2023 FIJI FISCAL REVIEW COMMITTEE

REPORT OF THE COMMITTEE

31 May 2023

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EXECUTIVE SUMMARY

The situation

1. Our Government faces **deep financial challenges,** including a "triple threat":

   (a) its current debt to GDP level (85% at 31 March 2023) means it **has very limited capacity to borrow or spend** what is needed to improve public services for human development, climate resilience and meaningful economic growth

   (b) it has very **limited financial capacity to respond to a future economic shock** such as another pandemic, a major cyclone or earthquake in a populated area

   (c) yet it must urgently find billions of dollars for **critical infrastructure that cannot wait**, including water, electricity, sanitation, roads and bridges and health, without which economic growth and human development could be significantly affected.

2. Our human capital investment needs are equally daunting. Fiji's global ranking on the United Nations Human Development Index **(HDI)** has fallen from 78 to 99 over 20 years. Fiji significantly under-invests in health compared to its peers; the education system needs overhaul; and the loss of skilled people to neighbouring countries has accelerated as part of the fallout from the post-Covid world. **The eroding skills base is a major threat** to Fiji's ability to put plans and ideas into action. This threat will continue for the foreseeable future.

3. Fiji can meet these threats and come through a difficult period better equipped for future challenges. But it cannot do so without facing some hard facts now - and taking some possibly painful corrective measures now.

Chapter 2: The Big Picture

4. At **Chapter 2** we try to summarise the economic and social background to our Report and the deep challenges the Government faces. Specifically:

   (a) for many years the Government has **not collected the money to pay for the services it provides**. Tax "giveaways" in the form of VAT, personal income tax and corporate tax reductions in the last decade have deprived Government of perhaps $3-4 billion in revenue that Fiji could not afford to lose

   (b) **much of what Government has spent has been poorly directed**. Education funding (specifically TELS), Walesi, some sugar industry support and spending on roads are examples

   (c) a lack of funds and poor spending priorities means that much work has been left undone. Fiji **health spending** is critically underfunded compared to its peers. Without **systematic maintenance**, Government assets have lost value and now need replacement. A **lack of investment in water and sewerage** is now having an impact on thousands of households daily

   (d) Covid-19 complicated these problems further, forcing Government into deep and rapid borrowing while the economy shrank. The economy is recovering but the debt remains. If Government simply continues with "business as usual" the situation will deteriorate, the debt to GDP ratio will rise and virtually none of the public investment Fiji needs can be realised

(e) both the World Bank, which has just completed a Public Expenditure Review, and the International Monetary Fund **(IMF)** at the end of its (Article IV) annual review of Fiji's economic progress, have expressed themselves in a similar way, advising that tax rises and spending cuts are needed to reduce Government debt and leave Government in a better fiscal position. Their proposed measures would leave the Government with an additional $1-1.5 billion a year. Our views are similar but we believe that the spending cuts cannot be as drastic and some of the additional tax revenue to be raised is needed urgently for investment in health and infrastructure. In our view, without the additional investment required, economic growth itself may be threatened. We therefore see little choice but to **slow down the rate of debt-to-GDP** reduction which they have advised **in favour of the additional spending** that is required, with the intent that better rates of economic growth may improve Government's fiscal position.

(f) the **revenue measures** we propose are:

(i) increased corporate tax to 25% (with some relief for corporate SMEs)
(ii) increased VAT to between 12.5% and 15% with no zero-rating on essential items
(iii) increases in departure tax to return to $200 per passenger by 2025
(iv) increased Customs revenue (particularly on liquor)

balanced by **new expenditure measures** including

(v) increased social welfare spending and targeted direct assistance to lower-income households
(vi) increased capital expenditure on infrastructure and health.

These and their revenue implications are summarised at paragraph 2.16 and further analysed in Chapter 4. The mix of revenue and spending options is a matter for Government to elect, not for the Committee to prescribe. However the Committee believes that Government must target a reduction in the debt to GDP ratio of lower than 70% in 10 years' time

(g) this can only be achieved with **strong Government leadership**, both in communicating clearly with the people on our current difficult position; and in the next 12 months developing, in consultation with the people, a national vision and medium and long term economic plans which set, among other things, fiscal targets against which Government's fiscal management can be measured. Legislatively the Government must extend its hand to the Opposition to become part of this, even if this is rejected at first, to **build consensus on "big issues"** and give to investors and consumers **longer-term certainty and predictability in policy-making**, regardless of which party is in power. The Government must also bind itself to rule of law and proper accountability for its actions and ensure that the **judiciary is made more efficient** and an effective source of dispute resolution and legal certainty. We also recommend that the Government share more information to ensure open discussion and dialogue on economic matters and better accountability to the people on its own economic performance

(h) committees like ours come and go; recommendations in many reports have sat unactioned for years. We urge a different approach to the recommendations that the Government chooses to follow – that they are treated not as jobs for the civil service to attend to between its other responsibilities, but as **projects for "dedicated, empowered, independent" (as we call them) teams of people**, including private sector and technical experts, to put comprehensively into action. We consider whether Fiji, too, needs a **separate agency dedicated to reforms** in improved Government expenditure, cost recovery and asset management

(i) finally we bring to Government's attention two particular areas of focus for economic growth and social inclusiveness – **MSMEs,** with huge potential to make economic impacts where they are most needed; and in **improving economic opportunities for indigenous people** – though, as we have observed, the focus on indigenous economic opportunities need not involve taxpayer funds or be at the expense of any other community.

Chapter 3: The Social Dimension

5. In Chapter 3 we give attention to what we call "the social dimension". Fiscal policy – how the Government raises and spends money – tends to be dry and dollar-driven. However it directly affects the economic and social lives of all of Fiji's citizens, particularly its poorest. They are the most dependent on the Government for basic services such as health, education and welfare and the creation of economic opportunities. They have the most to lose when these services fail. In 2019 one in four Fiji citizens lived in poverty; the devastating Covid-19 pandemic, is likely to have deepened that number, despite Fiji's relatively quick statistical economic recovery. We discuss some of the challenges to improving their quality of life and targeting Government spending more efficiently on those who need it. This is not just the right thing on which to focus; it also makes economic sense. The discussion section of the Chapter covers aspects of poverty, health, education and housing. However – and we emphasise – targeting is what is needed. Much of the Government's current social support programmes – including zero-rating of VAT – is in the Committee's view poorly directed. Government's limited resources must be better focused on helping those who need it. Our recommendations extend to:

(a) the need for Government to **better understand poverty**, where it is and who it affects, so that limited Government resources – including those managed by the Social Welfare Department - can be better directed at addressing it

(b) **improving tax relief and associated support (including VAT relief) for non-government organisations** (NGOs) to give them more resources to partner with Government in dealing with poverty and welfare issues

(c) a need for **an inquiry into past Government funding of tertiary education** – particularly TELS. This seems to us to have been extravagantly funded but poorly managed, with hundreds of millions of dollars unlikely ever to be recovered from tertiary education "loans". In an area as critical as tertiary education we must learn the lessons and avoid future mistakes

(d) we make a number of recommendations on rebuilding the previously strong **partnership between NGOs and the Government in education**, in improving school accountability and re-prioritising vocational education

(e) we also make recommendations on **better partnerships in housing** and prioritising the formalisation of title in informal settlements, where feasible, to create value for informal homeowners

(f) we conclude with recommendations that Government **prioritise rapid improvements to public health and investment in water and sanitation** (themes that are picked up elsewhere in the Report).

Chapter 4: Tax, Customs and Excise Duty Revenue

6. In Chapter 4 we focus on tax and Customs and excise revenue-raising measures. This is the core of the Report and where much of the detail in our revenue raising recommendations and tax management processes can be found. At risk of repetition:

(a) **Government is, and has for some time, been seriously under-funded**. We cannot expect better services from Government unless we are prepared to shoulder, through taxation, the monetary burden that is needed for those services – and to better manage the Government debt that has accumulated in the last decade

(b) **new revenue is needed** to fund not just urgently needed infrastructure, but more effective administration and additional recurrent spending on health. It is also needed to stabilise and begin to reduce the Government's oversized public debt

(c) in the simplest terms, we think that the Government must collect an additional net amount (that is, after compensating measures for low-income households as necessary) of **at least $500 million each year**. This sets the Government on a more certain path for stronger economic growth, lower debt and better infrastructure investment. More revenue – that is, more than the $500 million we are proposing - would improve that path, but we also appreciate that there are limits to the amount of additional tax that the people and business can bear

(d) unfortunately, the **Government's options are narrow**:

(i) only 20,000 Fiji citizens pay any personal income tax, for the reasons we discuss in Chapter 4

(ii) the corporate tax increases we propose will, at $60-70 million, not significantly improve Government revenue

(iii) returning Departure Tax to $200 by 2025, as we have recommended, adds $75 million to Government's coffers.

Other sources of tax or duty revenue – on tobacco, on sugar products, etc – are either already in the Government's revenue net or, if increased, would only contribute marginally to additional revenue. **This leaves only the consumption base** – Customs and excise duties and VAT – **as an effective source of taxation**. With limited opportunities in Customs and excise duties (we believe about $100 million is available by returning some duty rates, particularly on alcohol, to pre-Covid levels) this means a significant increase in VAT is the only meaningful source of the increases in Government revenue required. At the illustrative VAT rate we have used – a single rate of 14% - this raises an additional $500 million. But we recommend that some of this (we propose, broadly, $150 million) can be applied in targeted income support to cushion low-income households for the consequences.

Chapter 5: Non-tax revenue and recovery of costs

7. In Chapter 5 we look at the Government's non-tax revenue and cost recovery options, with a particular spotlight on the Water Authority of Fiji (**WAF)**. Overall we have noted that:

(a) **Government needs a more coherent and consistent policy on cost recovery**, in terms of charges for usual Government services and more critically, to fund the infrastructure services we all need, particularly water and sanitation. This is also needed for critical regulatory services which directly impact investment - including in relation to the environment, urban planning, transport and utilities pricing

(b) where "user-pays" for Government services is appropriate, the Government needs to move quickly and sensibly to that position on all Government services. This is not as easy as it looks. Legislative changes, new office processes and new payment platforms may be necessary, but Government must invest the time, effort and funds required. Government must be mindful always of the need to protect those who cannot pay; but, as always, **subsidies and support must be well targeted**. In the case of water and electricity subsidies, for example, targeting appears to be poor or non-existent. We pay particular attention to the water and sanitation sector and WAF's current critical situation – the lessons learned and the action required. We also comment on the success of the Immigration Department to become a net contributor to Government revenue and its plans to improve further

(c) with assets exceeding $8.4 billion in 2021, Government's State Owned Enterprises are a critical part of Government operations and revenue-raising. A detailed review of Government SOEs are beyond the Committee's workscope but we have noted in the Report some useful observations on Fiji's SOE performance by the Asian Development Bank in a 2023 report. Specifically, the 25 entities which Government counts as **SOEs averaged only a 2% return on assets and a 4% return on equity over the 2010-2021 period; their ability to efficiently use their assets has declined significantly in that time.** ADB concludes that SOEs are either over-investing in assets, not recovering enough revenue from them or both. So serious focus on SOEs is required, particularly in better public private partnership (PPP) performance. This can only be improved, the Committee believes, if Government can be seen as a trusted partner for the private sector, which currently has a **low level of confidence in Government to act transparently and fairly** and to add value to commercial relationships

(d) Fiji also needs to focus on increasing its grant in aid income. The South Pacific has become geopolitically more important in recent years, with greater attention focused on it by Pacific powers; Fiji should make the most of this and focus on improving its performance in obtaining available funds from international NGOs and multilateral development agencies (MDAs). This is not necessarily the strength of Fiji's public servants and diplomats. The Government should take a commercial approach to this, if necessary engaging and paying experts for their help in doing so on an "economic payback" basis. Government also urgently needs "in kind" technical assistance that can be made available by traditional partners, in areas such as financial modelling, legislative drafting, engineering and procurement, planning and environmental laws and policy and ease of doing business.

Chapter 6: Removing Impediments to Economic Growth

8. Fiji has a reasonable "pipeline" of actual and potential new investment projects, both foreign and domestic; the challenge is to bring them more quickly to fruition, to create greater economic confidence and a better investment climate for further investment in sectors where Fiji has comparative advantage. In the last 15 years Fiji's global ease of doing business rankings have declined significantly. Many of the impediments identified by business and investors are easy fixes. For once, however – and importantly – many of the improvements Fiji can make do not cost a lot. They require clear thinking and analysis but, with focus and commitment, have potentially good economic paybacks. However each improvement needs focused attention as "a project, not an aspiration". We highlight a number of specific issues, many of which will be familiar to readers, with appropriate solutions. These include:

(a) **basic confidence-building measures from Government** – demonstrable efforts to consult, listen to and work with the private and NGO sectors in problem-solving, including accepting criticism and sharing critical information

(b) **improving performance on routine business regulation requirements** such as annual occupational health and safety (OHS) and National Fire Authority (NFA) processes, RBF and FRCS interactions on offshore payments. These dealings frustrate both large investors and SMEs

(c) **illogical "minimum investment" requirements under the new Investment Act**, enforceable by sanctions such as significant fines and even imprisonment. These make no sense; the Investment Act itself is a law of questionable utility

(d) **improving the efficiency of the Fiji court system** as an effective dispute resolution mechanism, to build greater confidence in rule of law

(e) **comprehensively reviewing Land Sales Act and State Lands Act processes**. The former are an impediment to potential good quality investment; the latter, particularly in the area of foreshore leases, offer slow, unpredictable and generally discouraging outcomes for investors

(f) **urgent action on access to electricity**. Investors complain about the high cost of connection to the EFL grid; there has also been critical under-investment in renewable energy sources, concentrating Fiji's dependence on fossil fuels for electrical energy to the detriment of the environment, foreign reserves and overall energy security. The historical reasons for this are secondary. Action needs to be taken now to ensure better longer-term outcomes, even if this requires initial monetary investment from Government

(g) **urgent action on environment and town planning regulation**. The Department of Environment is criticised as, at times, unnecessarily aggressive and at other times unresponsive and slow, with resulting delays in the implementation of capital projects. Some of this criticism appears to have force; however the DOE's budget has been cut by more than 60% over four years even while demand for its services has sharply increased. The issues with the Department of Town and Country Planning appear to be more complex (although the Department has suffered similar spending cuts) and arise in part from a lack of resources in the relevant local authorities which are the "front line" for town planning applications. Once again, the process needs urgent overhaul. In respect of these two departments, arbitrary cuts to their spending appear not to have recognised that they are both key "gatekeepers" for almost all physical capital developments – infrastructure, factories, buildings, resorts. So starving them of resources is economically counter-productive. They need more resources and attention, not less

(h) **Government needs to comprehensively review Fiji's immigration policies**, to ensure that Fiji can attract the investors and skilled people it needs in both the short term and the long term for improved economic and social development. Many countries have benefited from clever and flexible immigration strategies; Fiji should emulate them, particularly at a time when its own talent is being dragged offshore by global skills shortages.

