowings that have to be raised to finance Government's activities.



4.77 In 2009, Government registered a net deficit of

$228.9 million or 3.8 percent of GDP. A net deficit of $211.8 million or 3.6 percent of GDP is estimated for 2010. The forecast for 2011 is $216.0 million or 3.5 percent of GDP.

4.78 Figure 4.12 shows the net deficits that Government has been posting since 2006.

CHAPTER 5: GOVERNMENT'S BALANCE SHEET

Introduction

5.1 This chapter summarises the main components of Government's Balance Sheet, covering the major items of assets and liabilities, arrears of revenue and Government's investments in State-Owned Enterprises. Liabilities consist of government's debt stock and contingent liabilities.

Government Investments

5.2 Investments in State-Owned Entities (SOEs) represent a significant component of Government's balance sheet. Therefore, improving the financial performance of SOEs has the potential to generate significant revenues that could be utilised to supplement government funding.

5.3 In July 2009, Cabinet endorsed that the operations of Fiji Investment Corporations Limited (FICL) be managed by the Fiji Development Bank Nominees Ltd (FDBNL). Upon the transfer of FICL's operations, FDBNL will manage the operations and will report to the new Board, which is yet to be appointed. To date, FICL investments are shown in Table 1 below.

Table 5.1: Fiji Investment Corporation Limited Investments

Investment	Sector	Amount Invested [$M]
Grand Pacific Hotel	Tourism	2.5
Tossa Bussan Fiji Ltd	Fish Processing	3.6
Savusavu Harbourside Complex	Tourism	0.5
City Farming	Hydroponics/Agriculture	0.6
Navua Holdings	Prawn Farming	0.7
Matanivusi Beach Eco Resort	Tourism	0.8
Fiji Hardwood Corporation Ltd	Agriculture	0.9
TOTAL		**9.6**

Source: Ministry of Finance

Government Equity Investment in Government Commercial Companies (GCCs) and Commercial Statutory Authorities (CSAs)

5.4 CSAs are financed either through government grant or through debt financing from financial institutions and commercial banks, albeit through government guarantees. In return, Government receives interest and dividend income for these commitments.

5.5 There are currently 11 GCCs in which Government has majority shareholding rights. In terms of financial performance, a 5 percent increment in Return on Equity was noted in 2009 relative to 2008 for the 3 GCCs[9] that had submitted their annual reports. The delay in the financial audits for 2009 or the preceding fiscal period has prolonged the submission of the Annual Reports of the remaining GCCs.

5.6 In 2009, there was a slight increase in equity for Airports Fiji Limited (AFL) due to the conversion of the liability to CAAFI into equity for AFL. Other contributing factors included the entrance of V-Australia and Continental Airline which has had a positive impact on the financial performance of AFL. The commencement of Air Pacific's Nadi – Hong Kong route from December 2009 also provided additional business for AFL.

5.7 Equity for Fiji Ships & Heavy Industries Limited (FSHIL) and Fiji Ports Corporation Limited (FPCL) also increased by 3 percent and 9 percent respectively. In 2009, FSHIL was transferred to FPCL as one of its subsidiaries.

5.8 In terms of CSAs, total equity increased by around 4.5 percent and this stemmed largely from the improvement in Fiji Electricity Authority's (FEA) equity. This resulted from increases in retained profits and increased capital contributions, as a result of the commissioning of the Butoni Wind Farm.

5.9 Investments in majority owned entities declined by around 18 percent, based on information extracted from entities which submitted their annual reports on time. There was a substantial increase in FINTEL equity by around 13 percent, due to increases in reserves and retained earnings. Furthermore, 51 percent shareholding in Air Terminal Services (ATS) which was previously held by Civil Aviation Authority of the Fiji Islands (CAAFI) was reassigned to Government in 2009.

5.10 In respect of minority owned entities, there was a slight increase in investments whilst equity in ATH increased by 2 percent in 2009. For Fiji TV, equity had fallen by 2 percent in 2009 when compared to 2008. The effects of deregulation of the telecommunication and television industry have directly and/or indirectly affected the performance of these entities.

Table 5.2: Dividends from GCCs, Majority and Minority owned entities

	2009 $M	**2008 $M**	**2007 $M**
Govt. Commercial Companies	5.4	3.1	3.2
Majority Owned Entities	4.1	12.8	9.4
Minority Owned Entities	11.9	5.4	9.4
TOTAL	**21.4**	**21.3**	**22.0**

[9] Based on Annual Report figures in Asset Management Unit Financial Database

Source: Ministry of Finance

5.11 Dividends from Government investment increased from $21.26 million in 2008 to $21.43 million in 2009. There were substantial increases in dividends from AFL and ATH who remitted $2.3 million (increase of 129 percent), and $11.7 million (increase of 126 percent) respectively. However there were also a few notable decreases in dividends from Air Pacific, FPCL, FINTEL and Fiji TV Ltd.

Financial Performance of Public Enterprises

5.12 The financial performance of public enterprises improved markedly in 2009 compared to 2008. This is mainly attributed to improved performances of GCCs, particularly FPCL and AFL, which recorded a profit of $9.9 million and $5.8 million respectively.

Table 5.3: Return on Assets and Return on Shareholders Fund

	2009		2008		2007	
	GCC	CSA	GCC	CSA	GCC	CSA
Return on Assets (%)	5.50	1.55	3.43	0.84	3.98	2.80
Return on Shareholders' Funds (%)	8.58	3.39	5.50	1.74	6.95	5.61

Source: Ministry of Finance

5.13 The objective of restructuring Government entities is to improve its financial position, profitability and service delivery as well as increase return on shareholders' fund to at least 2.5 percent. The Government's policy directive for all GCCs and CSAs is to improve their financial performance by 2 percent annually.

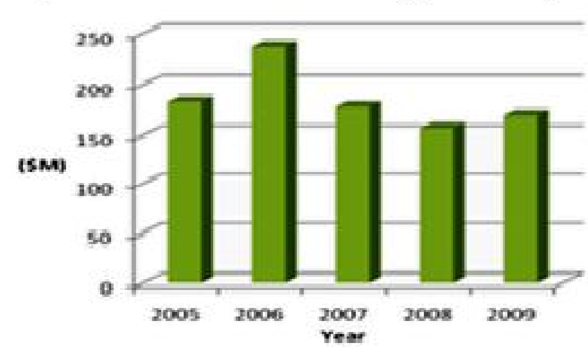
5.14 The quasi-commercial obligation of GCCs inhibits these entities from operating on a fully fledged commercial basis. To address this, Government has set up a Non Commercial Obligations (NCO) Steering Committee, spearheaded by the Ministry of Public Enterprises.

5.15 Fiji Broadcasting Corporation Limited (FBCL) and Post Fiji Limited (PFL) are two entities that currently undertake Non Commercial Obligations (NCO) and are being compensated by Government for these services. Other GCC's and CSAs currently providing NCOs are also being assessed by the Ministry of Public Enterprises for possible compensation which has to be agreed to by the recipient entity and Government.

Arrears of Revenue

5.16 Arrears of revenue refer to debts owed to Government. Figure 5.1 shows the trend from the period 2005 to 2009. In 2009, arrears increased from $157 million to $169 million, an increase of 7.16 percent over 2008 levels.

Figure 5.1: Arrears of Revenue (2005-2009)

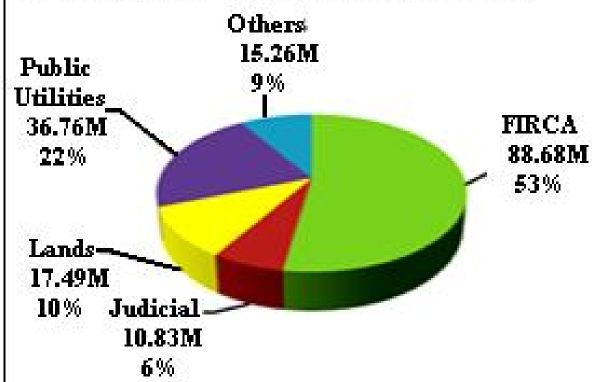


Source: Ministry of Finance

5.17 Figure 5.2 highlights the major composition of arrears of revenue in 2009. A significant portion of outstanding revenue were from personal income tax, corporate income tax and Value Added Tax (VAT) which accounted for 53 percent of total arrears.

5.18 Other major components included water rates $37 million, crown lease rentals $17.5 million and court fees, fines and charges $10.8 million.

Figure 5.2: Composition of Arrears in 2009



Source: Ministry of Finance

Table 5.4: Total Arrears of Operating Revenue ($Million)

	2005	2006	2007	2008	2009
Total amount owed	**182.9**	**237.2**	**172.5**	**158.1**	**169.0**
FIRCA	122.3	170.4	105.4	90.5	88.7
Water Rates	25.3	27.8	29.6	32.7	36.8
Lands Crown Rent	7.1	9.1	11.2	10.2	17.5
Judicial Fees & Fines	8.9	9.1	9.5	10.6	10.8
As % of total Operating Revenue	*15*	*18*	*12*	*9.2*	***10***

Source: Ministry of Finance

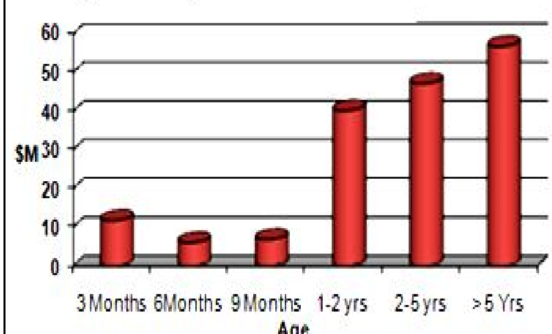
5.19 Income Tax and VAT arrears decreased significantly from $112.4 million at the beginning of the year to $84.5 million. This was mainly attributed to the recovery of debt of about $27.5 million. Arrears from water rates & crown leases have progressively increased over the past four years, challenging the current recovery measures implemented within the relevant departments.

5.20 In addition, several Ministries and Departments have put forward their submissions for write-off of revenues over 5 years where avenues of recovery have been exhausted. The Ministry of Finance is in the process of assessing the validity of these submissions.

5.21 Figure 5.3 below, reflects the age of major arrears of revenue and it can be noted that more than $56.0 million of the total arrears are over 5 years, bulk of which are still recoverable.

5.22 Government is fully committed to recovering these arrears through stringent measures stipulated in its debt policy recovery framework and to ensure

Figure: 5.3: Age of Arrears of Revenue



Source: Ministy of Finance

internal control measures are in place in departments for collection of arrears. The Ministry of Finance will continue to strengthen capacity in its Surcharge and Compliance Section and Debt & Cash Flow Management Unit to enforce tighter internal credit control policies in the management of Government's debts. Moreover, FIRCA will be adequately resourced to expedite collection of arrears.

Government Debt

5.23 Sound and effective management of public debt remains a major focus of Government, with developing and maintaining an efficient market for Government securities being the top priority.

5.24 In a broader macroeconomic perspective, Government seeks to ensure that both the level and growth rate of public debt is fundamentally sustainable, and can be serviced under a wide range of circumstances.

5.25 The Government's budget deficit is predominantly financed by domestic financial institutions through issuance of bonds, treasury bills and other financial instruments. Domestic debt issuance has proved successful over the years with the issuance of Government's long term bonds (3 years to 20 years term) being the key instrument. On the other hand, external loans are largely sourced for planned capital and infrastructure developments.

Table 5.5: Total Government Debt Stock ($Million)

	2007	2008	2009 (R)	2010 (E)
Domestic Debt	2,337.8	2,411.0	2,605.0	2,830.6
External Debt	397.0	476.0	527.2	547.3
Total Debt	2,734.8	2,887.2	3,132.2	3,377.9
Percent increase/(decrease)	(4.4)	5.6	8.5	7.8
Debt (as a % of GDP)	49.9	50.8	56.6	57.7

Source: Ministry of Finance
Key: E = Estimated

5.26 As depicted in Table 5.5 above, Government's total debt stock was $3.1 billion in 2009, equivalent to 56.6 percent of GDP. This compared with $2.9 billion for 2008, equivalent to 50.8 percent of GDP. Overall, Government debt stock has increased by 8.5 percent or $245 million above the 2008 level. The debt level is anticipated to increase by 7.8 percent in 2010, to $3.4 billion.

5.27 With a downward revision in the GDP over the period, the increase in the debt to GDP ratio would be more than the estimated growth in the economy.

5.28 The Ministry of Finance through the Debt & Cash flow Policy Committee (DCPC) continues to provide direction on the issuance of domestic and foreign debt, as well as advice on the parameters for formulation of debt and risk management policies aimed at reducing Government's debt level and risk exposure. This is in line with the Government's fiscal stance in the medium term which is to further develop and deepen the domestic capital market as well as the international market.