We believe that if solutions to these issues can be rolled out, these will begin to build confidence that realistic reform is possible and occurring. This will in turn lead to increased engagement between Government and its stakeholders – and ensuing confidence in Fiji as an investment destination.

Chapter 7: Government Expenditure and Value for Money

9. In Chapter 7 we look at Government's spending and asset management. This is critical. If the Government is asking the people to shoulder a significantly higher burden of tax, the people must be able to see significantly improved services and economic returns. This means a Government that is – and is seen to be – careful with its money and focused on quality infrastructure investment and spending. Overall, Government's approach to value for money appears to be poorly co-ordinated and haphazard. Accordingly we believe:

(a) **improved transparency and accountability** in financial management is necessary. This is not a platitude. The Government needs to be more open with its accounts and reporting to the people, whether directly or through the agency of the Auditor-General, on the quality of its own financial performance. This includes the sometimes years-long delays in issuing annual accounts and reports for Government departments and statutory bodies. The Government needs to be more tolerant of criticism of its performance; and accepting of the fact that true openness and accountability means, inevitably, personal embarrassment to those politicians whose departments do not perform well. Leaders concerned about avoiding such embarrassment are likely to be better stewards of public funds

(b) **Government spending needs a top-down, whole of Government review**. We do not believe that significant savings in direct spending are possible without a deep study of how the Government operates and what must fundamentally change in how it operates. This includes the current incentives to department heads, which are not focused on saving money or getting better value for money spent. Government should also appoint a private sector-led Public Sector Costs Committee to focus each Government department on spending cuts and re-prioritisation of its monetary allocations; it should review the civil service pay and seniority structure to ensure that skilled professionals are rewarded for staying in their professions, not graduating into management; and it should look for ways to share costs and re-deploy personnel between departments

(c) Government can significantly improve its **project prioritisation and asset management,** with significant resulting long-term savings. Its approach to maintenance seems to be *ad hoc,* if it exists at all; there appears to be no "whole of Government" approach to its assets and significant losses are being incurred simply because routine maintenance is not performed, which shortens the life of major assets and requires them to be expensively replaced. Ironically this may require Government to spend more money in the short term to increase asset life, with the intent of saving on unnecessary capital expenditure on replacement assets in the longer term

(d) specific areas of Government spending must be reviewed. The Committee is critical (as is the World Bank) on current spending to support **the sugar industry,** currently averaging $80 million. The frequently-cited proposition that 200,000 people depend on the industry is, in the Committee's view, doubtful in 2023; but most importantly, there appears to be no long-term strategy for the industry. It is one thing to support farmers to grow more cane; but a successful strategy outlines how that cane will be turned to profit, and on that point the Committee has seen none. The Committee has also commented on **military spending** (averaging $90 million per annum in the last five years) and notably the poor cost recovery the Government makes from its spending on peacekeeping operations (an additional $60m per annum), which has averaged only 15% in the last five years

(e) Government must **speed up changes to public service processes and procedures**, to remove outdated practices and to make better use of technology; focus on obtaining **better value from its State Owned Enterprises**; and specifically **build trust and be a better quality partner with the private sector in public private partnerships** to improve the return on public assets in often complex environments such as infrastructure, transportation and utilities

(f) Government must **look critically at its own agricultural, commercial, industrial and residential land and building assets**, many of which are poorly maintained and deriving little or no economic return and how to make better use of those assets. This may involve partnerships with indigenous landowners in respect of land originally compulsorily acquired for public purposes.

CHAPTER 1

1.0 INTRODUCTION

1.1 Fiscal Review Committees have been a part of Fiji's economic policymaking since 1979. Four Committees in total have reported back to their appointing governments in that time. The last was in 2004.

1.2 The intent is that a representative group of people – Fiji citizens with diverse skills and experience – consult as widely as possible and report back to the Government with their views on its taxation, spending and economic policies. This is important because:

(a) day to day economic policymaking is in the hands of politicians and public servants, supported at times by international agencies, each pursuing their differing objectives. But from time to time a fresh set of eyes – ideally from a group representing a wide range of Fiji citizens – can help to re-set policy thinking and identify new challenges

(b) the process is participative. The Committee hears from a wide range of citizens, businesses, civil society organisations and interest groups. Participation is important. Citizens must speak up about the way they are governed and hold their leaders to account. They can also contribute much real-life experience.

1.3 Fiji has a new government after 16 years with an expressed wish to be more open and consult more widely on economic and other issues. The 2023 Fiscal Review Committee was appointed against this background. The first National Economic Summit since 2006 took place in April 2023 with participation from different economic and social sectors, creating a long list of action points in a general atmosphere of optimism that consultation and Government engagement with the private sector and civil society could help to achieve them. The Government has revived the so-called Investment Facilitation Committee, a high-level troubleshooting group of Government officials that aims to quickly iron out problems facing investors and existing businesses – but now with a critical new element, private sector participation (including a representative of our Committee).

1.4 The Committee's full Terms of Reference are set out in Appendix 1. The Committee, made up of the 14 people named below, convened for the first time on 7 March 2023 and concluded its work on 18 May 2023, when the Report was handed in draft to the Minister of Finance for verification and feedback. The feedback received from the Ministry improved its accuracy and focus but the Ministry did not seek at any stage to influence the conclusions of the Committee.

1.5 In a nine-week span of time, the Committee:

(a) met in full 13 times. These meetings, generally 5-7 hours in length, were to receive presentations and discuss outcomes. Its four sub-committees held multiple meetings outside those times, often equally lengthy, to deliberate on their specific chapters of the Report

(b) received 32 presentations from Government departments, statutory organisations and companies

(c) read 192 written submissions, ranging from 3-line emails to 20-page documents

(d) travelled (in smaller groups) to 12 locations on Viti Levu and Vanua Levu for three days of public consultations. Some of these consultations were well-attended; some less so.

In nine weeks Committee members – all part time participants – have had to absorb a significant amount of detailed and valuable information. To summarise and comment on it all would not be practical or efficient in the time allocated to it. The priority has been to complete this report, but we hope to be able to publish some of the more focused submissions and presentations as part of the increased public fiscal information environment we believe the country needs.

1.6 Overall, submissions to the Committee tended to be either focused on the narrow needs of the submitter (being specific to an industry or a business or a personal grievance) or very general. In a number of cases individuals turned up to express their frustration with the Government over matters such as cane contracts, employment issues and poor Government services.

1.7 In totality the submissions improved the Committee's understanding of specific economic and social issues and matters of general public concern. Some participants expressed frustration at the lack of important information available to them to be able to usefully contribute to public debate. The Committee believes this last point is important. Government must be more open and share more information if people are to participate in, and effectively contribute to, the national economic debate. This helps to build the national vision we discuss in Chapter 2 and to develop public ownership of it.

1.8 Not every contribution received by the Committee has been referred to or adopted – but we believe most people who contributed will recognise in the broad themes we have explored at least some of their thinking and suggestions.

1.9 Given its very short time-frame, the Committee had to limit presentations made to it mostly to public bodies and international agencies including the World Bank, the Asian Development Bank, the International Monetary Fund and the United Nations Population Fund. These presentations left the Committee with significant economic and social information to rapidly absorb and process.

Recommendations

1.10 Different sub-committees performed the core work in Chapters 3-7 and set out the key recommendations. The formatting and approach in each of these chapters is slightly different as a result. The recommendations – some broad and thematic, some specific – are set out in **red type,** for ease of reference**.**

Dissents

1.11 The Committee has endeavoured to reach consensus on all issues. However one member, Ms Kirti Patel, has requested that her dissent be recorded on the first recommendation at paragraph 4.114 that zero-rating of VAT on basic food items be removed.

Conflicts of interest

1.12 Some Committee members are in business and own companies; some members earn incomes which are subject to high rates of tax on personal incomes (including Social Responsibility Tax); and some are professional advisers whose clients have made submissions to the Committee. These explicit conflicts have been declared to the whole Committee in its deliberations to ensure, as far as possible, transparency in those deliberations and balanced recommendations.

Acknowledgments and thanks

1.13 The Committee wishes to thank all who took the time to write to it and send in sometimes comprehensive written submissions; and all those who attended public consultations. We sincerely appreciate the assistance of staff from the Ministry of Finance who kept our minutes, arranged our travel and other support; and the staff of the Fiji Revenue and Customs Service **(FRCS)**, the World Bank, Asian Development Bank, Pacific Financial Technical Assistance Centre for helpful data, estimates and forward projections.

What the Committee cost the taxpayers

1.14 Transparency and accountability begin at home. Over its nine-week span, the Committee's work cost the Government a total of $21,849.46, made up as follows:

Newspaper advertising	7,808.90
Weekly meeting expenses (including catering and travel/accommodation reimbursement for non-Suva members – 13 full Committee meetings, multiple sub-committee meetings)	6,190.25
Consultation expenses (including members' travel and accommodation and venue hire – 12 locations)	7,850.31
TOTAL	**21,849.46**

Committee members were offered meeting allowances but took none. Members not based in Suva were reimbursed direct travel and accommodation and meal costs verified with receipts; they did not receive *per diem* payments.

Richard Naidu (Chair)
Vani Catanisiga
Matelita Katamotu
Pradeep Patel
Viliame Waka
Lisa Apted (Deputy Chair)
Edwin Chand
Fantasha Lockington
Naibuka Saune
Barry Whiteside
Reaaz Ali
Neelesh Gounder
Kirti Patel
Mereia Volavola

CHAPTER 2

2.0 THE BIG PICTURE

Introduction

2.1 Fiji's Government faces **deep financial challenges**. Its current debt to GDP level (85% at 31 March 2023) constrains its ability to borrow for meaningful economic growth, human development and climate resilience. It has very limited financial capacity to respond to a future economic shock such as another pandemic, a major cyclone or earthquake in a populated area. And yet the Government must urgently find billions of dollars for critical infrastructure that cannot wait, including water, electricity, sanitation, roads and bridges. That is just for the physical capital we need.

2.2 Our human capital investment needs are equally daunting. Fiji's global ranking on the United Nations Human Development Index **(HDI)** has fallen from 78 to 99 over 20 years. Fiji significantly under-invests in health compared to its peers; the education system needs overhaul; and the loss of skilled people to neighbouring countries has accelerated as part of the fallout from the post-Covid world. **The eroding skills base is a major threat** to Fiji's ability to put plans and ideas into action. This threat will continue for the foreseeable future.

2.3 Fiji can meet these threats and come through a difficult period better equipped for future challenges. But it cannot do so without facing some hard facts now - and taking some possibly painful corrective measures now.

2.4 The Committee's working period coincided with work performed by both the World Bank and the International Monetary Fund, both of whom made early presentations to us. These helped to set the scene for the Committee and underscore its more intuitive concerns. The institutions' work is deeply researched and carefully analyses Fiji's available economic data. These institutions are also, in their analysis, able to apply the lessons they have learned in other countries. The World Bank's Public Expenditure Report (**PER)** has now been made public and for those of us concerned about Fiji's future fiscal direction, is required reading. It has expressed concern about the Government's debt to GDP ratio and its potential to destabilise Fiji's economic future if it is not rapidly reduced. The IMF is equally concerned about the debt situation.

2.5 Both the World Bank and the IMF have urged Government to urgently increase Government revenue through a number of measures including sharp increases in VAT and widening the personal and corporate tax nets. The World Bank has also proposed deep cuts to Government support to the sugar industry, saying that much of this is poorly directed. The Ministry of Finance and the Reserve Bank of Fiji also offered guidance to the Committee, with more concentrated local perspectives not necessarily available to the international agencies.

2.6 There is a sentiment in some quarters that international organisations have "agendas" of their own and their prescriptions have no regard to local contexts. We have tried to take that perspective into account; and to some extent we have differing views from them, particularly with respect to the need for more (but better targeted) capital expenditure. However we cannot change the stark facts that come from their research. Their statistics and resulting analysis are valuable starting points. The international agencies are focused primarily on debt reduction, not for its own sake, but as a means of ensuring that Government has the ability to finance its future operations and investments – and cope with sudden shocks - in an orderly way. Without this, the Government will be able to do nothing for the people.

2.7 The Committee does not disagree with the international agencies' diagnosis of the Government's current fiscal problems. But the Committee, made up of Fiji citizens, who live and work here, is also focused on ensuring that the Government sets a clear national vision, meets urgent infrastructure needs, materially improves Government services and delivers economic growth. But it understands that Government's debt burden must remain clearly in focus, because Government debt threatens all of the same objectives.

The current situation

2.8 We sum up our impressions of the economic and fiscal situation facing the Government as follows:

(a) for at least 10 years the Government has not been collecting enough money to effectively do the work it needs to do – that is, to provide essential services, regulate effectively, improve health, education and welfare and invest in the infrastructure Fiji needs to be more productive. In addition, what has been collected has not been spent effectively or productively. This has resulted in at least two things:

(i) gradually increasing Government debt to make up the gap between revenue and spending, suddenly accelerated by the Covid-19 pandemic to excessive levels of public debt

(ii) delayed or ignored investment in critical capital spending both in critical infrastructure (roads, bridges, electric power, water and sanitation in particular, with renewable energy a looming issue) and human capital (including the infrastructure to support social services such as health centres, hospitals and schools). Government must now move fast to make up this gap or we face critical failures, which will threaten economic growth

(b) bringing up the past is only useful if we are to learn its lessons. Three critical fiscal measures occurred in the last decade which contributed to Government underfunding:

(i) a reduction in corporate tax from 28% to 20% in 2012

(ii) a reduction in Value Added Tax rates from 15% to 9% in 2016 (albeit with the removal of zero-rating on basic food items and introduction of 6% Environmental Levy on tourism related services)

(iii) an increase in the tax-free threshold for personal income tax from $16,000 to $30,000 in 2017.

On a rough estimate, these measures have deprived the Government of $3-4 billion in revenue over the last eight years. The tax cuts appear to have been justified as a "growth gamble" – that putting more money in people's pockets would stimulate economic growth which in turn would generate more tax revenue (at the lower rates). That gamble did not succeed. It also significantly altered people's tax expectations. Lower taxes self-evidently please people. Preliminary views by the Committee that VAT would have to rise – to a rate not higher than 15% - have generated (understandably) negative reactions. However this could also be seen another way - as a return to a past, more fiscally responsible position[1]

(c) the Covid-19 pandemic rapidly altered the debt to GDP ratio from 49% in 2019 to around 90% by the end of 2022. This number excludes about $1 billion in contingent liabilities made up of Government guarantees – another 11% of GDP – to support Fiji Airways, Fiji Sugar Corporation, the Fiji Development Bank and the Housing Authority. There is little doubt that, for FSC's guaranteed $250 million in external debt at least, Government will have to pay up (and write off an additional $200 million in direct Government lending)

(d) the rapid deterioration occurred because both parts of the debt to GDP "fraction" were badly affected. Government had to rapidly borrow more to hold up the economy because Covid reduced Government income from taxation. So Government debt, in absolute numbers, increased sharply. Meanwhile, GDP – the base number of the fraction - shrank, so the ratio was pushed up. Government's debt in absolute terms has not fallen; but rapid economic recovery in the last 12 months has raised GDP, meaning the ratio has fallen back to 82%. The debt to GDP situation would be more manageable now if the Government had, in the last decade, pursued the orderly and well-directed capital investment that was needed. But it has not done so, and Fiji is now faced with the need to invest, even while the debt to GDP ratio must be driven down

(e) the Government is not – and will not in the foreseeable future be – in a position to reduce Fiji's **nominal** debt number (about F$9.5 billion as of 31 January 2023 – now about 82% of GDP as the economy recovers and the GDP "base number" gets bigger). Reducing the nominal debt is not necessary as long as the Government is able to manage the debt to GDP ratio downwards. From this point, however, pushing down the ratio gets harder. The high levels of economic growth over the last two years (18.6% for 2022; and estimated 8% for 2023) are merely the economy "catching up" to where it was before Covid. These growth rates will not continue naturally. Fiji's "normal" economic growth over the last 10 years has averaged a little over 3% per year. This is a statistic that Fiji must urgently change. There will soon be another National Budget which will guide the people of Fiji on how much Government will borrow in the coming fiscal year and which could put pressure on the debt-to-GDP ratio

(f) from a debt viewpoint, Fiji began a "fiscal consolidation" strategy in 2019 (interrupted by the pandemic). However both the World Bank and IMF project that this strategy alone will not significantly lower the debt-to-GDP ratio in the coming years – they believe the ratio would actually rise, to above 100%. In other words, cuts to Government spending are not enough. Significant changes in Government finances are needed to bring it down

(g) the World Bank does not consider Government's overall operational spending, as a number or a percentage of GDP, excessive in a global context. But it believes – as does the Committee – that a lot of it has been poorly directed and needs to be re-thought. Many civil service practices are unchanged after 50 years and no longer fit for purpose. We do not see a clear strategy within Government to address them

(h) poor planning means "band aid" solutions where money could have been saved by thinking ahead. Under-spending on maintenance is a major problem that has created

[1]When 15% VAT applied in the past, zero-rating applied to some basic goods; the Committee is proposing no zero-rating, but instead, as an alternative, direct and targeted income-boosting measures to lower-income households.

long-term costs. Poorly thought out spending cuts have reduced available resources for critical regulators like the Departments of Environment and Town and Country Planning, even as investors complain that their delays are stalling economic growth opportunities (see paragraph 2.8(f) below). Some huge swathes of Government spending – including hundreds of millions on projects like TELS, Walesi and support for the sugar industry – have been poorly directed

(i) debt-to-GDP is not everything – some of Government's debt is inexpensive (low to virtually zero interest) lowering the average interest costs on Government debt - currently about 4% per annum. Debt servicing (principal and interest payments) comprises one-third of all Government revenue – significant, though manageable for now. However debt servicing costs could become more challenging if interest rates rise and Government must borrow at higher cost. Currently about 30% of Government debt is denominated in foreign currencies (mostly US dollars). If the Fiji dollar exchange rate falls against the USD, debt and debt servicing costs automatically rise on this debt.

Some argue that because debt servicing costs are relatively low, public debt is not a major concern. That, however, is to assume that nothing is going wrong and nothing will go wrong. Thousands of people in the Suva-Nausori corridor experience daily water cuts, the consequence of failure to invest responsibly – and recover costs responsibly - in water infrastructure. This is a symptom of more infrastructure challenges to come. Major climate events – particularly cyclones – are predicted to become more frequent. Storms and flooding already cost tens of millions of dollars in most years, even without cyclones. A severe cyclone in a major centre, could instantly alter Fiji's current infrastructure reality, demanding an immediate response merely to replace the infrastructure Fiji already has. Fiji might expect some disaster recovery money from supportive development partners but that would not be enough. If Government does not have access to quick, unconditional borrowing for recovery, a shock-induced economic setback would be more severe.

What must Government do?

2.9 The Government must be able to balance its priorities between social protection and creating the necessary platform for economic growth. Both priorities involve significant Government spending; the right spending, in the long term, should meet both priorities. In short the basic services on which everyone depends – rich, poor, investors, consumers – need critical investment:

(a) in this report we have put some focus on water and sanitation as infrastructure needs, because the signs of stress are already visible and easier to relate to. For thousands of people water cuts are already a reality. WAF has advised us that it will need to invest at least $800 million in the next five years in the water network. The sanitation network – processing sewerage - is a more serious proposition. None of WAF's 10 sewerage treatment plants are now environmentally compliant. The cost to bring them to standard is estimated to be as high as $3 billion. Currently 28% of Fiji's population has adequate sanitation, well below Fiji's Sustainable Development Goals **(SDG)** target of 100% by 2030. To meet the target would require an estimated additional $4-5 billion

(b) transport infrastructure, such as roads and bridges are another visible and critical public service and the subject of many public complaints. Some of Fiji's critical bridges are at or nearing the end of their useful life. Some are now the subject of weight restrictions which limit efficient road transport. This increases costs to business and ultimately to the cost of living. The complete loss of a critical bridge could be severely disruptive. The

Committee heard complaints from both the public and bus operators that rural roads become impassable in wet weather, disrupting work and school and increasing maintenance costs for public transport providers. A lack of modernised and efficient port facilities increases costs for importers and ultimately consumers. Airport infrastructure in Vanua Levu limits the growth of tourism and related activity there which could reduce regional disparities in investment and growth

(c) cost-effective access to electricity infrastructure is a repeated complaint from investors and accordingly an impediment to economic growth. Energy Fiji Limited, at least (and in stark contrast to WAF) has been put onto a commercial footing, is profitable, has a strong balance sheet and is able to invest using its own resources and borrowed funds. But its own costs are increasing, which will inevitably flow on to consumers; EFL has been unable to meet any material renewable energy targets and will not do so for the foreseeable future, meaning that, without a change in EFL's focus, Fiji will remain heavily dependent on fossil fuel generation with consequences for Fiji's environment, foreign reserves and energy security. A move to renewables may require some Government support, at least in the short term

(d) the Committee heard that Fiji's health spending, at 2.9% of GDP, falls well short of the 4.2% average spent in comparable countries. We do not dwell here on the many public complaints about health services and repeated warnings from experienced doctors about the deterioration of hospital infrastructure, the loss of skilled personnel (the Fiji health system currently lacks a quarter of its total complement of 3,400 nurses). Simply to get Fiji to the required average spend would mean adding another F$150 million annually to Government spending. This does not take into account the significant capital expenditure required – in the hundreds of millions – to modernise the Colonial War Memorial Hospital in Suva, and the additional operational cost to the Government for services to be provided by Healthcare (Fiji) Limited, the public private partnership (PPP) intended to re-develop and operate the Ba and Lautoka hospitals

(e) based on Household Income and Expenditure Survey **(HIES)** data a quarter of Fiji's population lives in poverty. One estimate is that another 15% are on the margins of poverty. This data pre-dates the Covid-19 pandemic; while the economy has rebounded, the benefits of that recovery have not necessarily been evenly spread. The Government's social welfare spending, spread across six different programmes, is about $150 million per year. More than one-third of this is spent on pensions for people over 65 which are not means tested. In simple demographic terms, budget demand for this pension will increase, putting pressure on other critical programmes

(f) cuts to ordinary Government operational spending sometimes have unintended consequences. Delayed processing of Department of Environment applications is a common target of complaint from developers and investors. Yet its operating budget has been cut by 65% between 2019 and 2023 as demand for its services has increased. The Department of Town and Country Planning has suffered similar cuts (although DTCP delays, which involve interaction with local government bodies, are a more complex issue). While funding cuts may not be the only cause of these difficulties, it is clear that these two regulators – which are critical economic growth agencies – are not receiving the support they need, with consequences for investment and economic growth.

2.10 These problems present a common underlying challenge – funding. A common theme across many agencies is that there are no resources for strategic planning. Many Government departments and statutory authorities, with limited funding and staff, are merely executing with little ability to review their data, look for areas of improvement and develop strategies to meet the changing environments they face. Strategic planning is a regular and routine action for successful private sector organisations. They are generally prepared to pay for external help and expertise in developing their own strategic plans. Few of them have all the internal resources they need for this and, in any event, they value "fresh eyes" on their businesses. Government agencies need this mindset – but they also need the money to execute on it.

How much money is needed?

2.11 Below is a table showing, in the simplest terms, how much the Government has raised and how much it has spent in the last five years.

($M)	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023 Budget
Total Revenue	**3,244.4**	**3,180.5**	**2,717.1**	**2,143.1**	**2,190.9**	**2,939.9**
As a % of GDP	28.5	27.1	25.4	23.4	21.9	24.9
Tax Revenue	**2,831.6**	**2,819.7**	**2,193.8**	**1,412.7**	**1,692.0**	**2,322.1**
As a % of GDP	24.8	24.0	20.5	15.4	16.9	19.6
Non-tax Revenue	**412.8**	**360.8**	**523.3**	**730.4**	**498.9**	**617.8**
As a % of GDP	3.6	3.1	4.9	8.0	5.0	5.2
Total Expenditure	**3,742.7**	**3,600.1**	**3,353.4**	**3,190.4**	**3,414.1**	**3,812.1**
As a % of GDP	32.8	30.6	31.3	34.8	34.1	32.2
Operating Expenditure	**2,322.0**	**2,428.9**	**2,333.7**	**2,189.0**	**2,261.7**	**2,600.7**
As a % of GDP	20.4	20.7	21.8	23.9	22.6	22.0
Capital Expenditure	**1,383.2**	**1,133.1**	**988.1**	**973.4**	**1,123.0**	**1,160.6**
As a % of GDP	12.1	9.6	9.2	10.6	11.2	9.8
SEG 13 VAT	**37.5**	**38.1**	**31.6**	**28.0**	**29.4**	**50.8**
Overall balance (deficit)	**-498.3**	**-419.6**	**-636.3**	**-1,047.3**	**-1,223.2**	**-872.2**
As a % of GDP	**-4.4**	**-3.6**	**-5.9**	**-11.4**	**-12.2**	**-7.4**
Nominal GDP	11,399.1	11,757.5	10,703.3	9,167.6	10,020.9	11,827.3
Total Debt	5,220.5	5,735.3	6,686.0	7,663.7	9,131.5	10,003.7
Debt to GDP	45.8	48.8	62.5	83.6	91.1	84.6

2.12 This shows that the Government consistently spends more money than it collects, resulting in Government deficits. Deficits themselves are not necessarily bad, as long as they do not lead to unsustainable levels of debt. So if the Government can keep its deficits (as a percentage of GDP) below the rate of GDP growth, it follows that the debt to GDP ratio will fall. That is what agencies such as the World Bank are asking it to do.