Domestic Debt Stock

5.29 Borrowing from the domestic market continues to be the major source of funding for Government over the years. These comprise of the Fiji Government domestic securities (short term Treasury Bills (t-bills) and long dated Government bonds) which are largely non-tradable, and with maturities ranging from 1 month to 20 years.

5.30 Holdings of long-term securities are concentrated in Fiji's only superannuation entity, the Fiji National Provident Fund (74 percent) whilst the commercial banks hold the majority of t-bills outstanding (97 percent). This depicts commercial banks preference for short-term debt in contrast to FNPF which prefers long term debt.

Table 5.6: Government's Domestic Debt Stock [$Million]

	2007	2008	2009(R)	2010 (E)
Domestic Debt	**2,337.8**	**2,411.0**	**2,605.0**	**2,830.6**
Bonds	2,196.2	2,346.3	2,505.1	2,760.6
Treasury Bills	141.6	64.7	100.0	70.0
Domestic Debt to GDP (%)	42.6	42.4	47.1	48.2

Source: Ministry of Finance

5.31 As evident from Table 5.6, Government's domestic debt stock at the end of 2009 was $2.6 billion, equivalent to 47.1 percent of GDP. This represented an increase of $194 million or 8 percent over 2008 levels.

5.32 For 2010, total domestic debt is anticipated to be $2.8 billion, an increase of $255.6 million or 8.6 percent from the previous year as Government is also expected to source part of its budget deficit domestically. This is equivalent to 48.2 percent of GDP.

Development in Domestic Interest Rates

5.33 In 2010, there were significant increases in interest rates for both the short and long term debt instruments. The cost of the 56 day T-bills rose from 0.2 percent in December 2008 to 3.75 percent in June 2010, whilst the 20 year bond rate rose from 8.0 percent in 2009 to 9.5 percent in 2010. These increases imposed higher borrowing costs to Government as there is heavy reliance on the issue of debt instruments to finance budget deficits.

5.34 Planned issuance in the first half of 2010 saw more preference for longer term bonds (15-20 years) over the 3 to 7 year terms.

Government Financing Activities - Bonds & Treasury Bills Issuance

5.35 Under the domestic debt issuance program, T-bills issuance has increased

Figure 5.4: Government Bonds & Treasury Bills Issued in 2009

Source: Ministry of Finance

significantly by 54.0 percent from 2008 whilst bonds rose by 7.0 percent. Increase in T-bills issuance was mainly due to the unexpected short-falls in other financing avenues of Government to finance capital and operating expenditures.

5.36 In total, proceeds raised through Government bonds were $404.2 million whilst proceeds raised through T-bills amounted to $257.9 million.

5.37 Furthermore, in 2009 a total of $245.4 million had matured in bonds whilst $147.9 million was redeemed in T-bills. This resulted in a net increase of $158.9 million in bonds and a net increase of $35.3 million in T-bills outstanding at the end of 2009.

External Debt Stock

5.38 Borrowing from external markets was solely from loans drawn down from secured foreign lenders. The drawdown included disbursements (direct and reimbursement method) of the loans as well as fees capitalised on certain project loans.

5.39 As depicted in Table 5.7, Government's external debt stock for 2009 was $527.2 million, equivalent to 9.5 percent of GDP. The increase in external debt stock in 2009 was mainly attributed to the weakening value of the Fiji dollar due to the devaluation whilst other contributing factors included the increase in disbursements of certain project loans such as ADB's Third Road Upgrading Project (FRUP 3) loan, Suva-Nausori Water Supply & Sewerage Project loan and the China Exim Bank E-Government loan.

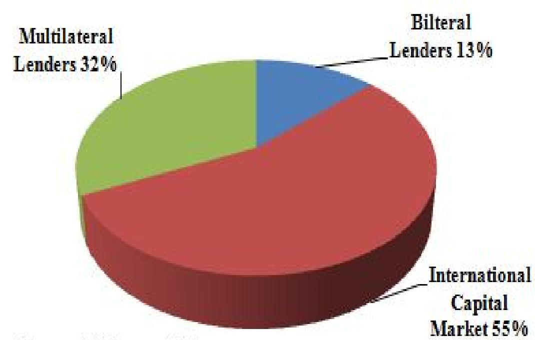
Table 5.7: Government's External Debt Stock ($Million)

	2007	2008	2009 (R)	2010 (E)
Bilateral	37.4	53.6	68.9	69.7
Multilateral	126.9	157.8	169.0	184.0
Global Bond	232.7	264.6	289.3	293.6
Debt Servicing	39.3	33.3	45.6	48.1
Total External Debt	**397.0**	**476.0**	**527.2**	**547.3**
External Debt as a % of GDP	**7.2**	**8.4**	**9.5**	**9.8**

Source: Ministry of Finance (2010 Estimates based on 6months average)
Key: R=Revised; E=Estimated

5.40 The highlight for the year was the prepayment and closure of four loans, namely the 1979 EEC Outer Islands Jetties, 1979 EEC Regional Telecommunication Network, the 1984 Netherland Investment loan and the 1989 French Treasury Loan.

Figure 5.5: External Debt Position



Source:Ministry of Finance

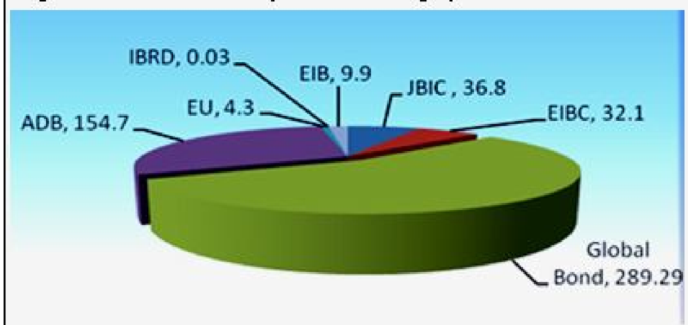
External Lenders

5.41 Figure 5.5 depicts the distribution of Government's external debt stock. Borrowing from the international capital market (JP Morgan) accounted for 55 percent of government's total external debt, followed by the multilateral lenders at 32 percent and the bilateral lenders at 13 percent.

5.42 The Asian Development Bank is the largest multilateral lender at $154.7 million whilst the Japan Bank for International Construction and Development leads the bilateral category at $36.8 million. (Refer Figure 5.6)

5.43 Although four loans have closed during the year, the overall creditor categories have increased at all levels from 2008, with the EXIM Bank of China E-government loan (currently disbursing) and the global bond (impact of exchange rate) showing the largest increase.

Figure 5.6: External Debt by Creditor Category as at 31 December 2009



Source: Ministry of Finance

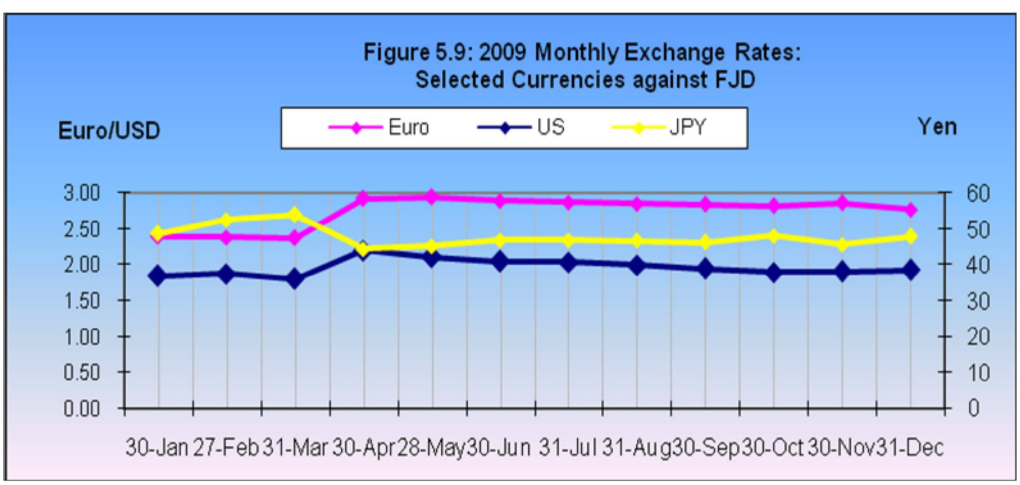
Global Bond

5.44 At the end of 2009, the global bond outstanding was $289.3 million, equivalent to 5 percent of GDP. This represents a 9 percent increase ($24.7 million) over the 2008 level. The increase is attributed to the strengthening of the US dollar. However, the market value of the bond is anticipated to decline following the 20 percent devaluation of the Fiji dollar in April 2009.

5.45 The Government is committed to the full settlement of the global bond by September 2011. Positive interest has been expressed by some major lead managers and brokers in the Asia & Pacific Region. Government anticipates that the rollover will generate a broad and diverse spectrum of investors globally. The process of rolling over is expected to be completed within the 1st Quarter of 2011.

Exchange Rates

5.46 Over the year, the Fiji dollar strengthened against the Japanese Yen (3.6 percent), the Euro (2.7 percent) and the US dollar (1.0 percent) while it weakened against the Euro (-10 percent), the US dollar (-9 percent) and the Japanese Yen (-6 percent). This resulted in a net increase in External disbursed outstanding debt.



5.47 In terms of currency composition, 79 percent of Government's external loan is dominated in the US dollar, followed by the Japanese Yen at 12.8 percent, and the Euro and the Chinese Yuan comprising the balance.

Table 5.8: Domestic Debt Servicing from 2007-2011 ($M)

	2007	2008	2009	2010 (R)	2011 (B)
FDL-Principal Payment	204.9	191.2	245. 4	199.3	213.4
FDL-Interest	148	147.3	165.3	190.9	220.4
T-Bill Interest	10.8	0.6	2.0	4.5	5.0
Total Domestic Debt Service	**363.7**	**339.2**	**412.7**	**394.7**	**438.8**
Principal Payment	17.1	62.5	21.2	19.9	305.4
Interest	5.5	5.7	24.4	28.2	45.0
Total External Debt Service	**39.3**	**83.3**	**45.6**	**48.1**	**350.4**
Total Debt Service	**403**	**422.5**	**458.4**	**442.8**	**789.2**

Source: Ministry of Finance

5.48 Government's debt servicing comprises interest and principal repayments of Government's matured securities and loans. In 2009, debt servicing increased by 10 percent over 2008 level, and is mostly attributed to the increase in domestic bonds maturing during the year.

5.49 Total debt servicing is anticipated to increase further in 2011, due to the estimates budgeted for the servicing of the global bond in 2011. (Refer Table 5.8).

5.50 In 2011, 55 percent of Government's foreign debt will mature as evident from Table 5.8, leaving the balance to be paid off over the next 5 to 10 years.

Contingent Liabilities

5.51 Contingent Liabilities represents potential claims against Government which have not materialised but could prompt immediate financial obligation to Government.

5.52 Table 5.9 reflects the Contingent liabilities outstanding for Government between 2006 to September 2010. As at 31 December 2009, the balance was $1.955 billion, equivalent to 34.4 percent of GDP. When compared to 2008 contingent liabilities increased by $200 million or 11.4 percent as a result of additional guarantee issued to the Fiji Sugar Corporation for its domestic borrowings and to the Fiji Electricity Authority for the Chinese loan acquired to fund the Nadarivatu Hydro-Electricity Project. As at September 2010, total Contingent liabilities stood at $1.906 billion equivalent to 33.5% of GDP.

Table 5.9: State Guarantees and Contingent Liabilities

	2006 $m	2007 $m	2008 $m	2009 $m	2010 Sept (P) $m
Fiji Development Bank	271.6	415.2	347.1	358.7	298.5
Fiji Electricity Authority	135.7	156.1	235.8	354.3	376.0
Fiji Harwood Corporation	12.8	12.8	12.6	13.2	13.2
Fiji National Provident Fund	643.8	873.3	874.0	866.0	866.0
Fiji Pine Limited	8.8	11.9	11.9	8.1	12.0
Fiji Sugar Corporation	22.7	32.7	65.2	140.3	186.3
Home Finance Company	0.4	-	-	-	-
Housing Authority	118.8	106.5	90.2	87.0	87.0
Fiji Sports Council	2	1.4	1.6	1.4	1.5
Fiji Ports Corporation Limited	45.3	41.4	43.6	40.3	44.8
Fiji Broadcast Cooperation Limited	-	-	-	11.9	11.8
Others	18.1	15.6	14.9	11	9.4
ADB/IBRD-Subscriptions	52.6	51.7	58.3	63.1	62.6
Total	1,332,6	1,718.6	1,755.2	1,955.3	1,969.1
Contingent Liability to GDP (%)	**24.8%**	**31.3%**	**30.9%**	**35.4%**	**33.5%**

Source: Ministry of Finance

5.53 With greater emphasis on risk management and sovereign asset-liability management, a revised government guarantee policy was formulated in 2009. The revised guarantee policy contains requirements such as guarantee agreements to supplement Deeds of guarantee already in place and a new guarantee fee structure. In addition, annual financial assessments are carried out for GCCs and CSAs, who are eligible to be issued a guarantee.