2.13 Clearly, this has not been happening. Well before the Covid-19 pandemic, Government was running deficits, in GDP terms, well above the rate of economic growth, even as capital expenditure – the Government's investment in our future (already in our view poorly directed) - was falling.

2.14 The World Bank has put to Fiji two possible plans for a return to fiscal stability:

(a) a "moderate" one, incorporating a unified 15% VAT rate, removal of certain Government tax incentives, cuts in TELS[2], substantial reductions in sugar industry support and controlling the public sector wage bill. This would reduce the Government deficit to less than 3% of GDP by 2027 with the aim of reducing Fiji's debt to GDP ratio to 65% in 10 years' time[3]

(b) an ambitious one, which adds on higher Departure Tax, an excise tax on sugar(y) products and elimination of fuel duty reduction, with further cuts to TELS. These measures would mean virtually no deficit by 2027 – an almost balanced budget – and reduce the ratio to 44% in 10 years' time.

2.15 We have set out above only the briefest summary of those recommendations; in fairness to the World Bank their recommendations are best read in full. However in dollar **terms both scenarios would require between $1 billion to $1.5 billion to be made available through increased taxes and spending cuts**. Fiji officials, in the Ministry of Finance and the Reserve Bank of Fiji, are cautious about these scenarios and their effect on economic growth; they are more focused on increased economic growth to mitigate some of these tougher measures and reduce the debt to GDP ratio that way.

2.16 In current dollar terms the **major fiscal recommendations** of the Committee are as follows:

Fiscal measure	Increase (decrease) in available revenue	Further comment
Increased VAT (between 12.5% and 15%, no zero-rating on essential items)	$370 to $630 million	This huge range in outcomes makes clear that the decision on the VAT rate is Fiji's fiscal "game changer". Zero-rating on essential items would lower revenue by $185m at the 12.5% rate and $220m at the 15% rate
Increased corporate tax (from 20 to 25%)	$70m	This may be impacted in the short term by Covid losses carried forward
Increase departure tax to $150 and then $200 by 2025	$75m	$75m will be the increment by 2025 when the full $200 departure tax is restored
Increased Customs and excise revenue by returning to (near) pre-Covid rates of duty including alcohol	$100m	
Increased social welfare spending	($30-35m)	Only possible with VAT increased above 12.5%
Direct targeted assistance	($100m)	Only possible with VAT increased above 12.5%
Increased expenditure (urgent capital expenditure and health)	($200m)	Only possible with VAT increased above 12.5%

[2]These recommendations preceded the 2022 general election and the Coalition Government's decision on TELS. We explore TELS in Chapter 3.

[3] Assuming 5% per annum real economic growth, which is already ambitious compared to the more sluggish 3.1% average over the last 10 years.

2.17 At best (that is, at the highest rate of VAT we propose, 15%) this would increase the Government's overall fiscal balance by **$500 million**. The World Bank indicated to us that on its own assumptions (5% per annum real GDP growth) this would push debt-to- GDP down to somewhere below (only) 75% in 10 years. This is not a lot of gain on the debt side. The Committee's hope, however, is that the increased spending we have proposed, well targeted, will ensure better and more sustained economic growth and long-term improvements in health and productivity, with its own positive benefits for growth. If economic growth can be increased above 5% per annum, the debt-to-GDP ratio will fall further. However Fiji has not consistently achieved that rate of growth in the past, so a growth strategy without tax increases is also a "growth gamble". If economic growth does not improve, then neither will the debt to GDP ratio.

2.18 The Committee has deliberately avoided a specific alternative economic prescription of debt levels or a single specified recommendation on VAT because, as we see it, there are too many variables in the hands of the Government. Specifically these include:

(a) what rates of VAT the Government is prepared to impose and whether it is prepared to give up zero-rating on basic items (as we say has to be done). This is critical because VAT is clearly the "big ticket" item. As we have tried to explain elsewhere, personal income tax offers no room for further revenue-raising because so few people pay it

(b) to what extent the Government might wish to offer support for lower income families. Without decisive action on VAT, however, there will be no money to do so

(c) how quickly (and effectively) Government can "ramp up" critical capital expenditure and expenditure on other required recurrent expenditure. As we emphasise, this must be quality spending, not just throwing money at problems (as appears to have occurred in the past – refer to Chapter 7). Quality spending may take months (or years in some cases) to organise; finding the necessary skills in Fiji are also a challenge and may have to be brought in from elsewhere. However any additional funds the Government collects now and cannot spend are not wasted; in the current environment, those funds go to debt reduction (or at least lower deficits)

(d) what measures the Government is prepared to take to increase economic growth and how urgently and the Government's own economic growth targets

(e) Government's own debt reduction targets.

2.19 However we believe that:

(a) Government **must set its debt to GDP ratio target to less than 70% in 10 years' time,** show that it is committed to doing it and that it is prudently managing both the economy and its own spending. That is an important confidence-builder for both future lenders to the Government and the bigger and more sophisticated investors Fiji needs to improve public services (including through public private partnerships (PPPs)) and to bring in the skills and experiences needed to make Fiji more economically productive

(b) it is the Government's job now to lead – to communicate with the people and explain that the taxes that they have paid in the last decade are not enough for the public services they now expect; and that a better future lies in returning to fiscal discipline.

The Government must then show the people that it is delivering that discipline, including in its own, more fiscally prudent, spending.

How can ideas be put into action?

2.20 In the following Chapters we try to set out specific action points to address the issues we have raised. However:

(a) these cannot happen in isolation. They need oversight and co-ordination. "Political will" is an overused term but there is no question that national leaders must take responsibility

(b) there have been many similar reports to this one, proposing many action points; and many more complaints that nothing has been done about them. In our view it is important, as we propose action points, to try also to point (learning the lessons from the past) to a way in which the action points could actually be delivered.

A change of government is always an opportunity to put ideas before an administration that wants to set itself apart from its predecessors. However the Committee sees another new opportunity – "pent-up demand" from many committed people from outside Government to contribute and participate after a frustrating decade of poor public consultation and engagement. The Government must make effective use of the support it has been offered.

2.21 Equally, however, the non-government sector cannot simply say its piece in gatherings like the National Economic Summit and then wait for Government to act. That is the approach in past years, that did not work. The non-government sector must take advantage of the opportunity that the new government has offered it – to participate and act, even if at times this is a challenging or frustrating process. The Deputy Prime Minister and Minister of Finance valuably observed at the Summit that the Government needed to re-learn consultation and engagement, and he did not expect the policymaking process to be smooth. Non-government participants need to keep this in mind. There is a role for private sector and civil society participants in working groups supporting and driving changes in the way we describe below.

Recommendations

There must be a national vision and plan, developed through a process of public engagement and inclusion over the next 12 months

2.22 Visions, mission statements and similar aspirational documents are often viewed cynically and it is true that if an organisation is merely preparing them to "tick the box" then they are of limited use. However their value – which private sector organisations understand - is in articulating common objectives against which future ideas can be tested and past actions can be measured as part of the accountability process.

2.23 Fiji currently has five-year and 20-year National Development Plans, developed around 2017. However, as was observed at the National Economic Summit, few outside the Government know about them; and fewer people outside Government appear to have participated meaningfully in their development. It is not for the Committee to tell the Government how to develop an inclusive and people-centred vision and plan. But it must be obvious that if these are shared documents, they are more likely to be successful.

2.24 The Government must begin the process of listening and developing a national vision and plan. We recommend that these are built on developing Fiji's "four capitals" (following well known economic development models):

(a) human capital – the skills and competencies Fiji needs

(b) physical/built capital – the infrastructure Fiji needs

(c) social capital – the ways we must engage with each other for success

(d) natural capital – protecting and respecting our natural environment and resources as things of long-term value.

This is not a "quick fix". It will take time (perhaps 12 months); and that is the point. It must be discussed and shared by political leaders so that the people own it, are committed to it and can measure the Government's actions – and their own – against it. As far as possible this vision should be shared with opposition political parties (see below). That vision can, in turn, be the basis for development planning aimed at securing political consensus on long-term policies.

Government must create certainty and predictability through a long-term fiscal policy

2.25 It is outside the Committee's scope of work to say what Fiji's national vision and development plan(s) should be. However **the Government needs to develop an effective long-term fiscal policy** anchored to these things. It should include the following elements:

(a) fiscal balance - revenue raising, expenditure and limits on deficits

(b) ratios for capital and operational expenditure – how much of Government spending will be allocated to each

(c) how major capital expenditure projects will be scrutinised and evaluated, including if possible by independent agencies

(e) Government debt to GDP targets. Our recommendation is that Government **must set its debt to GDP ratio target to less than 70% in 10 years' time** (see paragraph 2.19(a) above)

(f) Government debt management – the cost of debt, how much should be overseas currency-based and how it will be effectively managed.

Government should be required to report annually on its performance against the policy.

2.26 An effective long-term fiscal policy would help the Government to communicate long-term objectives and the revenue and expenditure targets that flow from them (including some planning and provision for unpredictable events). It would also be aimed at guiding and giving assurance to those who need to plan ahead. That is everybody, including investors, policymakers, international donors and multilateral agencies - and consumers and householders.

2.27 It was suggested to the Committee that "fiscal responsibility" targets could even be written into law (subject to suspension for natural disasters, etc). The Committee does not go that far, at least not yet – laws, like policies, can be amended at any time (although admittedly more steps would be involved). First it is necessary to do the consensus-building and engagement between political parties (see below) to ensure that such laws would be retained and respected.

Government(s) must promote political stability and political consensus-building

2.28 In a speech in Vanua Levu in early May the Prime Minister thanked the previous Government for the work it had done in national development, noted that this was now the responsibility of his own government and that "after us there will be another team…we all play a role and we should hear each other out and help out in whatever way we can." The Committee's role does not extend to endorsing political leaders' speeches. However, and with respect to the Prime Minister, this simple statement illustrates the importance of individual governments – that is, the politicians in power at any one time – understanding that one day, they will be replaced, usually by people with whom they disagree on many issues. However if politicians value their legacies, they need to encourage those in opposition – and who one day may replace them – also to believe in at least the high-priority policies and actions they are pursuing.

2.29 Democratic government in Fiji has not had an easy ride in the last 35 years. However a successful democratic transition in 2022 was an important confidence-building step for the most fundamental investment rule – political stability. But democracy does not stop at election time. **Elected Governments must pursue political consensus on long-term issues such as health, education and economic growth**. This requires that they treat the Parliamentary Opposition with the respect that should be accorded the alternative Government (because that is what the Opposition is). This means that the Opposition must be resourced to be effective, appropriately briefed on key economic and social issues and free to call on public servants to give them information and explanations. The Committee processes of Parliament are intended for this purpose; those intentions should be given effect.

2.30 The purpose of this consensus-building is to **build confidence and improve long-term predictability and certainty.** The aim is to avoid critical economic and social investment stalling in anticipation of a change of government; instead there is confidence that the Government and Opposition are, as far as possible, either aligned on key long-term issues or that their differences are clear and stakeholders can plan accordingly. Policy differences and debate are necessary elements of politics; no one expects (or wants) political leaders to agree on everything. But it is important that all political sides have the full facts, objectively presented by a neutral civil service, so that they can articulate credible economic and social policies and everyone else can plan accordingly.

2.31 An attempt to begin the consensus-building process was made when the Government invited the Parliamentary Opposition to the National Economic Summit. The invitation was not taken up; but it is the Government's responsibility to keep **trying**. The Government cannot retreat from these efforts just because it has been rebuffed once. The Government, compared to the Opposition, has many times more resources and power to make things happen. **It is the Government's responsibility to continue to try to build consensus where it can.**

The Government must be legally accountable

2.32 Rule of law is vital to any sound society and Fiji is no exception. This requires the Government – the most powerful player in economic and social life – to be legally accountable. This applies as much to the other two arms of Government – the executive and the judiciary.

2.33 The executive arm of Government includes the Cabinet, the civil service and also public authorities that regulate economic behaviour. They too must be legally accountable and accept legal checks and balances. A specific legislative device in the Fiji Constitution[4] limits legal challenges to many Government decisions – even decisions in 2023 – if they are taken under Decrees that were enacted before the 2014 Parliament sat. Several laws have their own "no challenge" clauses. A good example is found in the Fijian Competition and Consumer Commission Act 2010 which forbids challenges to Ministerial decisions on price control. It was suggested by the FCCC that this law was necessary to avoid delays in implementing price control decisions if the Fiji courts intervened against those decisions. In so saying FCCC appears to be justifying a special place for its decisions – that is, above the law. If regulators have a problem with the pace and nature of court decisions, they should address this with the courts. They should not rely on "legislative fixes" that prevent those affected by their decisions from challenging them. **This means a careful review of all such anti-challenge laws and taking the necessary legislative steps to eliminate them.**

2.34 Decision makers should always be accountable under the law. They should always be aware that their reasoning can be made the subject of legal action or an Information Act demand (see below) or both. That sort of scrutiny encourages transparent and honest administrative decisions, free of political interference, which in turn promotes good governance.

2.35 And if the law is to be respected – and for people to look to the law as a fair and transparent way to resolve their disputes, with each other and with the Government – **the courts at all levels must also be efficient and responsive.** We touch on this further at Chapter 6.

The Government must make economic information available to people to allow them to participate in economic governance

2.36 Poor access to useful information limits people's participation and understanding of fiscal issues and wider debate on them. This was a repeated complaint heard by the Committee in its public consultations. Government annual financial information is issued as part of the Budget process. However there is very little clear and accessible analysis, for example, on how the Government has performed against Budget in previous years. This is basic management information to which the people should have some access. The Office of the Auditor-General, for example, has observed that there has generally been poor utilisation of capital expenditure allocated in annual Budgets, suggesting insufficient project and planning and preparation. The Government needs to be publicly scrutinised on these measures.

2.37 Few people appear to be aware of Government's heavy reliance on VAT as a revenue-raising measure and the reasons for this – that there are few alternatives. Certainly, given the very small number of people in Fiji who pay income tax, the notion of raising personal or corporate income tax is unrealistic. Detailed information on how the Government raises money – including, for example, by tax types – needs to be put into the public domain as part of the annual reporting on fiscal policy performance referred to above.

[4] s.173(4)

2.38 This needs to be part of an overall change in Government's approach to its own information. Parliament enacted an Information Act in 2018. However it has not yet come into force; the necessary machinery to make it work seems to be unavailable; and the information that can be requested under it is limited in any event. A sound and well-developed law on public access to information needs to be developed. But that does not prevent Government from making more information accessible in the meantime. Government's "default position" should be that its financial information should be made available to the media, the public and the Opposition if they ask for it (and it is cost-effective and practical to deliver).

2.39 The purpose of these changes is to enhance Government accountability and transparency generally. The Government is a large, complex organisation – and, as happens in any large public or private organisation, things will go wrong. That is no reason to hide errors and incompetence from the public. A commitment to transparency means a willingness to accept that, from time to time, this will mean embarrassment. For politicians this is a hazard of accountable government – it "goes with the territory."

Effecting change requires a dedicated, empowered, independent team of people

2.40 Dozens of recommendations are made in this report. Some are specific, some more broad. Each is an aspiration, but very few can be managed simply by asking public servants to make changes. The Government may not agree with all of them but, even if it did, it would not have the capacity to implement all of them immediately. **However, each of the recommendations which interest Government is a project of its own.**

2.41 Change, particularly in a large and complex organisation such as the Government (whose deeper bureaucracy often exists for well-meant public accountability reasons) is often about changing existing structures. The process needs "fresh eyes", time and skills for analysis and planning for next action. Government departments or offices may not have the time or resources to address these matters while they are busy executing their daily work. They may also resist change (and possibly for *bona fide* reasons, on which their officials need to be heard). Many of the changes required will need to be delivered by teams of people who are dedicated (that is, focused exclusively on the task) and empowered (that is, with the active endorsement of the Cabinet, so they have the authority to obtain information and co-operation from the departments who are the subjects of reform.

2.42 The Government of the Australian state of Victoria has gone as far as to appoint an independent statutory Commissioner for Better Regulation, also given the additional task in 2018 of "Commissioner for Red Tape" – an official who is given statutory powers, functions and money to ensure that regulation is necessary and effective and does not impose unnecessary burdens on those who are regulated. The office has been successful in reducing planning approval times by one-third and small business regulation processing times by 70%[5]. A similar process could be considered to enable some of the reforms we recommend, not necessarily confined to "red tape" but also to cost recovery measures and cost-cutting across the Government.

2.43 Whichever way a group (or more likely groups) implementing reforms is made up, it cannot simply stop at recommendations. It should be able to work with the relevant agencies to "roll out" the action items in support of the recommendations, including:

[5]https://www.regulatoryreform.gov.au/priorities/regulator-best-practice-and-performance/library/commissioner-better-regulation-and-red-tape

(a) where necessary, preparing necessary law changes (eg amendment Regulations) and driving them through the necessary approvals (Cabinet or the relevant Minister)
(b) re-designing paper or electronic forms to take account of necessary changes
(c) ensuring that payment platforms (or changes to them) are activated
(d) where necessary, working with focus groups to ensure that the changes make sense to users
(e) ensuring staff are trained to implement changes when they commence and
(f) ensuring that changes are effectively communicated to the public and users before they happen and as they happen, and that there is a timetable for users to adjust, ask questions and point out possible problems and the need for adjustments
(g) transition and troubleshooting.

In this way changes are not left with a (powerless) committee or buried in a report on which no action is taken because the agencies claim to lack time, resources or other tools.

2.44 Once the task(s) are broken down in this way it is possible to see the enormity of the challenge. The skills are required are not easily available and cannot be executed by part-timers, no matter how enthusiastic or committed. Priorities will have to be set (and communicated to the public). However there is a role here for people outside Government – the private sector and civil society. A new opportunity has been presented to them to work with Government; they should take it and use it to work with Government, in working groups or steering committees, to drive the changes that we generally believe are necessary and to which the Government commits.

Two special areas of focus – MSMEs and economic opportunities for indigenous people

2.45 In an environment of multiple competing demands for the Government's attention, we emphasise two particular areas which we believe should be at the core of Government economic and fiscal policy.

(a) Micro, Small and Medium Enterprises (MSMEs)

2.46 The Government's own data suggests that MSMEs contribute 18% of GDP and employ more than 50% of Fiji's workforce. By definition they do not need large amounts of capital; they rely largely on the ingenuity of their founders and the opportunities they identify, often in their own communities. They are geographically well spread and can be a force for good and create economic opportunities in the rural economy where we see from poverty statistics that economic activity and income generation are badly needed. The pandemic unleashed a host of new MSMEs, of necessity, as unemployed people applied their skills and experience in different ways, supported in places by forward-thinking NGOs.

2.47 The twenty-first century is likely to see a decline in formal employment as we now know it, in favour of more flexible ways of working and changing patterns of consumer demand, some of which MSMEs are in a better position to meet. For the first time the Government has allocated a Ministerial portfolio to SMEs – a positive sign that they will receive greater focus and attention. The Committee has neither the expertise nor the mandate to discuss MSME opportunities in detail. But it believes that they present significant economic and social empowerment opportunities and they should be at the heart of Government economic policy.

(b) Economic opportunities for indigenous people

2.48 Since 2006 the previous Government, as a matter of policy, rejected discussion of any issue through an ethnic lens, in an apparent attempt to emphasise that all citizens are "Fijians". It refused to release any ethnically-based national census data and notoriously dismissed the then Government Statistician for revealing ethnic data from the 2019-20 Household Income and Expenditure Survey (HIES) which revealed sharp increases in measured poverty levels among the *iTaukei.* Ethnic data is vital to address critical social issues such as health and education. The public – including professionals, academics, civil society and international bodies - cannot participate in the dialogue on these critical issues without information. Suppressing it simply deferred the problems and delayed the search for solutions.

2.49 It is also important to understand and address the economic status of Fiji's different ethnic groups. In most countries, ethnicity is a natural fault line and Fiji has in the past experienced serious political and social upheaval created by individuals with an agenda to exploit ethnic difference as an opportunity. To now ignore statistical differences, pretend they are absent or treat them as unimportant is poor social risk management. The improved participation of indigenous people in Fiji's economic life is accordingly important. They must have a serious stake in the economy and incentives to improve it. The Committee believes that this, too, must be an important core policy objective of the Government.

2.50 It is also important to emphasise that the pursuit of that policy does not have to be at the expense – financial or otherwise - of other ethnic communities. Past government policies aimed at improving indigenous participation in business were seen as Government handouts, often poorly directed and inefficient. However in a joint presentation to the Committee on their new *Solesolevaki* rural investment initiative, Fijian Holdings Limited (FHL), the *iTaukei* Trust Fund Board (iTTFB), the Centre for Applied Technology and Development (CATD) and the Ministry of *iTaukei* Affairs made clear that they did not want or need Government handouts. FHL and iTTFB have accumulated considerable economic capital after many years of careful investment. They now want to unleash this capital, combined with the entrepreneurial skills and experience of their own executives and staff, to create new economic opportunities for indigenous Fijians, particularly in rural areas. They see this as their own responsibility and are prepared to put their own resources at risk to deliver it. All they are asking for from Government is the necessary enabling environment to allow these opportunities to flourish.

A brighter future

2.51 Fiji's situation is challenging but it is possible to recover. Indeed, if the Government can get its economic management right, Fiji has opportunities for steady social and economic progress. Fiji's geographic location and climate offer it many natural advantages; it has a young, reasonably well educated and English-speaking population and is the subject of increasing geopolitical interest; its largest industry, tourism, has rebounded quickly and can help to support necessary economic diversification (including avoiding future vulnerability to tourism downturns); it has a public service and national administrative structure that, if modernised and improved, can be deployed to deliver social services and support economic development. The Government must fight its way out of a difficult fiscal situation. Like most fights, pain will be involved and political resolve will be tested. The challenge is primarily on Government, how it leads and communicates in both its words and its actions.

2.52 The new Government convened this Committee – the first of its kind for 19 years – and requested it to listen, consult and advise it objectively. This is one of the signals the Government has given of a new climate of openness, a willingness to accept criticism and to involve those outside of Government in finding and implementing solutions to Fiji's problems. This is an important new development and possibly a "game changer" in itself. It opens the door to all Fiji citizens who want to take part in building their country and improving the lives of Fiji's people.

2.53 A new atmosphere of partnership has been created and it needs to be maintained and encouraged. Not every solution costs money. The skills, creativity and experience of our own people, deployed in partnership with the Government or private sector, offer us a huge opportunity to achieve the change we need. We must all take that opportunity.

CHAPTER 3

3.0 THE SOCIAL DIMENSION

Introduction

3.1 Fiscal policies do not occur in a vacuum. They have both positive and negative impacts on ordinary people. Good governance involves sound social policy that is inclusive and responsive. It is also good economics, for reasons we will come to. The Committee's Terms of Reference require it to *ensur[e] that recommended policies minimize economic and social impacts on Fiji's most economically vulnerable and disadvantaged citizens.*

3.2 Few people disagree with the general ideas that:

- a key function of a modern government is to achieve some level of social equity (which means giving different things to different people), to the extent that government resources will allow
- equity means giving support to and improving, over time, the lives of the most vulnerable in our society
- resources must be mobilized, in the form of taxation and other revenue-raising, and where possible borrowing, to achieve this goal.

The debt and infrastructure challenges the Government faces are serious and require urgent correction. The policy actions we have recommended will have an economic impact on everyone. The poorest people, by definition, have the fewest resources and options to adapt to those actions. In this Report we propose minimizing actions – principally direct income support – to allow them to respond to the impact of tax changes we propose. However it is important to remember that **Fiji's poorest people also have the most to lose** if the Government does nothing about good infrastructure, quality health and education and is restricted in taking the steps necessary to improve economic growth.

3.3 Every economy has poor and vulnerable people and most societies expect that the Government should take some level of responsibility for their protection. The poor are the most dependent on public goods – health, education, housing, infrastructure, utilities and the like. The well-off can to some extent (and often do) obtain these services from private sources for which they pay. The poor do not have that option. Quality Government services, well-targeted and fairly directed, are essential in any successful society, particularly one committed to equal opportunities and social protection.

3.4 This is not always about big investments like roads and bridges. It is one thing to set up a rural nursing station or school computer laboratory. It is another thing to keep it there. What has come through in presentations to the Committee is the Government's lack of a comprehensive maintenance policy for its assets and resulting poor (or absent) maintenance, rendering assets ineffective, even those which are relatively new in age. No one can expect a nurse or rural teacher to remain in poorly maintained or cyclone-damaged accommodation quarters on which no maintenance work has been done (even though many of them have, in some cases for years). The quality of some rural roads is so poor that buses are unable to travel on them after bad weather, disrupting school timetables. Many smaller infrastructure investments – in buildings and rural roads - are critical to the lives and human development of rural communities, small in population numbers, far from television cameras and without the political heft to demand better outcomes.

3.5 One starting point to understand Fiji's social situation may be Fiji's position, compared to other countries, on the United Nations Human Development Index **(HDI)**. The HDI (broadly) measures health, education and income to measure a country's development on the index and then to rank it. In the last 20 years Fiji's position has fluctuated between 78th place (in 2004) and 101st place (in 2015). The latest ranking, as of 2021, is 99 compared with Mauritius (62) and Costa Rica (58). Fiji's HDI index score has risen in that time (to 0.730[6] from 0.692[7]) and Fiji is placed in the "high human development" category. However, it is important to record that HDIs in most countries around the world have also risen in that time; and therefore the fall in Fiji's rankings suggests that Fiji is not keeping pace with its peers in improving its HDI scores and maintaining its earlier higher rankings. To keep pace it must at a minimum improve its scores on the core values on which HDI is measured – health, education and income.

3.6 Good social policies are also good economics. In its presentation to the Committee the United Nations Population Fund introduced us to the concept of the "demographic dividend" – in the simplest terms, identifying and investing in the next generation to ensure that it is as economically productive as it can be over the time it is actively contributing to the economy. More than a quarter of Fiji's population – 27% - is aged 0-19 years. It is this generation in whom we must invest – now - to gain the economic returns from their productivity in their economic future.

3.7 This chapter discusses how our most vulnerable are currently catered for, or assisted, through some of the various programmes of Government and non-government organisations. These include direct welfare support, education, health and housing. It sets out some of the issues/problems highlighted in our discussions with these entities and offers possible solutions and recommendations. Finally, and to ensure clarity of the need to provide for the poor, we make suggestions on the channels by which any additional support can be made to account for the adverse impact of the FRC's tax and expenditure recommendations.

Submissions

3.8 Numerous written and oral submissions focused on social needs and impacts. In summary these were concentrated on:

(a) social support for families at risk, particularly working women and mothers

(b) increases in wages and reduction of the cost of living

(c) improving access to agricultural inputs and developing skills to improve food security

(d) more targeted support for the elderly including increased pensions

(e) better use of land and development of innovative community housing and improved sanitation, including with NGOs already working in the sector

(f) improved outer islands development including better access to water and improved health services

[6]2021 score - 1.0 being the "perfect score"
[7]2004 score

(g) the sharp increase observed in the 2019-20 Household Income and Expenditure Survey **(HIES)** Report on *iTaukei* poverty and the need for improvements in the effectiveness of the *iTaukei* Administration to address it

(h) better engagement with the faith-based organisations who own schools to build better education partnerships

(i) more meaningful engagement between the Government and the people on fiscal matters so that budget priorities, Government debt and Government financial performance are better understood

(j) better Government support for philanthropic giving.