5.54 To minimise the risk of default by guaranteed entities, the Ministry of Finance will closely monitor the financial performance and assess associated risks of all guaranteed entities to mitigate call on Government guarantees, which could have implications on government's financial resources and fiscal position.

CHAPTER 6: POVERTY ALLEVIATION AND RURAL DEVELOPMENT

Introduction

6.1 To enhance and sustain "inclusive" economic and social development, it is vital that the poor and disadvantaged, and our rural communities are provided with opportunities to actively participate in this development process. With this notion, Government firmly believes that benefits are distributed equally amongst all citizens, particularly the underprivileged.

6.2 In 2011, Government's continued assistance towards poverty alleviation and rural outer island development will be focused on ensuring better access to health, education, microfinance initiatives and improved social and physical infrastructure.

Background

6.3 The preliminary report on the 2008-2009 Household Income and Expenditure Survey (HIES) conducted by the Fiji Island Bureau of Statistics (FIBOS) provides new information on the poverty situation in the country.

6.4 Compared to the 2002–03 HIES, the results of the (2008-09) survey indicate that the urban population has increased by 16 percent whilst the rural population has declined by 2 percent, driven mainly by *rural to urban drift*[10].

6.5 Average rural incomes also decreased by 14 percent whilst average urban incomes rose significantly by 27 percent. This has been attributed to low levels of economic activities recorded in rural districts.

6.6 Although rural income in the Northern Division improved by 14 percent, it is still lower when compared to the Central, Eastern and Western Divisions. However, average income in these divisions have declined by 20, 21 and 8 percent, respectively.

[10] *Rural to urban drift* – movement of people from rural to urban areas seeking job opportunities and better health and education facilities etcetera.

6.7 On a positive note, the number of households[11] below the basic needs poverty line[12] (BNPL) has declined from 30 percent to 26 percent. The BNPL at national level is estimated at $175 per week in the rural areas and $186 per week in urban areas.

6.8 The Survey concluded that there were more opportunities in urban than in rural centers, and this was clearly reflected in the average increase in incomes. The Survey also anticipates that the rural to urban drift will continue.

6.9 To address the increased incidence of poverty in rural areas and curb the rural to urban drift, Government will continue to enhance and better target its poverty alleviation and rural development programs. Government will also continue to develop rural infrastructure as well as provide income generating opportunities to rural communities.

Government Policy on Poverty Reduction

6.10 Government's poverty alleviation policies and programs are focused on providing social protection and security for all categories of the poor. Accordingly, Government will continue to support their livelihoods and ensure that their basic needs are met.

6.11 To improve the effectiveness of its assistance, Government will consistently review its poverty related policies in consultation with relevant stakeholders to identify effective measures for poverty alleviation.

Welfare Graduation Program

6.12 The Welfare Graduation Program is aimed at improving livelihoods through assistance for income generating projects. The eligibility criteria for this assistance is based on income levels and is limited to the recipients of the Family Assistance Scheme, Care & Protection Allowance, Ex-Service Fund and fire victims. The program is being implemented through partnerships with NGOs in order to improve monitoring and achievement of outputs.

6.13 The following programs will continue to be funded in 2011:

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[11] Household = family of 4 members.

[12] BNPL = Food Poverty Line + Non-Food Poverty Line = $155 per week per household

6.14 *Capital Grants to Voluntary Organisations*: Government also provides direct funding support to registered NGOs to supplement their poverty-related activities. This in turn, contributes to the objectives of the Department of Social Welfare. A total of 21 registered NGOs were assisted with grant of $400,000 in 2010. For 2011, a sum of $200,000 is provided.

6.15 *Care and Protection Allowance*: A cash grant of between $40 to $60 per child per month is given to those families, guardians or residential homes that provide foster care, adoption, residential care and other supportive services to orphans.

6.16 *Family Assistance Allowance Scheme (FAAS):* The FAAS is a form of supplementary income given to families who do not have the means to meet their daily needs due to loss of income earning ability, arising from the death of a breadwinner, desertion by spouse, being chronically ill, dependents of prisoners, physically disabled, elderly or a single parent. The allowance ranges from $60 to $100.

6.17 *Free Bus Fare*: Government will continue to fund the school bus fare subsidy program in 2011. A sum of $12.0 million has been allocated to enable underprivileged children in rural and urban areas to attend school.

6.18 *Women's Plan of Action*: The Women's Plan of Action 2010 - 2019 addresses the following five priority areas that Fiji has committed to at various international conventions for women:

a) Formal Sector Employment and Livelihoods;
b) Equal Participation in Decision Making;
c) Elimination of Violence Against Women and Children;
d) Access to Services (HIV/AIDS, Education, Transport); and
e) Women and Law.

6.19 These priority areas are aligned to key international conventions and agreements including: the Convention on Elimination on All Forms of Violence [CEDAW], Beijing Platform of Action, Millennium Development Goals and regional agreements such as the Pacific Platform for Action.

6.20 The Department for Women implements projects that promote the social and economic empowerment of women, and works in close partnership with women NGOs throughout the four divisions in Fiji. Government has allocated $300,000 to facilitate the implementation of women's projects.

6.21 *Social Welfare Payments*: In 2011, Government will change its mode of social welfare payments as all recipients will be introduced to electronic banking. Through an open competitive bidding process, Government awarded the contract for disbursement of cash grants to FAAS recipients to the Westpac Banking Corporation.

6.22 *National Policy Framework for the Elderly*: In view of the socio-economic challenges posed by Fiji's aging population, Cabinet endorsed the formulation of a National Policy Framework for the Elderly which will provide a social and economic safety network for Fiji's senior citizens.

6.23 An Inter-Agency Committee, comprising of government ministries, academic institutions and Non-Government Organisations (NGOs), has been tasked to draft the National Policy Framework in consultation with provincial and divisional leaders.

6.24 *Integrated National Poverty Eradication Program*: Government has allocated a sum of $300,000 for the Integrated National Poverty Eradication Program which aims to improve and empower the disadvantaged through targeted services. These include augmentation of basic social services including; fair wages, reforms and poverty mapping.

6.25 In addition to ongoing poverty assistance programs, Government has allocated funds to implement following new initiatives:

6.26 *Food Voucher Programme*: The $30 monthly Food Voucher Program which was introduced in 2010 initially targeted the elderly, chronically ill and the physically disabled. In the revised 2010 Budget, the program was extended to cover dependents of prisoners, widows with dependents and single mothers with dependents.

6.27 In the 2011 Budget, Government has provided an additional sum of $3.6 million to further extend the Food Voucher Program to an additional 10,000 recipients. Beneficiaries of this assistance will include elderly people over 70 years of age who have no source of income and currently do not receive any form of Government assistance, expecting mothers and mothers of young children from disadvantaged families who attend health clinics regularly, as well as children from disadvantaged families who attend rural schools.

6.28 The Ministries of Social Welfare, Health and Education will work closely with the Ministry of Strategic Planning, National Development and Statistics to develop a standard criterion through means testing. The criterion will ensure that the food vouchers are provided to those in real need and at the same time, avoid misuse.

6.29 *FEA Subsidy*: In 2011, Government will subsidise the cost of electricity for residential customers that consume 75 units per month or less and schools that use up to 200 units per month. A sum of $3.5 million has been allocated to cover the cost of the subsidy.

6.30 *Housing Assistance*: Government has set aside a sum of $10 million for the Housing Assistance Grant Scheme to assist families purchase a first home in the new Waila City development. Eligibility will be based on applicants meeting the lending criteria of commercial banks or non-bank financial institutions, and the Housing Authority's loan serviceability requirements. Successful applicants will receive up to $10,000 to help them meet the 20 percent deposit requirement.

6.31 *Price Order Control – Fiji Commerce Commission:* Government has approved a new Price Control Order that empowers the Commerce Commission to set prices of a range of essential items including food and fuel products. The recent price assessment by the Commission has revealed that most companies in Fiji charge consumers excessive prices. The introduction of the new price formula is expected to improve consumers' purchasing power. For retail shops in rural areas, a different price regulation is imposed due to location and freight charges.

6.32 *Social Assistance Index*: To enable Developing Member Countries (DMCs) to measure and monitor social protection programs, the Asian Development Bank will provide a Regional Capacity Development Technical Assistance (RCDTA) in 2011. This assistance will enhance the capacity of DMCs through a methodology framework to measure and monitor social protection programs. This information will be used to generate and update the Social Protection Index (SPI) network.

6.33 The table below sets out Government's assistance towards poverty alleviation programs in 2011.

Table 6.1: Government Assistance for Poverty Alleviation: 2010 – 2011

	2010 REVISED ($M)	2011 BUDGET ($M)
Local Government, Urban Development and Housing		
Squatter Upgrading and Resettlement Programme	1.5	1.5
HART	1.0	1.0
Strategic Planning, National Development & Statistics		
Northern Development Programme	1.0	1.0
Public Service Commission		
Multi-Ethnic Scholarships	5.5	5.5
Education		
Bus Fare Subsidy	13.0	12.0
Social Welfare		
Food Voucher Program	7.4	11.0
Welfare Graduation Program	0.6	0.6
Capital Grant to Voluntary Organisations	0.4	0.2
Family Assistance Scheme	15.0	15.0
Care and Protection Allowance	4.4	4.4
Women's Plan of Action	0.3	0.3
Miscellaneous		
Housing Assistance	-	10.0
FDB-Subsidy Grants to All Citizens	2.5	2.5
Students Loan Scheme	1.0	1.0
FDB – Interest Subsidy (Northern Division Projects)	0.5	0.5
FEA Subsidy	-	3.5
TOTAL	**54.1**	**70.0**

Source: Ministry of Finance

Rural and Outer Island Development

6.34 The non-renewal of farm leases and lack of infrastructure development has given rise to the continued rural-urban drift that is placing pressure on public urban facilities. This trend has signaled the need for Government to intensify infrastructural development in the rural and outer islands to reduce the accessibility gaps that exist between the rural and urban population.

Table 6.2: Rural and Outer Island Development Programs: 2010 – 2011

	2010 REVISED ($M)	2011 BUDGET ($M)
Grant to CATD[13]	0.9	0.5
Extension Agriculture	0.2	0.2
Maintenance of Completed Irrigation Services	0.3	0.3
Land Drainage & Flood Protection	12.7	4.0
Watershed Management	0.9	0.3
Grant to Self-Help Projects	3.0	1.0
Divisional Development Projects	1.5	5.6
Rural Housing Assistance	1.0	1.0
Upgrading of Rural Roads	1.0	3.6
Upgrading of Existing Cane Access Roads	1.8	1.8
Fiji Groundwater Assessment and Development	0.3	0.2
Dental Equipment for Sub-Divisional Hospitals	0.4	0.3
Fiji Road Upgrading Project (FRUP)	30.6	39.0
Shipping Franchise Scheme	1.5	1.5
Upgrade of Government Shipping Vessels	1.4	0.4
Other Rural Water Supply	2.4	2.4
Upgrading of Rural Airstrips	3.8	4.7
Rural Postal Services	0.3	0.1
Banking Services for Non-Economical Rural areas	0.1	0.1
TOTAL ($)	**64.1**	**67.0**

Source: Ministry of Finance

6.35 *Integrated Rural Development Framework*: Following Cabinet's decision in 2009, Divisional Commissioners will now play a more significant role in directing and coordinating development in the four divisions.

6.36 Accordingly, in 2011, Development Boards will be established in the four Divisions to assess, prioritise and monitor the implementation of development plans for each province and division. The Boards will consist of 10 to 15 members drawn from each province.

6.37 Members of the Board would be appointed by the Divisional Commissioner upon recommendation of the Provincial Councils and Provincial Development Boards, subject to the Ministry of Provincial Development's approval.

6.38 In addition, the 2011 Budget has separately reflected the budgets of each Divisional Commissioner under the Ministry of Provincial Development.

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[13] Center for Appropriate Technology & Development

This is to allow for better planning and implementation of divisional activities and programs.