Poverty

3.9 In the course of the presentations made to us, and from the resources available to Committee members, these are the statistics which stand out:

(a) in 2019-2020 (before the Covid-19 pandemic) an estimated 24% (208,000) of our people lived below the poverty line.

In dollar terms the poverty line, at the time, equated to income of $41.91 per adult per week, or $2,179 per adult per year. Many others live just above the poverty line (see below). Data collection for the above statistics ceased just before the Covid-19 pandemic and border closures in March 2020, so the impact of the pandemic has not been taken into account. It is at least possible (even though the economy is rebounding in some areas) that these numbers have increased

(b) the HIES reports points to three distinct groups of poor, each with their own challenges and policy needs.

Group	Details	Primary Needs
Urban poor		Improved education and skills in order to access productive jobs.
Rural poor in Eastern and Northern division	Most multidimensionally deprived, lacking access to basic needs such as grid electricity and piped water	Lack of access to skilled jobs, which means the returns on education are much lower.
Rural poor in Western and Central divisions	Somewhat in the middle of the first two groups: having better access to public services due to being located on the main island of Viti Levu	Predominantly agricultural, with many working in low wage jobs such as farm laborers and cane cutters.

(c) The Fiji Bureau of Statistics (*FBoS)* has used the term **"*near-poor*"** to describe people who are

(i) not currently poor (living above the poverty line) but

(ii) at significant risk of becoming poor in the future.

FBoS defines the "near poor" as those people whose consumption is above but still close to the poverty line. The HIES Report attempts to provide various scenarios by forecasting the percentage of the population at risk of falling into poverty if there are increases in the Basic Needs Poverty Line **(BNPL).**

% Increases in BNPL	Impacts
BNPL plus 20%. ($41.91 is increased by $8.38 to $50.29)	An additional 15 percent of the population – 126, 482 people - are at risk of falling into poverty.
BNPL + 50% ($41.91 is increased by $20.96 to $62.87)	An additional 34 percent of the population – 289, 831 people - are at risk of falling into poverty

Understanding these scenarios is important if we are to:

(i) take policy measures to ensure that poverty at least gets no worse

(ii) understand the implications of future shocks – cyclones, pandemics, other severe economic events - on future poverty rates in Fiji.

(d) Multidimensional Poverty

FBoS also applied the Multidimensional Poverty Index, used by the World Bank to capture the percentage of households who are deprived of three dimensions of well-being – monetary, education, and basic infrastructure services. This provides a more complete picture of poverty. The HIES Report stated that in 2019-20:

- three out of every ten adults and children (about 256,000 people) in Fiji were multidimensionally poor – they lived on low incomes and were deprived of essential things that they need
- multidimensional poverty rates in rural areas (38%) are higher than in urban areas (23%) of Fiji.

(e) Children

The HIES report stated that only 2% of children in Fiji were deprived of three meals a day in 2019-20. By mid-2021, as Fiji coped with Covid-19, *The Fiji Times* was reporting that hunger had become an issue for students from lower socio-economic backgrounds studying at home during the lockdown periods, particularly for children living in informal settlements and those whose parents had lost jobs or business due to the pandemic[8].

In 2021 FCOSS reported[9] that inadequacies of the Government's measures to anticipate and respond to multiple disasters resulting from climate change and human events – specifically the Covid-19 pandemic and several Tropical Cyclones (Winston, Yasa, Harold and Ana) had resulted in major disruptions to the delivery of quality education for Fijian students. With the passing of the pandemic these issues may not be as acute at present but those vulnerabilities – particularly to tropical cyclones – remain.

[8]Fiji Times, 2020, 1

[9]The Supplement to the Alternate Report to the UN CRC Committee on the Rights of the Child in Accordance to the Fifth Periodic Report of State Parties of Government of Fiji prepared by the Fiji Council of Social Services (FCOSS)

Challenges For Social Services

3.10 More than 96,000 Fiji citizens are registered with Social Welfare for the 160,000 benefits (payments) distributed over the year (meaning that many of them receive more than one benefit, which is not prohibited). The Ministry of Social Welfare delivers support under six different channels of assistance. The current 2022-2023 Government budget for social protection is $125m, budgeted for as follows:

#	Programs	Targeted cohort	Budget F$M	Current Recipients	Average annual assistance per recipient
1	Care & Protection Allowance (including funding for carers and orphanages)	• Children	$13.7	10,646	$1,287[10]
2	Bus Fare Assistance	• Persons with Disabilities • Older Persons	$10.0	60,986	$164
3	Disability Assistance	• Persons with Disabilities	$10.7	11,437	$936
4	Poverty Benefit Scheme	• Families	$34.0	24,000	$1,417
5	Rural Pregnant Mothers	• Pregnant Mothers	$0.8	1,504	$531
6	Social Pension Scheme	• Older Persons	$55.0	50,883	$1,081
	Total		**$124.2**	**159,456**	

(Source: Ministry of Women, Children and Poverty Alleviation presentation)

The demands on these benefits are expected to outstrip the budgeted amounts by about $15 million in the 2022/23 year, which the Department has requested from the Ministry of Finance. The Department struggles to meet competing demands for benefits within its budget.

3.11 The Department of Social Welfare faces multiple challenges. The first of these is data integrity. Its beneficiary records are not integrated, either by region or across the different benefits it is providing. The records for each type of benefit are separately maintained in each of Fiji's four divisions. It has no "whole picture" information on which it can analyse trends or suggest policy improvements. It has no resources to analyse the (already fractured) data that it has to establish whether its limited resources are being used well. This includes understanding if some beneficiaries of long standing are now in better circumstances and no longer need assistance, which would allow welfare funds to be directed to other deserving applicants. Because its staff are focused entirely on delivery (or managing delivery – see below) there is no strategic planning capacity or capability within the Department. It cannot plan effectively, anticipate future trends or effectively predict its future needs, even though its clients are the most vulnerable people in the country. Some steps are being taken to address the data issue

[10]Note that this includes funding to orphanages and child support where families did not qualify for the Poverty Benefit Scheme (often grandparents caring for children where parents were absent).

with funding from the Australian Government to develop a better and more integrated database platform to improve beneficiary information.

3.12 44% of the Department's budget - $55million - goes towards the Social Pension Scheme. All individuals over the age of 65 who are not on a Government or FNPF pension are entitled to receive it. This includes individuals who elected to receive a FNPF lump sum payment instead of a pension. This benefit is not otherwise means tested. However the Department acknowledges that, due to funding constraints, a form of *de facto* means testing occurs. If a candidate is not seen to be in dire need then the candidate's registration for the pension is deferred in favour of others who are considered to be in greater need based on case worker discretion. This can lead to accusations of favouritism or preference. So, while the Social Welfare Department is generally thought of as administering benefits which are needs-based, almost half of its budget is spent on benefits which are rights-focused, thereby blurring policy priorities for the Department. No doubt many of the over-65s receiving the allowance make good use of the money and might qualify on a means basis anyway. However there is no easily broken data available to the Committee on which to draw conclusions. The World Bank PER notes that spending on direct transfers to recipients is relatively low with the Poverty Benefit, Child Care and Protection and Bus Fare Assistance programmes the most effective.

3.13 Government social protection schemes are not confined to the Social Welfare Department's programs. A *Social Protection Schemes in Fiji* Fact Sheet published in 2019 by the Fiji Women's Rights Movement mapped social protection schemes run by various government departments in 2019 and provides a more thorough overview of a "whole of government" approach to social protection. However, in summary the schemes are categorized in areas of focus as below:

Thematic Area of Focus	Number of Schemes	Social Protection Coverage
Education	14	Universal and Specific
Health	7	Universal and specific
Economic and Livelihoods	21	Specific
Legal Provisions	3	Universal and specific
Other Social Services	3	Specific

The Department of Social Welfare presentation made no mention of these other schemes, suggesting that it is focused solely on the social protection programs it delivers without considering how these might work in the wider mix. Nor does the Department have any formal working relationship with non-governmental organisations focused on poverty relief. These include charities such as FRIEND, the J P Bayly Trust, religious and cultural organisations and other groups who have organized and crisis-response programmes. This underscores the lack of resources it has for strategic planning and identifying opportunities for achieving possible synergies with other social protection programmes both inside and outside Government whilst possible duplication of effort, coverage and expenditure.

Education

3.14 The Ministry of Education, Heritage and Arts **(MEHA)** presentation to the Committee focused on how it uses its funding to deliver social support. However the presentation was light on the challenges the Ministry faces and how its work integrates into the wider economy or development priorities.

3.15 Government's total expenditure on education in the 2022/23 financial year was $714.3 million. The World Bank measures Fiji's education spending at 5.7% of GDP[11] in comparison to 4.9% in Mauritius and 6.7% for Costa Rica. MEHA received $489.9 million, a 10% increase in its allocation over the previous budget year.

3.16 Of the MEHA allocation, over 70% was spent on salaries of established staff ($357.9 million) with the remainder going to education grants to primary schools ($35 million), high schools ($30.5 million), transport assistance ($33.3 million), early childhood care and education tuition subsidy ($2.9 million), printing of textbooks ($1.5 million) and a new menstrual hygiene sanitary pad initiative ($1.5 million).

3.17 With its 2022/2023 allocation, the Ministry says it assisted 405,953 students across Fiji in 2022. A breakdown of the beneficiary numbers for each education initiative is below (It is likely that some students received more than one type of assistance for example with the addition of the transport assistance and menstrual hygiene initiative:

Initiatives	**Number of Student Assisted**
	Fiscal year: 2022
Per Capita Grant – Primary	4,756
Per Capita Grant – Secondary	4,891
Tuition Subsidy Grant – ECE	13,479
Transport Assistance	93,114
Vocational Grant	965
Grants To Special School	1,415
FEG – Primary	152,138
FEG – Secondary	70,855
Menstrual Hygiene Management Initiative	64,340
TOTAL	**405,953**

Tertiary Education and Loans Scheme (TELS)

3.18 The Tertiary Education and Loans Scheme (TELS) has been the subject of significant political interest. Some submissions expressed concern about the loss of value to Government arising from the promised write off of TELS indebtedness. From very brief inquiries, it appears that this loss has, to all intents, already occurred.

[11] https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS?locations=FJ

3.19 As of 31 March 2023 TELS had outstanding accounts receivable (loans to be repaid) exceeding $621.8 million representing education loans to 55,410 students. Total TELS recoveries (principal and interest) for the years 2018-2022 (including the take-up of a 50% discount on loan balance if the student obtains bank refinancing) have averaged less than $5 million per year, as follows:

Amounts: $m	**Jul 2018**	**Jul 2019**	**Jul 2020**	**Jul 2021**	**Jul 2022**	**Mar 2023**
Lent	97.0	92.4	94.1	69.4	58.1	37.8
Recovered	3.6	4.7	5.4	2.9	5.8	4.0
Discount/waiver[12]	-	1.6	2.8	1.5	2.6	1.1
Net outflow	93.4	86.1	85.9	65.0	49.6	32.7
Cumulative outstanding debt	302.5	388.6	474.4	539.4	589.1	621.8
Students: Nos.						
Intake for year	8,548	6,650	6,118	3,078	3,337	3,761
Cumulative	32,466	39,116	45,234	48,312	51,649	55,410

Source: TELS

3.20 It is not for the Committee to comment on Government manifesto commitments and the Committee does not have enough data to comment on the effectiveness of TELS. It undoubtedly funded tertiary education in quantity - but the quality of the education outcomes it has funded needs to be measured. TELS priorities appear unclear. There are also legitimate questions on the equity of other Government tertiary education schemes (Toppers scholarships, etc) that were not necessarily means-tested (as was the case for TELS loans). That is a matter for specialized review and beyond the scope and capabilities of the Committee.

3.21 From the Committee's brief inquiries, there appear to have been no clear guidelines on what should be lent and to whom; funds were generously disbursed without a clear strategy on how they would be recovered or any attention to the repayment arrangements of individual borrowers. TELS advised the Committee that recovery was a matter for the Fiji Revenue and Customs Service **(FRCS).** This appeared to surprise FRCS, which saw itself only as a receiving agency. The lack of clarity on recovery is clearly reflected in the poor recoveries on loans over the last five years, averaging less than $5 million per year.

3.22 Education is a sector that demands priority social investment for human development and economic growth. However because the required spending is large and the outcomes so important, the quality of that spending is critical. In the case of TELS, huge amounts of money appeared to have been spent – but how well was that money directed; what quality education outcomes did it achieve; and how effective has its funding plan been (given that it contemplated hundreds of millions in loans being repaid, which has not occurred)? The World Bank PER raises questions about the effectiveness of this spending and identifies this as an area for cost savings. The Committee believes the Government's spending on tertiary education in the last decade, dominated by the hundreds of million spent on TELS, needs a comprehensive and independent inquiry so that the public better understands what occurred, the consequences and the lessons to be learned.

[12] through Accelerated Repayment Incentive

3.23 Based on TELS's recent collection records, the cashflow impact of the Government's TELS write-off policy is relatively small because the Government is receiving only small amounts from TELS repayments –annual cash revenue in the order of less than $5 million per year. However it is still cash which will need to be made up. The doing away with TELS also presents a further monetary challenge to Government on how it will fund tertiary education in the future, particularly for students who do not have the means to pay for it.