6.39 *Streamlining Procurement for Divisional Programmes*: The Tenders Unit of Fiji Procurement Office (FPO) is made up of several clusters specialising in different areas of procurement. To ensure efficient processing of divisional tenders, a separate cluster or the Regional Cluster will be directly responsible for facilitating the various types of tenders from the four Divisions. This arrangement will also allow the FPO to build a collaborative working relationship with officials in the Divisions responsible for facilitating tenders.

CHAPTER 7: FOOD SECURITY, EXPORT DEVELOPMENT AND TOURISM

AGRICULTURE

7.1 Agriculture, including sugar, non sugar, livestock and subsistence farming remains vital due to its contribution to GDP and to the development of the economy. It provides food and livelihood security, promotes community development in rural areas, generates income to some 65 percent of the total population, and earns foreign exchange for the country.

7.2 Over the past decade, the contribution of the agriculture sector to GDP has decreased marginally from 12.3 percent in 2001 to 10.5 percent in 2008 and further declined to 9.5 percent in 2009. The decline in performance of the agriculture sector is a result of a combination of factors, such as vulnerability to natural disasters, minimal private investment into the sector, inadequate infrastructure, marketing deficiencies, and soaring production cost due to high inputs costs.

7.3 In April this year, Government organised a symposium which focused on food security, and the revitalisation of exports in the resource-based sectors, particularly agriculture, fisheries and forestry. Stakeholders were urged to consolidate their efforts, and work jointly with Government to resolve the constraints and challenges besetting the sector through practical and innovative solutions.

Industry Overview

7.4 The agriculture sector is dominated mainly by small farms less than 5 hectares of land area. This constitutes more than 50 percent of total farms, and around 19 percent being farms classed as medium-sized or larger. Given the large number of smallholder farms that currently characterise the industry, it is necessary that emphasis on commercialisation and diversification provides viable options for these farmers.

7.5 Government investment in agriculture rose from $20 million in 2007 to $31 million in 2009, much of which was aimed at increasing exports over imports through demand driven projects.

7.6 Table 7.1 below, provides domestic agricultural production for the period 2007 to 2010.

Table 7.1: Agricultural Production 2007-2010

DOMESTIC PRODUCTION	2007	2008	2009	2010 (F)
Papaya (t)	9,091.0	7,264.8	2,446.4	7,340.0
Ginger (t)	3,110.5	2,488.0	2,787,000	2,874.0
Cassava (t)	61,379.0	55,773.0	42,332.2	55,825.0
Dalo (t)	61,662.0	74,008.6	69,863.3	74,025.0
Rice (t)	14,870.0	11,594.8	11,637.5	11,655.0
Beef (t)	1,958.0	1,866.0	1,719.0	1,998.0
Dairy (mil.lts)	11.1	10.3	11.1	11.6

Source: Department of Agriculture, Ministry of Primary Industries
Key: F=Forecast; t=tonnes; mil.lts = in millions of litres

Policy Framework – 'Demand Driven Approach'

7.7 Government is actively committed to revitalising the agriculture sector and has set the following policy goals for the sector:

a) facilitating private sector development;
b) accelerating agricultural diversification into areas of competitive advantage (e.g. high value niche export and traditional crops);
c) promoting food security, including rice and milk; and
d) enhancing tourism-agriculture linkages.

7.8 This new policy framework promotes a demand driven approach which was initially implemented in 2008 and has become a popular concept amongst farmers and stakeholders. The approach has two components: *Promoting Food Security* and the *Export Promotion Programme*.

Food Security

7.9 Food imports have significantly increased over the years, from \$255 million in 2000 to \$521 million in 2009. A significant component is made up of agricultural commodities depicted in Table 7.2. To reverse this trend, Government allocated \$3.0 million in 2009 and \$2.0 million in 2010 for projects aimed at reducing Fiji's reliance on imports, particularly of rice, livestock products, fruits and vegetables.

Table 7.2: Major Agricultural Import Commodities, 2007- 2011

		2007	2008	2009	2010 *(f)*	2011 *(f)*
Rice	Production (t)	14,869.5	11,595.0	11,637.0	12,801.0	14,081.0
	Imports (t)	32,757.6	49,784.0	30,613.0	27,552.0	24,796.8
	Import Value ($m)	**24.6**	**37.8**	**34.4**	**31.0**	**27.9**
Beef	Production (t)	1,958.0	1,866.0	1,719.0	1,891.0	2,080.0
	Imports (t)	3,137.6	2,979.8	2,687.0	2,418.0	2176.0
	Import Value ($m)	**10.8**	**10.8**	**10.6**	**9.6**	**8.6**
Dairy	Production (mil.lts)	11.1	10.3	11.1	11.6	12.2
	Imports (t)	12,241.0	14,602.8	10,996.3	9,896.0	8,906.0
	Import Value ($m)	**49.3**	**60.1**	**46.9**	**42.2**	**38.0**

Source: Department of Agriculture, Ministry of Primary Industries
Key: *f* = forecast; t = tones; mil.lts = in millions of litres

7.10 In addition, Government is committed to reviving the dairy industry. It has initiated the restructure of Rewa Dairy which will involve the separation of the company's commercial operations from its co-operative functions. A new corporate entity, Fiji Dairy Company Limited, has been established, and will absorb Rewa Dairy's assets and business operations.

7.11 The restructure will also allow the new Fiji Dairy Company Limited to solely focus on its core business of manufacturing 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 and encourage stronger participation from farmers and key stakeholders.

7.12 To this end, Government is providing a sum of $200,000 in the 2011 Budget to support the purchase of locally manufactured or processed goods through the "Buy Fiji Made" initiative.

Export Promotion Programme

7.13 Numerous studies have confirmed the enormous export potential that exists within the agriculture sector, particularly in high value niche food crops. In this regard, Government allocated $2.0 million in 2010 for the development of products geared towards export, such as papaya, taro, cassava, ginger, pulses and vegetables. This allocation was increased to $3.5 million in the 2010 Revised Budget. To continue this programme, a sum of $1.0 million is allocated in the 2011 Budget.

7.14 To revive the coconut industry, the Ministry of Agriculture has absorbed the functions and assets of the Coconut Industry Development Authority following its dissolution early this year. This transfer would enable economies of scale in the development of the coconut industry in Fiji. An allocation of $250,000 has been provided in the 2011 Budget to implement a Coconut Rehabilitation Program.

Table 7.3: Major Agricultural Export Commodities 2007 – 2011

		2007	**2008**	**2009**	**2010** ***(F)***	**2011** ***(F)***
Papaya	Production (t)	9,091.3	7,265	2,446	2,936	3,523
	Exports (t)	463.4	392.8	176.5	229.5	298
	Export Value ($m)	**2.0**	**1.4**	**1.0**	**1.2**	**1.6**
Cassava	Production (t)	61,379.0	55,773	42,332	46,565	51,222
	Exports (t)	1,710.0	1,800.5	2,522.2	2,774	3,052
	Export Value ($m)	**2.4**	**2.2**	**2.9**	**3.2**	**3.6**
Dalo	Production (t)	61,662.2	74,009	69,863	73,356	77,024
	Exports (t)	11,949.4	10,795.8	9,482.3	11,379	13,655
	Export Value ($m)	**23.6**	**22.1**	**20.1**	**24.1**	**28.9**
Ginger	Production (t)	3,110.5	2,488	2,787	3,066	3,372
	Exports (t)	1,228.2	1,394.7	1,037.1	1,141	1,255
	Export Value ($)	**5.5**	**5.8**	**6.4**	**7.0**	**7.7**

Source: Department of Agriculture, Ministry of Primary Industries
Key: f = forecast; t =tonnes

Potato Development Programme

7.15 The production of potato was piloted in Nadarivatu and Navosa in 2010 with positive results. Targeted as a possible import substitution commodity, a total of 600 tonnes was produced and retailed for $9-$12 a kilogram. Potatoes were sold in the local market and also used by local manufacturers for potato chips. Plans are in place to expand the pilot area to Ra and Nadroga provinces from 2011. To facilitate this expansion, $250,000 has been allocated in the 2011 Budget to acquire the seeds, agro inputs, equipment and undertake the necessary farmer trainings.

7.16 The Government will be looking to engage regional and international expertise for tissue culturing a variety suitable for Fiji's climate and disease free. The current variety brought from NZ has been affected by blight because of the different climatic conditions. Eventually, Fiji will develop its own disease free variety that is acceptable to the local and also the international market.

Saivou Agriculture Development Programme

7.17 As part of Government's effort to expand local production of fruits and vegetables, a new agricultural development programme will be implemented in the tikina Saivou of the Province of Ra. The tikina consists of the villages of Nakorotubu, Nalawa, Saivou in the interior of Ra Province. Assessments undertaken indicate excellent potential for the expansion of crop production. The programme will support around 1,400 farmers in the area through improvements to infrastructure such as drainage, supply of agro inputs, establishing a greenhouse, and establishing market linkages for the products. The intention is to develop the agriculture potential of Saivou to a similar level as the Sigatoka valley over a three year period. An allocation of $250,000 has been provided in the 2011 Budget for this programme

7.18 As the agricultural sector continues to develop, it is expected that the production of agricultural by-products and high-value processed goods e.g. oils, creams, juices, jams and processed foods will become more readily available.

Other Potential Agricultural Related Commodities

7.19 Government has assisted the development of bio-diesel plants for islands in the Eastern Division including Ono-i-Lau, Lakeba, Koro and Rotuma. It has also supported other coconut ventures through the setting up of

Virgin Coconut Oil factories (VCO) as part of the coconut diversification program.

7.20 Improving the links between domestic agriculture and tourism is a priority for the Ministry of Primary Industries. Encouraging agricultural production for tourist and up-market consumption will reduce reliance on imports, assist the balance of payment position and provide sustainable income and employment opportunities for farmers.

TOURISM

7.21 Tourism visitor arrivals have recorded buoyant growth in the first three quarters of 2010 and there are strong indications that the industry is recovering well after the global financial crisis and the spate of natural disasters.

7.22 Tourism contributes approximately 23 percent to GDP and provides employment directly and indirectly to an estimated 40,000 people. The industry expects to achieve its target of 600,000 visitor arrivals in 2010.

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

Fiji Tourism Development Plan 2007-2016

7.24 This plan will be reviewed in 2011 in consultation with the industry to ensure that recommendations and targets made when the plan was endorsed in 2006 are still relevant and realistic and to ensure that Government maximises its return on investment.

Tourism Initiatives

7.25 Government has implemented the Super Yacht Charter Decree and the Registration of Surfing Areas Decree to assist the growth of the tourism industry.

7.26 The industry faces tough competition from other international markets, with regional players becoming more influential. Therefore, it is necessary that the industry strategically positions itself to be able to meet global demand and ensure continued growth. Comprehensive reviews of hotel financial and marketing data and of tourism marketing spending have been initiated, with input from other government agencies.

Global Marketing Initiatives

7.27 Tourism Fiji will continue its global branding initiatives in all source markets through National Geographic and CNN TV networks and online platforms, under the 'Fiji Me" branding to ensure that Fiji remains top-of-mind for potential visitors.

7.28 In support of Air Pacific's three direct flights to Hong Kong, Tourism Fiji will strengthen its presence and efforts in China, India, Europe and the UK to drive traffic through this route to Fiji.

Tourism Fiji Marketing and Operating Grant

7.29 To ensure the growth of the tourism sector, Government has allocated a marketing grant to Tourism Fiji of $23.5 million and an operating grant of $3.0 million in the 2011 Budget.

CHAPTER 8: EXTERNAL TRADE AND PRIVATE SECTOR - LED INVESTMENT

Introduction

8.1 Trade liberalisation is the opening up of goods and services markets to international competition. Ideally, this should be done gradually and in conjunction with industry development. This is an important focus of trade negotiations and remains a sensitive issue for small and vulnerable economies like Fiji.

8.2 Fiji implemented a trade liberalisation policy in 1989 as part of its economic reform agenda. Since then, Fiji has signed several trade agreements beginning with the SPARTECA, a non-preferential agreement to facilitate the duty free entry of goods into Australia and New Zealand from the Forum Island Countries (FICs). In 1996, the country joined the World Trade Organisation (WTO) which is based on the system of multilateral rules devoted to creating free and fair trade.

8.3 Trade policies are tailor-made to the unique profile of Fiji's political economy to ensure that maximum possible benefits are gained through globalisation, and the effective mitigation of unavoidable losses of trade liberalisation.

8.4 Fiji remains excluded from full and effective participation in trade negotiations under the PICTA, the PACER Plus and the comprehensive EPA negotiations, after forum leaders mandated its exclusion from forum meetings and events in May 2009.

8.5 Fiji notified the Pacific Islands Forum in January 2010 of its decision to suspend Part 2 of the framework of PACER Agreement. This decision was reached after careful consideration, that to remain a contracting party to these trade negotiations whilst being excluded from full and effective representation in these forums will be detrimental to trade and foreign policy interests.