Rebuilding partnerships in education

3.24 The Fiji education sector is historically an example of successful collaboration between the Government and the community for over a century. Religious and community organisations have built and maintained schools all over the country for decades with sound and well-targeted financial support from the Government. In the last decade, however, the sense of partnership has been lost, with school owners and management criticising unduly restrictive and inflexible conditions placed by the Government on their own fund-raising activities management practices, maintenance priorities, the choice of school heads (even where they are prepared to fund them) – even the choice of speakers at school assemblies. This sense of partnership between the Government and school owners needs to be re-built and the experience, commitment and enthusiasm of school communities regained. The National Economic Summit should be emulated in a similar summit process focused on education, as the beginning of a process to reinvigorate the historically successful education partnership between Government and the community.

Health

3.25 In January 2022, the Ministry of Health and Medical Services (MHMS) Wellness Unit and Diabetes Fiji published NCD-related statistics from 2020. The Permanent Secretary for Health, James Fong, said that in a year dominated by Covid-19 headlines, an estimated 5,700 Fijians lost their lives due to NCD-related causes. In his statement to the media Dr Fong said the burden these diseases placed on Fijian society and its health system is enormous — amounting to over $400 million annually.

3.26 Fiji has severe health challenges. A sample of these includes:

(a) NCDs generally, which have been responsible for over 70 per cent of premature deaths (ie before age 69) in Fiji for a decade, with the most recent estimate being 78 per cent. The majority of these deaths were recorded in groups aged between 45 and 59 years. Cardiovascular diseases, cancers, diabetes and chronic respiratory diseases are the main contributors to the deaths, and are often linked to other health problems. Similar trends exist in other Pacific Island Countries where NCDs account for about 70-75% of all deaths. Worsening trends are predicted due to worsening risk factors. The top 10 countries with the highest rates of diabetes in the world are in the Pacific Islands. Of 13 Pacific countries ranked by WHO for premature deaths (30-69 years) Fiji ranks fourth (behind the Marshall Islands, Nauru and Tuvalu). Fiji is failing on NCD reduction targets

(b) chronic kidney disease is now a leading cause of death in Fiji with available literature suggesting new cases of kidney failure (leading to end stage kidney disease) approaching 850 per year and growing. As many as 300 patients per year are likely to need dialysis treatment across eight private, public and NGO facilities nationally at a cost of approximately $50,000 per patient per annum or $15 million per year. Dialysis is a critical life-saving and sustaining treatment at a significant cost to patients and their families. Without adequate financial support, low-income individuals may not have access to dialysis, with fatal results and increased health costs including hospitalization and further medical interventions

(c) rheumatic heart disease – which causes permanent heart damage - is common in school-aged children (5-15 years) in Fiji. Its frequency is commonly characterised as being "almost one child in every Fiji classroom" and is generally caused by poor sanitation and living conditions.

(d) access to water and sanitation remains challenging for many. An FCOSS WASH (Water Sanitation and Hygiene) survey of 501 community and household leaders in 2022 identified issues with shared water sources among households, lack of treated water, drastically reduced access to water and sanitation during emergencies (including in evacuation centres) and a high incidence in low-income households of water-borne diseases including leptospirosis. FCOSS noted that when it engaged with the Government on these issues it was advised that the survey results should be kept "confidential", reflecting an unwillingness on the part of Government to share negative information publicly.

(e) mental health is often neglected and under-funded but a vitally important part of any healthcare system. Fiji has only one mental health hospital in Suva but an increasing demand for mental health support and facilities. The WHO Mental Health Atlas 2017 states that "globally USD2.50 per capita per annum is spent on mental health". Comparatively Fiji spends only USD0.05 per capita per annum – one-fiftieth of the average - on mental health. There is an immediate need to review the Mental Health Act and Suicide Prevention Policy, coupled with planned development and resourcing of prevention and intervention programs and adequate and consistent mental health training for patients, carers and service providers.

3.27 The MHMS presentation to the Committee contained much useful information, though somewhat fractured. MHMS received $395 million in the 2022/2023 Budget, a significant increase over the amounts allocated in prior years. However, numbers in the last few years have been impacted by spending on the Covid-19 response which may explain the Ministry's reference to 2014-2019 figures to discuss general trends. These show that in that five-year period health spending, on average, comprised about 2.9% of GDP - well below (MHMS says) the World Health Organisation recommended standard of 4-5% of GDP to achieve universal health care coverage and equal access to health care. Other useful information identified in the MHMS presentation was as follows:

(a) the Ministry has a total of 212 facilities, made up of two divisional hospitals (CWM (Suva) and Labasa[13]), two specialised hospitals (St Giles Hospital and Tamavua/Twomey Hospital – both in Suva), 19 sub-divisional hospitals, 89 health centres and 100 nursing stations. A majority of health centres and nursing stations need renovation with significant capital works identified for CWM (Maternity), Savusavu and Labasa Hospitals. However, there is no "whole of Ministry" maintenance plan, nor is the Ministry part of any other "whole of Government" maintenance plan. The Ministry is only now trying to get better oversight of maintenance needs. It generally underspends on its capital expenditure allocations because it does not have the resources to better organise its capital expenditure needs

[13]Lautoka Hospital is now managed under the Public Private Partnership with Healthcare (Fiji) Limited

(b) retaining skills remains challenging. Only 2,500 of 3,400 nursing positions are filled with a "pipeline" of new graduate nurses amounting to a little over 200 nurses a year (which takes no account of loss of years of experience). The 2022/23 budget allocation took into account the need to hire 40 midwives and 202 new nurses, 132 new medical officers and 40 interns.

3.28 The Ministry appears to have a good understanding of the need for co-ordination, planning and monitoring. Asked about its Top 5 requirements (based on urgency and importance for the Ministry over the medium term (2-5 years)) the Ministry responded as follows:

Priority Action Areas	Short Term	Long Term
Infrastructure	Upgrade based on strengthening of community engagement	Maintenance of existing infrastructure and developing effective infrastructure management tools
Human Resources	Re-training of staff to fill in gaps created through vacancies	Effective HR Management Tools
Command Center Strengthening/ Remodeling of Health Services	Setting up Command Centers and functionality of the Command Centers	Expand role and function of Command Centers, expanding capacity to provide oversight functions including financial issues
Surveillance	Setting up effective surveillance systems for pandemic readiness	Sustainability and upgrade based on evolving needs
Response Readiness	Setting up effective systems and strengthening existing capacity such as stabilizing Border Health Protection Unit (BHPU) and Fiji Emergency Medical Assistance Team (FEMAT)	Sustain and update based on evolving needs

Housing

3.29 While the Committee did not receive a detailed presentation on Fiji's general housing situation, information made available to the Committee shows that:

(a) between 25-28,000 households, or 120-140,000 people – about 15% of all Fiji households – were living in informal housing in more than 170 settlements in Fiji

(b) high rural-urban migration in the last 15 years has significantly increased (by more than 20%) Fiji's urban population

(c) 10 years ago, two-thirds of all households had 5 or more people; and while there is a shift towards smaller household sizes this will increase pressures for housing

(d) there is high demand for housing assistance with more than 1,000 applicants waitlisted at the Public Rental Board and 10,000 applicants waitlisted at the Housing Authority[14].

3.30 The Housing Ministry was established in 2018 as a stand-alone Ministry to focus on the housing sector and to bring together an urban housing programme. It is currently working on reviewing and implementing a national housing policy and strategy, including looking for ways to increase access to affordable housing for Fiji citizens. However in a (frank) presentation, the Ministry pointed out that it has substantially missed all of its National Development Plan targets in the 2018-22 period, as follows:

Programme Targets	2018/19		2019/20		2020/21		2021/22		Total Output Expected	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Squatter Upgrading and Resettlement(1) (# of lots)	150	-	230	-	230	-	230	-	840	-
First Home Buyers(2) (Households)	500	342	650	300	800	345	950	503	2900	1490
Town-Wide Informal Settlement Upgrading(3) (Lots)	124	-	376	-	343	-	-	-	843	-
Rural Housing Assistance	110	-	115	48	120	16	125	-	470	64
-Full Housing	50	-	52	43	55	16	60	-	217	59
-Partial House	60	-	63	5	65	0	65	-	253	5
Comments	*(1) Consolidated as Informal Settlement Upgrade Programme;3 settlements completed, Ledrusasa, Cuvu & Waidamudamu. Issuance of 451 leases in progress* *(2) Fiji encountered COVID19 in 2020* *(3) Has been consolidated as Informal Settlement Upgrade*									

Covid-19 clearly interrupted its progress but there are clearly deeper challenges as the Ministry acknowledges, including a lack of staff (including skills at the appropriate level) and no presence in the Northern and Western Divisions.

3.31 The Ministry has an ambitious plan to upgrade 48 informal settlements by turning them into formal sub-divisions. It has acquired the relevant development leases for that purpose (on the basis that the occupants will bear some of the cost of issuing the lease in return for obtaining formal title to their land, which will give them significant value). This would be a way of creating value for potentially thousands of people in these settlements. At this point, the Ministry advises that work has begun on only three of the 48 development leases. Accelerating this programme will take significant effort and cost – the Ministry's presenter indicated well over $500 million. However that value can be recovered to some extent

[14]International Finance Corporation briefing to Government of Fiji, 18 January 2023

because this will result in titled lots which are transferable and able to be used as collateral for borrowing and home improvement.

3.32 For the purposes of future infrastructure planning the Ministry has identified 28 projects for action which are yet to be funded with a value of over $750 million. The Housing Authority has four separate, and as yet unfunded, projects worth another $250 million[15]. The Government has re-prioritised a project with the International Finance Corporation to create a $500 million public-private partnership to build more than 3,000 affordable home units in mixed housing development on Viti Levu (the plan being that the bulk of the investment will be recovered from home buyers). All of this takes place in a challenging environment for housing construction and home ownership, IFC noting that:

(a) formal housing construction nearly halved between 1998 and 2018 (based on the number of completion certificates issued) and

(b) the value of formal housing supply in Fiji increased five-fold over the same period, with the average value of completion certificates (five years ago) being $240,000 or 10 times average household income.

A rapid loss of skills in recent months will only make work in this sector more challenging in future.

3.33 Conventional housing solutions are necessary but the Committee was reminded of the success of home-grown, community-driven options, particularly the Charitable Model Towns Trust **(CMTT)** which has now completed over 1,017 homes across the Western Division, including in Koroipita. These homes, though modest, are built to be cyclone proof and successfully withstood TC Winston in 2016. Construction, supervised by CMTT personnel, is largely performed by members of the "town" and volunteers, who live in a "green" community. Koroipita with nearly 1,200 residents in over 282 homes is now receiving Government support. But it is a model that should be emulated across Fiji. In 2023 a further 105 homes are being targeted for construction. CMTT has more than 1,000 applications for homes on file, receiving an average of 12 new applications each month. All applications must fall within the entry guidelines for the families to be considered.

Conclusions and Recommendations

3.34 The above "snapshot" of some of Fiji's key social challenges points to the need for significant investment in sectors such as poverty alleviation, social welfare, education, health and housing, all of which will need significant funding. How investment in each sector is prioritized as part of a renewed national planning process is of course a matter for the Government. But from the presentations and consultations in which the Committee has been involved the following conclusions emerge:

1. Improve coordination and delivery of services to the country's poorest people

(a) The Department of Social Welfare is acting largely as an underfunded, "hand-to-mouth" Government distributor of funds, without the data or assessment tools to "graduate" clients whose situations have improved, delaying consideration of some applications for funding reasons and lacking an integrated understanding of who its clients are and what

[15]Source: Draft National Infrastructure Investment Plan made available to the Committee by the Ministry of Finance. This may have been amended since.

future trends are indicated by current data. The Department appears now to have support for upgrading its database so as to make better use of its data, which is a positive first step

(b) However the Ministry and the non-government sector in the welfare space – faith-based organisations, charities and non-government organisations – have little or no organized co-ordination or ability to leverage each other's information and resources for more efficient support. They appear to have been working "in silos", as was evident during the pandemic. This has to change. We are aware that the Assistant Minister has been meeting CSOs in an effort to identify their key functions and document work being done and how they can work together. These partnerships must be developed into an overarching plan to cover service delivery Fiji-wide, to:

- avoid duplication of effort and delivery in the same areas (or to the same people)
- improve readiness for better social outcomes after economic shocks, including climate events such as cyclones. The response must be more comprehensive than simply opening and closing evacuation centres
- better use and guidance to those in need to available (and sometimes underused) Government services, particularly people who are living in remote locations, have special vulnerability (eg age and disability) and those with less education

2. Review priorities for the Department of Social Welfare in line with available funds

As we have set out, 44% of the Department's current budget is used on the social pension scheme, which is not means-tested, while there are other needs-based activities, eg Child Care and Protection and Poverty Benefits. Government policy must have a clear separation between what Government will make available "as of right", such as pensions from benefits that are needs-based, so that the distinction is clear and publicly understood, in an environment where welfare funding is limited and difficult choices must be made on priorities.

3. Ministry of Women and Social Welfare to be fully resourced to better carry out its responsibilities

The Ministry needs additional resources to allow dedicated senior staff to develop, in conjunction with the non-government sector in the welfare space, short, medium and long term welfare strategies beyond simply distribution of benefits, to take advantage of the imminent improvement in its database.