8.6 The voluntary suspension of Part 2 of the framework PACER Agreement would effectively absolve the nation from any legal obligations and commitments arising from the final negotiations of this agreement between the 13 Pacific Island countries, Australia and New Zealand. Fiji is also challenging its exclusion from PICTA and Pacifica ACP Forums where EPA negotiations are undertaken. All necessary steps would be taken to ensure that trade and economic interest is not threatened by third parties such as Pacific Islands Forum Secretariat.

8.7 Fiji is one of two biggest economies of the Pacific and is expected to accord Special and Differential Treatment (SDT) to her relatively less developed regional neighbours in certain Agreements, particularly under the PICTA.

8.8 Formula tariff reduction towards duty free status over a specified period of time is an intrinsic objective of Regional and Free Trade Agreements. However, the preferential tariffs given under the sanction of these trade agreements will be automatically eroded when the same trading partners negotiate similar trade-related benefits with Fiji's global competitors.

8.9 Government will refine its current trade policies to seek preferential market access through regional and international agreements and direct its efforts towards strengthening existing industries that have comparative advantage, as well as identify new opportunities for exports.

8.10 To become globally competitive, resources would be refocused through trade policies to promote and encourage the growth of efficient industries.

8.11 The niche market of organic production where the demand continues to escalate would be explored to take full advantage of its prospect. Fisheries is an area that has been identified to have great potential under the unique global sourcing provisions in the signed Interim Economic Partnership Agreement with the European Union.

Fiji's Regional and Free Trade Agreements

8.12 *Interim Economic Partnership Agreement (IEPA):* Fiji signed the IEPA in December 2009 in Copenhagen. The only other signatory in the Pacific-ACP region is Papua New Guinea which signed the IEPA five months earlier in July 2009. Both PNG and the EU have notified their provisional application of the IEPA to the General Secretariat of the Council of the European Union.

8.13 Fiji is working towards submitting its notification of provisional application once it's institutional, legislative and other trade-related infrastructure has been adequately reformed to effectively facilitate the new legal obligations and commitments under the IEPA.

8.14 Government will implement a qualified level of development assistance to improve its current institutional capacities. This includes training personnel in the major implementation agencies to be well versed with the technical requirements of the IEPA as well as adequate resources to address supply constraints and industry development.

8.15 Fiji will only depend on the regional allocation of the European Development Funds (EDF) that is available to the whole of the Pacific region to finance its Adjustment and Accompanying Measures of the IEPA.

8.16 The positive spinoffs from the development dimension of the IEPA on the economy remains to be the area where the highest gains can be expected in return for its market liberalisation commitments to the EU. The Pacific-ACP EPA was submitted to the European Parliament for the EU ratification process in February 2010.

8.17 On a parallel track, Fiji joins the other 14 members (including Timor Leste) of the Pacific ACP (PACP) states in the negotiation of a Comprehensive EPA (CEPA) with the European Union, which will include Development Cooperation Fisheries Chapter and trade related issues such as, Competition Policy, Labour and Environment Standards. The finalisation of negotiations on the CEPA will depend to a large extent on the PACP's ability to undertake sweeping reforms in the areas stated within the next 15 to 20 years.

8.18 *Pacific Island Countries Trade Agreement (PICTA):* The Pacific Island Countries Trade Agreement (PICTA) is a regional trade agreement for the 14 Pacific Island countries (excluding Australia and New Zealand), which was signed and ratified in 2003. The objective of the PICTA is to progressively reduce tariffs to zero as part of the measures to prepare these small and vulnerable economies for greater challenges into the global economy with their developed trading partners. The Small Island States (SIS) and the Least Developed Countries of the PICTA are given longer transition period (2 years more) than developed trading partners like Fiji.

8.19 Although preferential trade under PICTA was to have commenced from 2008 for developing parties and 2010 for SIS and LDCs, very little trade has actually taken place due to lack of commitments by most of these parties to implement the obligations under the PICTA.

8.20 Currently, only 7 PICTA Parties have announced their readiness to trade. At this point in time, only Fiji is granting preference under the PICTA, although there are 13 other parties. Implementation of the PICTA would be a key negotiating issue for Fiji to pursue with other parties.

8.21 In 2008, Forum Island Countries Trade Ministers endorsed the expansion of PICTA to include Trade in Services with the introduction of the Temporary Movement of Natural Persons (TMNP). Consultations are currently underway for the adoption of a two-tier TMNP scheme, which will include professional and semi-skilled workers.

8.22 The 5th Round of Trade in Services negotiations was held in September 2010. Given Fiji's participation has been restricted to the trade officials' level and the lack of progress in the Goods Agreement, Fiji has not tabled any market liberalisation offers in these negotiations.

8.23 Fiji is currently excluded from participation at the Ministerial and Leaders level and will only make requests and offer submissions in these negotiations when non-discriminatory treatment is accorded to all levels of Fiji's participation in these meetings. In addition, the full implementation of the original PICTA Agreement is vital before parties commit themselves to expand in other areas such as services.

8.24 Pacific Agreement on Closer Economic Relations (PACER): A framework agreement signed between the 14 PICTA members with Australia and New Zealand in 2001. One of the main guiding principles of PACER is to pave the way for the sustainable economic development and gradual integration of the PIC's into the global market. This is a challenge that would be addressed through the provision of development assistance by Australia and New Zealand in a future free trade agreement that is currently under negotiation called the PACER Plus.

8.25 The PIF Trade Ministers mandated the commencement of PACER Plus trade negotiations in 2009. However, the legal basis for PACER Plus negotiations is provided by the PACER Agreement. Fiji's participation, however, has been relegated through its forced exclusion from formal PACER Plus meetings even though it is a state party to PACER.

8.26 Fiji strongly maintains that it will not be bound by any decisions made by the State Parties to PACER Plus in its absence nor will it be involved in any such arrangement that accords it a less than equal status and compromises its national interests.

8.27 *Look North Policy*: Fiji is vigorously pursuing its Look North Policy with its trading partners in Asia and beyond to diversify its trade outside the traditional spheres of its international trade. Consultations have begun with selected countries to determine areas of common interest.

8.28 Fiji's Look North Policy also extends further north where the Fiji Government is currently engaged in internal consultations on areas of mutual bilateral trade and economic cooperation with the Russian Federation. On 5 February 2010, the President of the Russian Federation formalised the accreditation of Fiji's first ever Ambassador Extraordinary and Plenipotentiary to their country.

8.29 The Look North policy will appropriately be enhanced and moved up to another level through deliberate and concrete bilateral engagements spearheaded by Fiji's existing Missions in Beijing, Tokyo and Malaysia.

8.30 In August 2010, consultations with some of the members such as Indonesia and Thailand on acquiring observer status in this organisation have been positive. In addition, Fiji has been invited to submit proposals of trade and economic cooperation covering fisheries, tourism and other areas of investments of mutual interest.

8.31 In 2011, Fiji will establish diplomatic missions in Indonesia, Brazil and South Africa. The Head of Mission in Johannesburg will be cross credited to Kenya, Nigeria and Senegal with whom Fiji has diplomatic relations. Fiji's presence in Africa is critical in maintaining links with ACP Africa and to reciprocate their support for Fiji in the UN and other international forums.

8.32 Looking East, Brazil has recently been granted approval to set up a Mission in Suva. This sets a strong platform to enhance bilateral as well as regional and sub regional support with Brazil and possibly the entire Latin America in the near future.

PRIVATE SECTOR LED INVESTMENT

8.33 Foreign investors must acquire a Foreign Investment Registration Certificate (FIRC) for any business engagement in Fiji. Over the past three years, a marked decline in the issuance of FIRC was noted. This could be attributed to the following factors:

- the global financial and economic crisis faced by Fiji's main trading partner countries for the most part of 2009;
- natural disasters, particularly flooding and cyclone in 2009;
- increase in FTIB application fees from $14 to $2,812.50 (VIP) effective from July 2008. With the higher application fees, more 'genuine' projects are expected to be registered;
- introduction of the minimum investment thresholds in the Foreign

Investment Regulations of 2008 and 2009, effective from 11 July 2008 and 16 January 2009, respectively; and

- decrease in the value of proposed investments registered by 50.2 percent between 2006 and 2010.

Table 8.1: Proposed Investments, 2006-2010

	2006	2007	2008	2009	2010 [Jan-Oct]
No. of Projects Registered	441	398	245	79	94
Value of Proposed Investment (F$M)	1,020	495	406	307	508
Proposed Employment	10,340	7,302	3,637	5,216	2,108

Source: Fiji Islands Trade and Investment Bureau

8.34 FTIB's target for 2010 were as follows; number of FIRC applications registered – 82, value of proposed investment – $294 million, and proposed employment from registered projects – 2,940. Up to October 2010, all targets except for proposed employment have been achieved. This target is envisaged to be achieved by the end of the year.

Table 8.2: Actual Investments from 2006-2010

	2006	2007	2008	2009	2010 [Jan-Oct]
No. of Projects Registered	210	195	118	45	16
Value of Proposed Investment (F$M)	372.2	266.1	718.8	53.9	5.86
Proposed Employment	1595	1436	1483	388	139

Source: Fiji Islands Trade and Investment Bureau

8.35 The implementation of projects has always been below 20 percent as tourism projects (major sector) are realised within 4-5 years. This is due to constraints such as financing, availability of skilled expertise and lengthy approval processes and procedures.

Investment Reforms

8.36 *Review of Foreign Investment Act (FIA):* The draft review of the FIA was finalised during the first quarter of 2010. Stakeholders were invited to review and comment on the Draft FIA Decree. The objective of the review is to give FTIB flexibility in granting foreign investors extension of time for project implementation (for example tourism resorts and hotels), discretion for certain projects which do not require the minimum cash investment of F$250,000 (instead require investment in fixed assets or human capital) and monitoring of projects and so forth.

8.37 Currently, FTIB in conjunction with relevant government agencies are consolidating the inputs of various stakeholders before the review is submitted to Cabinet for their endorsement. Following the endorsement, awareness workshops would be carried out in the four major centers; Lautoka, Suva, Labasa and Savusavu.

8.38 *Case-based Approach*: The Bureau in its effort to improve investment levels has adopted a "case-based approach" in facilitating projects registered at FTIB. The case-based approach involves enhancing and improving FTIB's capacity and capability to effectively facilitate investment by streamlining the investment approval process.

8.39 *E-Government Project*: Under the E-Government project, the Investments Approval Tracking System which was one of the pilot projects, is operational. The system is geared towards tracking the approval process with the twenty two investment approving agencies.

8.40 The initial set up targets the first-tier approval agencies which include FTIB, Fiji Revenue and Customs Authority (FIRCA), Registrar of Companies (ROC), Reserve Bank of Fiji (RBF) and the Department of Immigration. The system allows investors to register online and track the progress on approval of their project with the first-tier agencies. The automation for the rest of the seventeen agencies will be part of the second phase of the project.

8.41 *Investment Promotional Work*: The FTIB continues to undertake promotional activities which include the following:

- Overseas trade missions;
- Incoming missions (from selected countries identified from research);
- Seminars (related to export-development - covering financial assistance schemes and incentives);
- Industry consultations;
- Road shows; and
- Site visits (to identify constraints relating to export).

CHAPTER 9: 2011 BUDGET REVENUE POLICIES

9.1 This chapter highlights the 2011 Budget tax policies. It includes new and amended direct and indirect tax measures. The focus in 2011 is to streamline the investment approval process and to introduce new targeted incentives for export, tourism, agriculture and energy saving.

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Section 1: Direct Tax Measures

(i) INCOME TAX

Policy	Description
1. Export Income Deduction incentive to be extended to 2015	❖ Section 21B of the Income Tax Act to be amended to reflect the following amount of deductions. Gradual Reduction 2011 – 50% 2012 – 40% 2013 – 30% 2014 – 20% 2015 – 10% 2016 phased out.
2. Investment approval process to be simplified	❖ 11th Schedule to the Income Tax Act to be amended to remove the need for investors to provide certified approved plan to obtain provisional approval for the investment allowance. Sketch plan will suffice. ❖ 11th Schedule to the Income Tax Act to be amended to require recipients of provisional approval for Standard Allowance and Short life Investment Package to commence implementation of projects within one year.
3. Tourist vessels to also enjoy hotel incentive	❖ Cruise vessels providing accommodation for more than 3 nights, will be able to claim refurbishment and repair expenses.
4. Extend Employment Taxation Scheme	❖ The 150% tax deduction under the Employment Taxation Scheme to be extended to December 2012
5. Continuation of accelerated depreciation incentive	❖ Accelerated depreciation available to buildings will be extended to 2012; ❖ This will also be available to new plants and machineries used for manufacturing purposes.

Policy	Description
6. 150% tax deduction to be available for marketing costs of goods and services in the South Pacific Islands	❖ Income Tax Act to be amended to provide 150% deduction for marketing costs of up to $250,000. This is only for South Pacific Islands, excluding Australia and New Zealand.
7. Clarification of Due dates for documents & payments in the Tax Administration Decree	❖ Section 74 of the Tax Administration Decree amended to clarify that if due date falls on weekends and public holidays, then the due date should be the last working day of the month
8. Clarification of Late Lodgment penalty provision in the Tax Administration Decree	❖ Section 43 of Tax Administration Decree to be amended to clarify "tax outstanding". A cut-off date to be inserted for payments that should be taken in the calculation. ❖ To clarify "any other case" and that $1 per day should not apply on refund case.
9. Simplification of Administrative Summons provisions in the Tax Administration Decree	❖ Section 36(3) to be amended to allow the service of documents by registered post as well.
10. Simplification of Penalty provisions in the Tax Administration Decree	❖ Sections 45 and 46 of the Tax Administration Decree to be clarified to define "tax outstanding" and "tax payable"
11. Notice of objection process streamlined	❖ Section 16 of the Tax Administration Decree to be amended to allow objection notice to be signed by both the taxpayers and tax agent
12. Review Sixth Schedule to the Income Tax Act	Major changes to the 6th Schedule:- ❖ Part 3 now allows Fiji Production Companies that are 100% owned by Fiji residents and registered in the Fiji Islands to raise funds through the F1/F2 incentive;

Policy	Description
	❖ Under paragraph 36(1)(b), 100% of the profits or revenues to be paid to any Fiji investors in the production must pass through an approved Fiji Islands bank account prior to disbursement and the Commissioner must be provided with half yearly statements of income and disbursement; ❖ Under paragraph 63(b)(i) and (ii), applications for audiovisual operating licence by resident individuals must show that the resident individual has net annual audio-visual earnings in excess of $50,000 and assets held in the studio city zone in excess of $100,000 in either real estate, tangible business assets including but not limited to stock, plant and equipment and tools of trade, or other valuable and confirmable assets excluding cash and other liquid assets; ❖ Under paragraph 69(1)(e)(i) and (ii), the minimum threshold requirement for qualifying for rebate is $250,000 for feature films and $50,000 for television commercials; ❖ Under Paragraph 74(1) Approved post-production expenditure on the film paid from a Fiji bank account to the extent that it is incurred or reasonably attributable to approved post-production services in relation to the completing of the film made in the Fiji Islands. The maximum amount payable as rebate under this expenditure item shall be $75,000 for each qualifying AVP.
13. Tax Identification Number (TIN)	❖ The requirement for existing Bank Account Holders to provide TIN to Banks to be extended to 31 March, 2011; ❖ Exemption for Micro Finance Projects

Section 2: Indirect Tax Measures

(i) VALUE ADDED TAX (VAT) MEASURES

Policy	Description
1. Increase in VAT rate	❖ VAT rate to increase from 12.5% to 15% from 1 January, 2011
2. Tourist VAT Refund Scheme (TVRS) incentive to be made more attractive	❖ Tourist to claim refunds for shopping in any number of days. Delete 'one day' and substitute with 'many days'.

Policy	Description
3. VAT exemption status to be provided to Fishing Industry	❖ Direct Supply of fish by both foreign and local fishing vessels to local processors in Fiji will be exempt from VAT ❖ A levy of $350 per tonne will be imposed on Fish that is off-loaded for transhipment, without value adding.

(ii) CUSTOMS TARIFF CHANGES - FISCAL DUTY

POLICY	DESCRIPTION
1. Fresh and chilled Vegetables	❖ Increase fiscal duty from 15% to 32%
2. Fruit Juices	❖ Increase fiscal duty from 15% to 32%
3. Cigarettes, tobacco and alcohol	❖ Increase fiscal duty by 3%
4. PVC pipes, tubes and hoses	❖ Increase fiscal duty from 15% to 32%
5. Lighters	❖ Increase fiscal duty on lighters from $1 to $5 specific rate; and ❖ For blank disposable lighters, the 15% fiscal duty rate remains
6. Cables	❖ Increase fiscal duty from 15% to 32%
7. Mops	❖ Increase fiscal duty from 5% to 32%
8. Used or re-conditioned heavy machinery	❖ Fiscal duty to be reduced from 32% to15%
9. Smart Phones (High end mobile phones)	❖ Fiscal duty to be reduced from 32% to 5%
10. Golf cars	❖ Solar powered golf cars to be reduced from 32% to 0%; ❖ Others to be reduced from 32% to 5%
11. New Passenger motor vehicles not exceeding 2500cc	❖ Fiscal duty to be reduced from 32% to 15%
12. ICT Incentives	❖ Free fiscal duty and import excise is applicable on computers, computer parts & accessories, specialized plant, equipment & fittings, and specialized furniture to ICT/BOP Operators (approved companies)

(iii) IMPORT EXCISE CHANGES

Policy	Description
1. Fresh and chilled Vegetables	❖ Impose 10% import excise
2. Snacks and confectioneries.	❖ Impose 15% import excise
3. Waters, including natural or artificial mineral water and aerated waters.	❖ Increase import excise from 10% to 15%.
4. Fluorescent tubes and bulbs	❖ Impose 15% import excise

(iv) LOCAL EXCISE CHANGES

Policy	Description
1. Cigarettes, tobacco and alcohol	❖ Increase local excise by 3%

(v) 2011 EXCISE RATES

Description	2010 Rates	2011 Rates
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or less	$1.35	$1.39
Ale, Beer, Stout and other fermented liquors of an alcoholic strength of 3% or more	$1.57	$1.62
Potable Spirit Not Exceeding 57.12 GL	$29.65	$30.54
Potable Spirit Exceeding 57.12 GL	$51.93	$53.49
Wine: Still Sparkling	$2.10 / Litre $2.39 / Litre	$2.16 / Litre $2.46 / Litre
Other fermented beverages: Still Sparkling	$2.10 / Litre $2.39 / Litre	$2.16 / Litre $2.46 / Litre
Ready to Drink Mixtures of Any Alcoholic Beverages of any Alcoholic Strength by volume of 11.49% or less	$0.97 / Litre	$1.00 / Litre
Cigarettes from local tobacco per 10 sticks	91.13cents	93.86cents
Cigarette from imported tobacco per 10 sticks	136.71cents	140.81cents
Manufactured tobacco containing tobacco grown outside Fiji	$78.77 / kg	$81.13 / kg
Manufactured tobacco containing tobacco grown in Fiji	$46.27 / kg	$47.66

Description	2010 Rates	2011 Rates
Manufactured tobacco containing tobacco grown in foreign and tobacco grown in Fiji: Foreign portion Local portion	$78.77 /kg $46.27 / kg	$81.13 / kg $47.66 / kg

(vi) AMENDMENTS TO PART II OF THE CUSTOMS TARIFF ACT

Policy	Description
1. Wedding apparel	❖ Importation of wedding apparel by tourists/foreign couples coming to get married in Fiji, to be duty and VAT free.
2. Biodegradable plastics	❖ Imports of non-biodegradable plastics to be banned ❖ Local manufactures of non-bio degradable plastics to be given 6 months to adjust production ❖ Removal of Code 124(iv)

(vii) AMENDMENTS TO PART III OF THE CUSTOMS TARIFF ACT

Policy	Description
1. Delete the expression “234” and substitute “240” in Note 9 of part 3 of the tariff	❖ **Regularise amendment -** Concession codes in part 3 of the tariff schedule has been extended to code 240.
2. Duty Free passenger allowance to be increased	❖ Increased from $400 to $1000; and ❖ Passengers are not required to get the services of Customs Agents for clearance of personal importations
3. Delete the expression “water-Jet Ski” under concession code 235(ii)	❖ Jet Skis are granted concessionary rate of 5% Fiscal Duty under Section 10 approval. Under code 235(ii) same item attracts 10% Fiscal, hence the amendment will streamline the anomaly
4. Desalination and Sewerage Treatment Plants	❖ Reduce fiscal duty from 5% to 0%; ❖ This will be available to everyone including those in outer islands
5. Duty Suspension Scheme (DSS)	❖ Zero fiscal duty on New Machinery and Equipment directly related to the production process under DSS ❖ VAT is still payable

(viii) AMENDMENTS TO NOTES OF PART II & III OF THE CUSTOMS TARIFF ACT

Policy	Description
1. Part 2 & 3 of the Customs Tariff to be strengthened with additional note(s) such as: "Concession to be claimed at the time of importation or cleared ex bonded warehouse."	❖ Concessions to be claimed only at the time of importation.

(ix) OTHER CUSTOMS CHANGES

Policy	Description
1. Age restriction to be extended	❖ Age of LPG, CNG and Solar vehicles to be extended to 8 years; and ❖ Specialized vehicles for Mining, Agriculture and Road Construction and Maintenance to be extended to 8 years.
2. Age of vehicles	❖ Delete the word 'date of manufacture' and insert 'year of manufacture' under item 5 to Schedule 3 of the Customs Prohibited (Imports and Exports) Regulations 1986
3. Privileged goods (plants & machinery) imported for special projects	❖ 3 months to be extended to 12 months; and ❖ 12 months to be extended as approved by the Comptroller
4. Amendment to Regulation 8 of the Customs Regulations	❖ Increase from \$200 to \$400 – Aircrafts; and ❖ Increase from \$200 to \$1,500 - Private Aircrafts
5. Delete tariff item 6813.89.00 and substitute it with sub-heading 6813.89.	❖ typographical error to be rectified

(x) CHANGES TO SECTION 10 CONCESSIONS, CTA

Policy	Description
1. FEA Concession	❖ Removal of FEA concession
2. Bus fuel concession	❖ Bus fuel concession to be reduced from 18cents to 15 cents
3. Bus concession on chassis	❖ The sellers of chassis must attach Customs SAD and invoices with other documents to show the landed price for the purposes of effective administration of this concession.
4. Plastic crates used in the agriculture sector	❖ Reduce fiscal duty on plastic crates from 15% to 0%
5. Canned Fish	❖ Increase fiscal duty from 0% to 15%

(xi) CHANGES TO WATER RESOURCE TAX PROMULGATION

POLICY	DESCRIPTION
1. Water Tax rates to be restructured	

Litres extracted monthly	Rate (Cents per litre)
0 – 3,499,999	0.11
3,500,000 and above	15.0

Section 3: FIRCA Administration

POLICY	DESCRIPTION
1. Administration of Stamp Duty	❖ FIRCA to administer stamp duty from 1 April, 2011
2. Administration of Airport Departure Tax Act	❖ FIRCA to administer Airport Departure Tax from 1 January, 2011 ❖ **Airlines and travel agents must ensure that airport departure tax is remitted to FIRCA within two weeks of issuing tickets to international traveler**
3. Self-Assessment (PAYE)	❖ To be implemented from 1 January 2012
4. Presumptive Tax	❖ Special tax regime for small business operators to be implemented from 1 January 2013
5. Capital Gains Tax	❖ 10% Capital Gains Tax to be introduced from 1st March, 2011
6. Home Stays	❖ FIRCA will develop a separate tax regime for home stays to ensure appropriate taxes are paid by persons engaged in this type of activity

APPENDICES

Appendix 1: Statistical Tables

Table 1: Gross Domestic Product by Sector ($million) 2007-2013

Activity($M)	Base Weight	2007 (r)	2008 (r)	2009 (p)	2010 (f)	2011 (f)	2012 (f)	2013 (f)
AGRICULTURE & FORESTRY	11.64	494.0	499.9	441.7	397.2	453.1	476.9	501.7
Agriculture	10.56	454.9	458.8	404.0	358.6	410.4	433.0	457.6
Subsistence	2.74	119.9	120.5	121.1	121.8	122.4	122.9	123.5
Growing of Crops, Market Gardening & Horticulture	6.39	252.5	251.6	217.0	175.2	217.1	234.0	251.9
Sugar cane	3.00	106.5	98.0	92.1	75.3	75.3	80.5	86.2
Taro	1.66	53.0	63.6	60.0	37.8	66.2	69.5	73.0
Farming of animals	0.85	41.1	41.4	36.9	38.0	40.2	42.5	44.9
Forestry	1.08	39.1	41.1	37.7	38.7	42.7	43.9	44.1
FISHING	2.43	113.7	138.4	120.4	135.5	140.6	121.1	136.4
Offshore fishing	1.25	64.5	83.7	67.5	82.3	87.4	66.8	82.2
MINING & QUARRYING	0.38	-5.4	14.3	12.3	20.6	23.9	25.5	27.2
MANUFACTURING	14.23	619.3	606.7	594.5	607.3	632.3	648.4	656.9
Informal activities	3.12	140.5	141.4	142.5	143.8	145.1	146.4	147.7
Food products	3.26	138.2	135.0	120.9	124.8	132.0	137.0	140.2
Sugar	1.02	39.9	38.2	23.9	19.5	19.5	20.9	22.4
Beverages and tobacco	2.06	95.6	92.9	86.2	90.0	97.2	99.7	102.2
Non Food Products	5.78	243.1	235.7	243.2	247.6	256.7	264.1	265.7
Wearing apparel	1.32	57.1	60.1	61.9	64.3	60.3	57.9	55.0
ELECTRICITY AND WATER	1.37	57.4	33.3	33.6	35.2	36.0	37.0	38.3
Production, collection and distribution of electricity	1.15	47.8	23.4	22.7	24.2	25.5	26.7	28.3
CONSTRUCTION	3.18	120.4	126.1	121.9	125.2	110.6	109.4	108.3
WHOLESALE AND RETAIL	12.67	542.2	511.4	481.3	484.1	487.6	493.3	493.6
Informal activities	2.93	129.7	130.6	131.7	132.9	134.1	135.3	136.5

Activity($M)	Base Weight	2007 (r)	2008 (r)	2009 (p)	2010 (f)	2011 (f)	2012 (f)	2013 (f)
Sale, Maintenance, Repair of Motor Vehicles/Cycles; Retail Sale of Auto Fuel	2.42	100.6	88.2	77.1	73.4	73.6	75.4	75.9
Retail sale - Auto Fuel	1.26	49.9	42.8	41.1	38.9	38.8	40.0	40.4
Wholesale Trade	2.29	92.6	83.3	80.3	88.4	90.1	91.6	91.9
Solid, liquid, gaseous fuels & related products	1.37	54.1	44.5	40.5	46.6	47.0	47.5	48.0
Retail Trade	4.08	174.4	168.9	157.7	156.5	158.3	160.4	160.3
Non-specialised stores with food & beverages predominating.	1.05	41.0	37.9	35.2	36.0	37.4	38.4	38.3
HOTELS & RESTAURANTS	4.26	191.1	193.8	192.2	200.1	207.8	213.2	217.2
Hotels; camping sites and other provision of short-stay accommodation	3.51	160.9	163.4	162.8	171.0	178.1	183.4	187.2
TRANSPORT, STORAGE & COMMUNICATION	14.98	659.5	626.1	643.5	623.8	623.8	631.0	627.9
Land Transport	1.38	61.3	54.3	61.1	62.6	64.3	64.3	64.3
Air Transport	2.33	99.3	120.0	84.1	83.1	81.6	80.9	80.1
Supporting & Auxiliary Activities	4.17	165.3	152.4	189.3	190.3	184.9	192.5	189.9
Other supporting transport activities	1.45	58.4	58.1	64.2	61.6	56.0	59.6	56.1
Activities of other transport agencies	1.26	45.4	36.8	56.0	59.0	60.8	62.2	63.8
Post & Telecommunication	6.01	290.5	268.4	281.4	260.3	265.5	265.5	265.5
Telecommunications	5.89	285.9	264.0	277.7	256.8	262.0	262.0	262.0
FINANCIAL INTERMEDIATION	7.89	427.0	483.4	384.3	405.9	407.4	419.9	433.0
Other monetary intermedi.	3.73	183.0	226.1	213.3	234.7	237.0	246.5	258.8
Insurance	1.73	85.0	83.3	50.9	51.2	52.7	54.2	54.2
REAL ESTATE & BUSINESS SERVICES	9.28	412.7	404.8	409.9	406.0	406.6	404.0	404.6
Owner occupied dwellings	4.27	189.8	190.7	188.4	189.5	190.4	191.2	192.9
Real Estate Activities	1.24	53.3	55.4	54.1	54.4	54.7	54.9	55.1
Other Business Activities	1.79	77.4	71.7	71.4	72.0	72.7	73.3	74.0
PUBLIC ADMINISTRATION & DEFENCE	5.56	285.7	287.3	362.1	366.4	352.8	342.3	332.2

Activity($M)	Base Weight	2007 (r)	2008 (r)	2009 (p)	2010 (f)	2011 (f)	2012 (f)	2013 (f)
General public services	2.99	126.9	137.1	149.1	161.9	156.4	151.8	147.4
Defence activities	1.44	93.7	80.7	133.3	124.1	119.1	115.6	112.1
Public order & safety	1.13	65.2	69.5	79.8	80.5	77.3	74.9	72.7
EDUCATION	5.15	229.0	233.3	232.1	245.2	230.5	228.5	226.6
Primary	1.55	68.8	68.5	69.3	69.5	69.6	69.7	69.9
Normal secondary	1.06	48.0	47.2	47.4	47.7	47.9	48.2	48.5
Higher education	1.95	85.2	91.3	89.1	101.6	86.3	83.8	81.4
HEALTH & SOCIAL WORK	2.12	98.5	85.8	94.8	78.1	74.4	71.3	68.5
General Government	1.79	85.7	73.5	82.1	65.3	61.5	58.3	55.3
OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES	4.87	124.9	134.7	124.1	121.3	121.9	122.5	123.3
Informal activities	1.20	35.9	43.3	37.2	37.5	37.9	38.2	38.5
Activities of Membership Organisations	2.19	31.0	34.7	28.6	28.7	28.8	28.8	28.9
Activities of political Organisations	1.85	18.5	18.4	18.1	18.1	18.1	18.1	18.1
Grand Total Real GDP		4,370.0	4,379.2	4,248.8	4,252.5	4,309.4	4,344.4	4,395.8
Grand Total Nominal GDP		5,483.2	5,682.9	5,531.3	5,861.9	6,177.3	6,418.9	6,683.5

Source: Fiji Islands Bureau of Statistics (FIBOS), Macroeconomic Policy Committee
Note: r - revised, f - forecast, p - provisional

Table 2: GDP Growth (% change) by Sector 2007-2013

Activity	Base Weight	2007 (r)	2008 (r)	2009 (p)	2010 (f)	2011 (f)	2012 (f)	2013 (f)
AGRICULTURE & FORESTRY	11.64	-3.7	1.2	-11.6	-10.1	14.1	5.3	5.2
Agriculture	10.56	-3.5	0.8	-11.9	-11.3	14.5	5.5	5.7
Subsistence	2.74	0.5	0.5	0.5	0.6	0.5	0.4	0.5
Growing of Crops, Market Gardening & Horticulture	7.59	-9.4	-0.3	-13.8	-19.3	23.9	7.8	7.7
Sugar cane	3	-28.6	-8.1	-6.0	-18.3	0.0	7.0	7.0
Taro	1.66	-19.0	20.0	-5.6	-37.0	75.0	5.0	5.0
Farming of animals	0.85	5.6	0.8	-12.9	5.2	5.9	5.6	5.6
Forestry	1.08	-6.8	5.2	--8.4	2.7	10.5	2.8	0.4
FISHING	2.43	-9.6	21.8	-13.0	12.6	3.7	-13.8	12.6
Offshore fishing	1.21	-8.8	29.7	-19.3	21.9	6.2	-23.6	23.1
MINING & QUARRYING	0.38	-156.5	-365.2.6	-13.8	67.4	16.1	6.8	6.7
MANUFACTURING	14.23	-6.0	-2.0	-2.0	2.1	4.1	2.5.	1.3
Informal activities	3.12	3.9	0.6	0.8	0.9	0.9	0.9	0.9
Food products	3.26	-19.8	-2.3	-10.4	3.2	5.8	3.8	2.4
Sugar	1.02	-41.6	-4.4	-37.3	-18.3	0.0	7.0	7.0
Beverages and tobacco	2.06	4.3	-2.8	-7.2	4.4	8.1	2.5	2.5
Non Food Products	5.78	-5.7	-3.1	3.2	1.8	3.7	2.9	0.6
Wearing apparel	1.32	-1.3	5.3	2.9	4.0	-6.3	-4.0	-5.0
ELECTRICITY AND WATER	1.37	79.2	-42.0	1.0	4.9	2.2	2.7	3.5
Production, collection and distribution of electricity	1.15	130.3	-51.1	-3.1	7.0	5.0	5.0	6.0
CONSTRUCTION	3.18	-10.4	4.7	-3.3	2.7	-11.6	-1.1	-1.0
WHOLESALE AND RETAIL	12.67	4.9	-5.7	-5.9	0.6	0.7	1.2	0.1
Informal activities	2.93	31.0	0.8	0.8	0.9	0.9	0.9	0.9
Sale, Maintenance, Repair of Motor Vehicles/Cycles; Retail Sale of Auto Fuel	12.67	3.9	-12.3	-12.6	-4.8	0.2	2.5	0.6
Retail sale - Auto Fuel	1.26	7.7	-14.3	-3.9	-5.5	-0.3	3.1	1.0
Wholesale Trade	3.04	-5.5	-10.0	-3.7	10.2	1.9	1.6	0.4
Solid, liquid, gaseous fuels & related products	1.37	-3.7	-17.7	-9.0	15.0	1.0	1.0	1.0

Activity	Base Weight	2007 (r)	2008 (r)	2009 (p)	2010 (f)	2011 (f)	2012 (f)	2013 (f)
Retail Trade	4.42	-1.2	-3.1	-6.7	-0.7	1.1	1.4	-0.1
Non-specialised stores with food & beverages predominating.	1.05	-2.5	-7.4	-7.3	2.4	3.8	2.6	-0.2
HOTELS & RESTAURANTS	4.26	15.1	1.4	-0.9	4.4	3.6	2.6	1.9
Hotels; camping sites and other provision of short-stay accommodation	3.97	20.0	1.6	-0.4	5.1	4.1	3.0	2.1
TRANSPORT, STORAGE & COMMUNICATION	14.98	-1.1	-5.1	2.8	-3.1	0.0	1.1	-0.5
Land Transport	1.38	2.6	-11.5	12.6	2.5	2.7	0.0	0.0
Air Transport	2.33	4.9	20.8	-29.9	-1.2	-1.8	-0.9	-1.0
Supporting & Auxiliary Activities	4.17	-11.1	-7.8	24.2	0.5	-2.9	4.1	-1.3
Other supporting transport activities	1.45	-8.5	-0.5	10.6	-4.1	-9.1	6.4	-5.8
Activities of other transport agencies	1.26	-17.2	-19.0	52.3	5.4	3.1	2.2	2.6
Post & Telecommunication	6.01	4.1	-7.6	4.7	-7.4	2.0	0.0	0.0
Telecommunications	5.89	4.2	-7.7	5.2	-7.5	2.0	0.0	0.0
FINANCIAL INTERMEDIATION	7.89	36.0	13.2	-20.5	5.6	0.4	3.1	3.1
Other monetary intermedi.	3.73	-0.3	23.5	-5.7	10.0	1.0	4.0	5.0
Insurance	1.73	20.4	-2.0	-38.9	0.6	2.9	2.8	0.0
REAL ESTATE & BUSINESS SERVICES	9.28	-1.2	-1.9	1.3	-1.0	0.1	-0.6	0.2
Owner occupied dwellings	4.27	0.5	0.5	-1.2	0.6	0.5	0.4	0.5
Real Estate Activities	1.24	-4.0	3.9	-2.4	0.6	0.5	0.4	0.5
Other Business Activities	1.79	-6.2	-7.4	-0.4	0.9	0.9	0.9	0.9
PUBLIC ADMINISTRATION & DEFENCE	5.56	-12.3	0.6	26.0	1.2	-3.7	-3.0	-3.0
General public services	2.99	-31.3	8.1	8.7	8.6	-3.4	-2.9	-2.9
Defence activities	1.44	23.9	-13.8	65.1	-6.9	-4.0	-3.0	-3.0
Public order & safety	1.13	-0.8	6.5	14.9	0.9	-4.0	-3.0	-3.0
EDUCATION	5.15	-1.6	1.9	-0.5	5.6	-6.0	-0.9	-0.8
Primary	1.55	2.4	-0.5	1.3	0.2	0.2	0.2	0.2
Normal secondary	1.06	4.5	-1.7	0.5	0.6	0.6	0.6	0.6

Activity	Base Weight	2007 (r)	2008 (r)	2009 (p)	2010 (f)	2011 (f)	2012 (f)	2013 (f)
Higher education	1.95	-8.0	7.1	-2.4	14.0	-15.0	-2.9	-2.9
HEALTH & SOCIAL WORK	2.12	7.6	-12.9	10.5	-17.6	-4.7	-4.1	-4.0
General Government	1.79	9.8	-14.2	11.6	-20.5	-5.8	-5.2	-5.1
OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES	4.87	-38.3	7.8	-7.9	-2.3	0.5	0.5	0.6
Informal activities	1.20	-32.6	20.6	-14.2	0.9	0.9	0.9	0.9
Activities of Membership Organisations	2.19	-58.8	11.8	-17.4	0.2	0.2	0.1	0.2
Activities of political Organisations	1.85	-70.1	-0.4	-1.6	0.0	0.0	0.0	0.0
TOTAL	**100.0**	**-0.9**	**0.2**	**-3.0**	**0.1**	**1.3**	**0.8**	**1.2**

Source: FIBOS, Macroeconomic Policy Committee
Note: r - revised, f - forecast, p - provisional

Table 3: Exports by Major Commodities ($million), 2007-2013

COMMODITIES	2007	2008	2009	2010(f)	2011(f)	2012(f)	2013(f)
Sugar	185.0	248.2	187.1	95.7	104.5	111.8	119.6
Molasses	10.4	13.6	20.8	13.1	14.3	15.8	17.4
Gold	2.6	26.7	41.0	142.1	185.3	200.2	217.2
Timber, Cork & Wood	47.7	59.3	36.7	62.4	67.2	69.1	70.2
Fish	101.3	134.2	156.7	181.6	190.7	181.9	200.1
Fruits & Vegetables	35.5	33.2	31.8	33.7	37.1	40.8	44.2
o/w Dalo	23.6	22.2	20.1	20.2	22.3	24.5	26.5
Copra	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Yaqona	4.2	4.8	3.9	3.3	3.6	3.8	4.4
Coconut Oil	4.4	8.2	4.2	3.3	3.3	15.0	15.0
Textiles, Yarn & Made Up Articles	9.6	7.8	7.7	8.8	8.7	8.7	8.6
Garments	97.1	100.1	83.9	92.6	91.7	91.7	90.8
Footwear	2.9	2.1	1.7	1.7	1.9	2.0	2.1
Mineral Water	105.4	109.9	80.2	144.4	148.7	153.2	157.8
Other Domestic Export	222.7	234.9	239.0	271.2	284.7	299.0	313.9
Re- Exports	381.0	488.2	335.5	425.0	468.1	516.8	562.9
Total	**1209.8**	**1471.0**	**1230.3**	**1478.7**	**1609.8**	**1709.7**	**1824.2**

Source: FIBOS, Macroeconomic Policy Committee
Note: r - revised, f - forecast, p - provisional

Table 4: Imports by Category ($million), 2007-2013

ECONOMIC CATEGORY	2007	2008	2009	2010(f)	2011(f)	2012(f)	2013(f)
Food	394.3	520.0	521.5	465.2	509.9	560.0	633.9
Beverage & Tobacco	21.6	21.7	22.5	24.1	25.1	25.6	26.3
Crude Materials	24.5	31.0	25.0	21.9	23.0	24.2	25.4
Mineral Fuels	958.2	1222.1	720.4	800.1	880.1	924.1	970.3
Oil & Fats	24.8	37.0	29.1	27.9	29.3	30.4	31.3
Chemicals	218.5	274.5	225.4	265.5	270.8	276.2	281.7
Manufactured Goods	422.5	460.8	404.3	416.1	412.7	411.6	409.5
Machinery & Transport Equipment	568.8	726.5	604.9	535.1	563.0	596.9	633.6
Miscellaneous Manufactured Goods	246.0	278.6	240.6	257.4	257.4	257.4	257.4
Other Commodities	10.9	29.2	14.2	9.9	11.7	11.7	11.7
Total	**2890.1**	**3601.4**	**2807.9**	**2823.2**	**2982.9**	**3118.1**	**3281.2**

Source: FIBOS, Macro Policy Committee
Note: r - revised, f - forecast, p - provisional

Table 5: Balance of Payments ($million) 2006 – 2013

ITEMS	2006(r)	2007(r)	2008(r)	2009(p)	2010(f)	2011(f)	2012(f)	2013(f)
BALANCE ON GOODS	-1,677.0	-1,467.3	-1,878.8	-1,311.9	-1,057.9	-1,063.2	-1,082.5	-1,116.0
exports f.o.b	1,151.8	1,172.2	1,391.4	1,223.9	1,517.8	1,648.8	1,745.6	1,852.0
imports f.o.b	2,828.8	2,639.5	3,270.3	2,535.8	2,575.7	2,712.0	2,828.1	2,968.0
BALANCE ON SERVICES	506.7	537.3	600.3	501.6	666.4	671.7	669.0	672.6
Export of Services	1,408.8	1,372.2	1,553.0	1,380.4	1,582.0	1,592.4	1,627.4	1,674.0
Import of Services	902.0	834.9	952.7	878.8	915.5	920.8	958.4	1,001.5
BALANCE ON INCOME	-208.6	-136.1	-40.5	8.4	22.3	19.3	38.1	37.9
Income from non-residents	114.3	107.4	114.7	120.4	149.6	149.6	149.6	149.6
Income to non-residents	322.9	243.5	155.2	112.0	127.2	130.3	111.4	111.7
BALANCE ON CURRENT TRANSFERS	342.3	292.5	288.6	352.1	235.4	235.4	238.6	246.8
Inflow of current transfers	511.8	391.6	404.8	448.3	332.5	332.5	335.7	343.9
Outflow of current transfers.	169.5	99.1	116.2	96.2	97.0	97.0	97.0	97.0
CURRENT ACCOUNT BALANCE	-1,036.6	-773.6	-1,030.4	-449.8	-133.7	-136.8	-136.8	-158.7
CAPITAL ACCOUNT BALANCE	-0.8	21.3	25.7	52.9	55.4	55.4	55.4	55.4
FINANCIAL ACCOUNT BALANCE	1,135.3	487.4	696.3	292.1	99.5	250.2	335.6	253.3
Errors & Omissions	-97.9	264.9	308.3	104.8	-21.3	-168.8	-254.2	-150.1
RESERVE ASSETS	290.7	-302.8	281.2	-385.7	-15.8	92.1	36.6	-55.5

Source: FIBOS, Macro Policy Committee.
Note: r - revised, f - forecast, p - provisional

Table 6: Tourism Statistics, 2006 – 2013

	2006(r)	2007(r)	2008(r)	2009(r)	2010(f)	2011(f)	2012(f)	2013(f)
Visitors (000)	**548.6**	**539.9**	**585.0**	**542.2**	**590.0**	**615.0**	**630.0**	**650.0**
o/w Business	41.6	32.5	39.6	35.7	41.3	43.1	44.1	45.5
o/w Personal	506.9	507.4	545.5	506.5	548.7	571.9	585.9	604.5
Average length of stay (days)	**9.8**	**9.5**	**9.6**	**9.8**	**9.6**	**9.6**	**9.6**	**9.6**
Business	7.7	8.3	7.6	8.4	8.1	8.1	8.1	8.1
Personal (tourism purposes)	8.6	8.3	8.5	8.6	8.5	8.5	8.5	8.5
Visitors days (millions)	**5.3**	**5.1**	**5.6**	**5.3**	**5.7**	**5.9**	**6.1**	**6.3**
o/w Business	0.3	0.2	0.3	0.3	0.3	0.3	0.4	0.4
o/w Personal	5.0	4.9	5.3	5.3	5.1	5.6	5.7	5.9
Earnings ($million)	**822.5**	**784.2**	**853.1**	**816.5**	**915.1**	**953.9**	**977.2**	**1,008.2**
o/w Business	54.5	44.4	53.5	55.8	62.5	65.2	66.8	68.9
o/w Personal	768.0	739.8	799.6	760.7	852.6	888.7	910.4	939.3

Source: FIBOS, Macro Policy Committee;
Note: r - revised, f - forecast

Table 7: Sugar Production, Export and Price, 2007 – 2013

	2007(r)	2008(r)	2009(r)	2010(f)	2011(f)	2012(f)	2013(f)
Cane Production (million tonnes)	2.5	2.3	2.2	1.8	1.8	2.0	2.1
Sugar Production (000 tonnes)	237	208	168	137	137	147	158
Cane to Sugar Ratio(per tonne)	10.5	11.2	13.4	13.4	13.4	13.4	13.4
Export Quantity Sugar (000 tonnes)	220.0	260.0	199.0	123.0	136.9	146.5	156.7
Unit Value (FJ$/tonne)	840.9	954.6	940.2	777.7	763.0	763.0	763.0
Sugar Export Earnings (FJ$m)	185.0	248.2	187.1	95.7	104.5	111.8	119.6
Molasses Production (000 tonnes)	115.0	120.0	136.0	84.5	84.5	92.2	96.8
Molasses Export Earnings (FJ$m)	10.4	13.6	20.8	13.1	14.3	15.8	17.4
Price Paid to Growers (FJ$/tonne)	59.05	58.21	61.65	45.67	45.67	45.67	45.67

Source: FIBOS, Fiji Sugar Corporation, Macro Policy Committee
Note: f-forecast; p- provisional; r- revised

Table 8: Inflation Rates (2005 –October 2010)

	2005	2006	2007	2008	2009	2010 (OCT)
All items	2.7	3.1	4.3	6.6	6.8	1.6
Food	3.1	3.3	7.7	11.1	7.7	3.9
Alcohol Drinks & Tobacco	3.2	1.3	7.0	2.7	6.6	2.5
Housing	0.7	3.9	1.7	1.3	1.5	0.1
Heating & Lightning	11.6	11.0	-6.9	12.7	-8.5	-6.9
Durable Household Goods	-0.7	3.2	2.2	4.4	12.8	2.6
Clothing & Footwear	0.3	2.4	4.0	0.2	6.6	1.9
Transport	5.1	1.4	2.3	6.3	16.3	0.5
Services	1.6	1.3	1.4	0.4	1.8	1.5
Miscellaneous	-3.0	5.5	10.6	6.4	16.0	1.3
Memorandum Items: Year-on Year inflation rates	**2.7**	**3.1**	**4.3**	**6.6**	**6.8**	**1.6**

Source: FIBOS

Table 9: Employment by Sector, 2001-2008 (in thousands of persons)

ECONOMIC ACTIVITY	2001(r)	2002(r)	2003(r)	2004	2005(r)	2006(r)	2007(r)	2008(e)
Agriculture, forestry & Fishing	1.7	1.7	1.7	1.6	1.7	1.7	1.7	1.7
Mining & Quarrying	1.7	1.7	1.9	2.4	2.3	2.4	2.3	2.3
Manufacturing	28.9	28.9	25.5	25.0	26.3	27.1	27.7	27.9
Electricity, Water & Gas	2.7	2.7	2.3	2.2	2.7	2.5	2.6	2.5
Construction	3.6	3.5	6.4	7.1	6.2	6.7	6.9	6.8
Distribution (incl. Tourism)	21.6	24.5	25.8	26.7	26.9	27.2	27.8	29.4
Transport & Communication	10.5	10.3	10.7	9.9	10.5	10.6	10.9	10.8
Finance, Insurance & Business Services	6.7	6.4	7.8	8.0	7.9	8.0	8.7	8.8
Other Services	39.2	38.0	37.8	39.0	39.4	40.0	40.2	40.1
Total	**116.6**	**117.7**	**119.9**	**121.9**	**123.9**	**126.0**	**128.8**	**130.3**

Source: FIBOS

Exchange Control Delegated Limits

In view of the stable level of foreign reserves to date, the Reserve Bank will increase delegated to authorised foreign exchange dealers effective **1 January 2011** for the following transactions:

Payments		Current Delegated Limits	Revised Delegated Limits
a)	Court Order payments • Alimony • Collection of debt • Other	$50,000 per annum	Fully delegated
b)	Education Expenses • Paid to Student • Paid to Institution	• $1,000 per student per annum • $50,000 per annum	• Increase to $5,000 per student per annum • Increase to $100,000 per annum
c)	Advance Import payments	$20,000 per invoice	Increase to $200,000 per invoice
d)	Merchanted Goods	Requires RBF approval	Delegate up to $50,000 per invoice
e)	Medical Expenses paid to Institution	$50,000 per invoice	Increase to $100,000 per invoice
f)	Medical Expenses paid to Institution	$50,000 per invoice	Increase to $100,000 per invoice
g)	Investment by non-residents on the South Pacific Stock Exchange	$5.0 million per annum	Fully delegated

The revised amounts are maximum amounts delegated to authorised foreign exchange dealers. Requests for amounts in excess of these (where applicable) must be referred to the Reserve Bank of Fiji.