4. Review the income tax and VAT status of non-government organisations committed to social services

(a) Tax law changes in 2016 brought into the tax net some income (eg investments, rent, etc) of organisations designated as charities, on the basis that this income was earned "in competition" with for-profit organisations and a "level playing field was required". This deprives effective charities of funds which they can effectively use on the ground, particularly in periods of high need. It also discourages NGOs from investing appropriately to ensure that they have a consistent and sustainable source of independent funding. The Government and FRCS should review the current policy to ensure that charities are able to retain more of their investment income, perhaps on the basis that if it can be shown that the investment income has been spent on core activities, tax relief should be available.

(b) Charitable organisations must be able to recover (either by way of input credits or grants from Government) VAT paid on food and other goods purchased for distribution and support to poor families.

5. There must be an inquiry into Government funding of tertiary education through the TELS and similar schemes, including its impact on the quality of tertiary education.

Hundreds of millions of dollars in public funds appear to have been advanced with little or no prospect of recovery and poor planning on how to achieve recovery. The facts must be ascertained and made public, together with a summary of lessons learned for better targeted, more effective and equitable support for tertiary education in future.

6. The historically successful Government/community education partnership must be rebuilt

The Government should move quickly to convene a national education summit to begin the process of reinvigorating the historically strong education partnership between Government and the community. The summit should focus on how, as education partners, they can:

(a) deliver a relevant and forward-looking national education curriculum

(b) improve autonomy for school leadership to ensure that they pursue the best options to improve their schools using Government funding (not necessarily constrained by "one size fits all" ratios on how funding is used), including money for capital works and student transport

(c) harness the power of school communities to raise funds to improve facilities and create imaginative local school options

(d) build their own teams of teachers and staff

(e) ensure co-ordination of local school activities with national education priorities

(f) modernize school safety practices and

(g) ensure that students from poorer families are protected and have the ability to compete with their peers and maximise the opportunities that education can bring them.

7. Strengthening vocational education

A further associated point is the importance of vocational training and guidance to be provided at the secondary school level. Identifying the particular skills of individual students at an early age will help guide/focus them on their most appropriate near-term studies and training whether in technical, professional, academic and even sporting fields. Providing this early focus is a win-win solution for the student (who does not waste time and resources pursuing a career to which he or she may not be well adapted) and also to the tertiary/training institutions who can plan accordingly for the likely registrations on an annual basis.

8. School administration and accountability

Many school trustees lack training and knowledge in accountability mechanisms and cannot make the most of funding opportunities; sometimes their funding is delayed because their accounting for previous education grants is poor. More intensive training is needed (including grants for accounts and audit for professional advisers to provide "on the job" training while preparing accounts). This financial accountability training is never wasted. It creates skills in community leaders that are often put to other purposes and a better understanding of public finance, which is important to community understanding of, and participation in, local and national government.

9. Government should look for opportunities to grow partnerships for housing

The Ministry of Housing has made a good start in supporting organisations such as the Housing Assistance and Relief Trust (HART) and the Community Model Town Trust **(CMTT)** in their development of successful community-based housing solutions. Some "quick wins" are available from making better use of community resources, committed volunteers and private sector-supported housing assistance for vulnerable families. This may include core funding for administration and accounting.

10. Government should focus on creating value from informal settlements where it is practical

Government should pursue conversion of existing informal settlements into formal sub-divisions where practical and optimal, given that built houses (even if only rudimentary) already exist, there are existing communities who know and can help each other and networks through which aims and objectives can be communicated. These conversions can add value through the creation of land titles, giving homeowners access to finance and home improvement opportunities (and ensuring that Government receives appropriate financial contributions from the property owners who benefit). Not all of these settlements may be ideal for conversion, particularly if they are exposed to the elements or exist on marginal land.

11. Ministry of Agriculture support for the most vulnerable

The Ministry of Agriculture oversees and, in many cases, supports 93,000 farmers (excluding cane farmers), of whom approximately 80% are predominantly subsistence farmers. Many poor rural families have some access to land, even through informal processes such as *vakavanua* leases, on which they can engage in commercial agriculture or even better subsistence agriculture to improve their own nutrition. They need

(a) better skills including an understanding of how to build resilience in the face of climate change

(b) good market information and support for distribution of their produce.

The Ministry has budgeted to provide seeds, equipment (or access to it) in some cases to farmers in a continuation of existing programmes but these services need to be further enhanced to create new agricultural opportunities. A number of civil society organisations, including FRIEND, offer this type of support and the Ministry should work more closely with them for these outcomes, including, alongside commercial returns, food and nutrition security and poverty alleviation.

12. Leveraging the Departure Tax into rural tourism opportunities

We have recommended a return to the $200 per person departure tax by 1 April 2025. In our Departure Tax recommendations we have suggested that the Government agree with the tourism industry, formally or otherwise, how to make use of a portion of the Departure Tax revenue to build tourism and infrastructure support for tourism in rural areas, to maximise local resources such as waterfalls, caves, rivers and other scenic spots and unique tourism experiences using local skills and resources. This funding could also be used to work with hoteliers in long-discussed (but so far weakly delivered) projects to identify potential markets that can source local reliable local seasonal food supplies to meet tourism and hospitality industry demand. There is increasing demand for green tourism, "farm to table" food options, unique gifts (if well-presented and packaged) such as sea salt, seaweed soap, locally produced goat cheese and dozens of other products, many already in development but needing relatively small amounts of funding for further development, and for which international guests would be prepared to pay.

13. Health needs money

The challenges in health are common to those "across the board" in Government, but made more acute by the importance of health to individuals, to families, to economic productivity and to confidence in the country. In economic terms Fiji cannot create a retirement industry, attract investment or the high-end talent that it needs to grow unless people have confidence that their basic health and emergency medical needs can be adequately met:

(a) health appears to have suffered from long-term under-investment, including in preventative medicine, and Fiji is now paying the price. Loss of skills of doctors, nurses and technicians has been a recurring problem but is now accelerating in keeping with the quickening of skills loss in other sectors; medical professionals at all levels will need to be paid more if they are to be retained

(b) investment in human capital needs to be matched by investment in physical capital. The Ministry believes (although it is only now gathering comprehensive information) that the majority of its facilities need significant physical upgrading. These are health facilities. Cleanliness is a professional, not just optical, necessity. Power, water and online connectivity must be available and staff quarters acceptable. Although this is true for all of Government there is a critical (life and death) need for Health Ministry assets, including buildings, basic infrastructure such as utilities, lifts, laundries and incinerators and highly sensitive medical equipment to be organized into a scheduled maintenance programme to ensure they serve their full intended useful life and that funds are available for scheduled maintenance, not *ad hoc* maintenance when they break down.

14. Water and sanitation need to be urgently restructured and funded to be made more reliable

While most of our commentary on water and sanitation assets is to be found elsewhere, water is a critical social service, essential for health and productive daily living. Many of Fiji's poorest people receive it at no or low cost and for the foreseeable future (at least for people in the lowest income groups) this support may need to continue. However it is obvious, both from the presentations made to the Committee and from the daily experiences of thousands of Fiji citizens, that water and sanitation assets are already at a critical point. WAF needs to move away, as quickly as possible, from grant funding and to be re-organised to be self-funding with realistic tariffs paid by those who can afford to pay and sufficient capital expenditure from

Government to ensure that this essential service – described in the Constitution of Fiji as a human right – is able to be provided to everyone. It goes without saying that the Committee believes that for an essential service, the poorest should pay the least. However most people in Fiji can and should pay more and it is necessary that they pay more to put Fiji's water and sanitation services on an economically sound and sustainable footing.

15. Coordination of development cooperation and official development assistance for social development and welfare needs improvement and more community involvement.

Grants in aid are a significant portion of the Government's non-tax revenue (See Chapter 5), much of it directed at social support. The Government needs to work more effectively with civil society organisations engaged in social support to obtain the best value from this assistance and develop a policy accordingly. At the minimum, such a policy should uphold the four effective development cooperation (EDC) principles of *democratic ownership of development priorities*, *inclusive partnerships*, *results focus*, and *transparency and accountability* in the delivery of aid.

16. VAT-funded directed assistance could improve the choices of those on the lowest incomes.

The Report proposes a significantly higher VAT rate as a necessity for Government fiscal balance and required capital investment, including in social spending (Chapter 3). The Committee notes the World Bank PER report's observation that Government's direct transfer welfare spending is relatively low. The Committee has proposed direct targeted income support assistance to low-income households, funded from increased VAT, as a better means of supporting them than a simple zero-rating of specific goods and services. Although the Committee's proposed assistance is intended to compensate for the VAT increase, more cash for lower-income households improves their choices. If, for example, the household's response was to grow more of its own food to save money, the direct assistance would be available for other things.

CHAPTER 4

4.0 TAX, CUSTOMS AND EXCISE DUTY REVENUE

Introduction

4.1 Fiji needs a tax system that:

- collects **a realistic and sustainable amount of revenue** to meet Government's operational and capital expenditure needs.

- as far as possible is **fair, equitable and progressive**. Everyone contributes something, even if it is only through the goods and services they buy; those with more should ultimately pay more; and the resources of the wealthy are thereby redistributed to the poor, in cash or in kind.

- is **simple for taxpayers to understand and for the Government to administer**. Taxpayers are not tax experts. They want to be compliant, pay what they owe and get back to what they do well. For Government, complicated tax measures add to administrative cost, tax disputes and suspicion that those who can afford the best tax advice pay the least tax.

- creates **certainty, predictability and** transparency – so that it is part of a coherent set of economic policies that makes sense to consumers and on which they can plan for a reasonable future period without fearing disruptive changes.

4.2 The application of these principles is challenging, so there will be differing views on the specific tax measures and rates which best achieve them. To some extent they may compete with each other. However, a Government that remains focused on these principles, is able to explain its policies in these terms. If it speaks and acts consistently with them – doing what it says - we believe it has better prospects of gaining broader agreement and therefore co-operation and buy-in from taxpayers and citizens, some of whom may have become accustomed to paying less tax than is necessary for the services they demand.

4.3 Accordingly, implementing and articulating tax policy reform over the short to medium term aimed at broadening tax bases, moderate rate increases, simplifying tax administration, improving compliance and maintaining consistent and predictable tax policies (including targeted reducing sector-specific taxes) is justifiable and critical at this time. The detailed tax policy measures need to be aligned with revenue targets as well as implementing improvements to the current tax structure.

4.4 At the strategic level, the tax policy measures should achieve an increase in revenue in a fair and efficient manner while minimizing the adverse economic impact. This requires, as a guiding principle, policy measures that broaden the base for the main taxes, in some cases with increases in tax rates, offset by the removal of certain sector-specific taxes to achieve a simpler tax system.

4.5 In summary the Committee's most significant recommended changes are:

(a) increases in VAT to a unified rate not greater than 15%. This could raise up to $630 million (at 15%) in additional revenue (although we are proposing that some of this be returned to lower-income households)

(b) increases in the corporate tax rate from 20% to 25% (subject to narrow exceptions). This could raise an additional F$70 million

(c) increases in Departure Tax, to come fully into effect at $200 in 2025. At that point it would generate additional income of $75 million

(d) increases in Customs duties, largely to pre-Covid levels including a return to (or near to) previous duties on alcohol – an additional $100 million is projected.

In the paragraphs below we discuss, in respect of specific taxes and tax types, submissions received (where relevant), our considerations, reasoning and recommendations.

Corporate Income Tax

Background

4.6 Fiji's current Corporate Income Tax (CIT) rate, at 20%, is the lowest standard CIT rate in the region . The regional average is 26%; the global average is 24%; and the OECD average (much of Fiji's FDI comes from or through OECD countries) is 25%.

Before 2001 resident companies paid CIT of 35% and non-resident ("branch") companies 45%[16]. This was reduced to 28% for all companies in 2010 and to 20% in 2012.

Total CIT collections between calendar years (CY) 2018-2022 (inclusive) were as follows:

Category	2018 ($m)	2019 ($m)	2020 ($m)	2021 ($m)	2022 ($m)
CIT @ 10% and 20%	$386	$358	$232	$195	$274

Discussion

4.7 CIT has been a steady source of tax revenue. That revenue base has been somewhat narrowed by

(a) concessionary rates; and
(b) incentives.

Concessionary rates

4.8 Two well-intentioned concessionary rates were introduced but ultimately appear not to have had their desired effect (the latter was also problematic, contributing to Fiji's EU blacklisting – see further below):

[16] The authorities justified the 10% difference as fair because overseas shareholders in resident companies also paid withholding tax on the dividends they received (while "branch" companies sending profits overseas did not).

- a 10% rate was introduced in 2014 for public listed companies to encourage listing on the South Pacific Stock Exchange (SPX). Previously open-ended, this concession now applies for only a seven-year period, after which the standard rate (currently at 20%) rate will apply. There are 19 listed SPX companies; only five new listings have occurred between 2016 and 2019 plus a bond listing in 2022; and market activity is relatively muted. The (worthy) aspiration to create a class of retail shareholders who invest and earn returns from capital markets has had only limited success. There has been much more activity in the unit trust market than on the SPX.

- a "global or regional headquarters rate" of 17% was introduced in 2013 to induce offshore companies to set up global or regional headquarters offices in Fiji. The take-up was poor and was one of the apparent triggers for EU blacklisting (see below). This concessionary rate ended with effect from 1 August 2022.

Incentives

4.9 Companies are also heavy users of a range of wider tax concessions, including for exports (Export Income Deduction or EID), hotel investment (Standard Allowance, Short Life Investment Package or SLIP) and to promote investment in more remote locations (the Tax-Free Region incentive or TFR). These concessions also reduce the amount of tax companies pay. International agencies such as the World Bank criticise these incentives as distortionary. The Committee believes they encourage investment in Fiji and are necessary to compete with incentives offered by other countries looking for foreign investment. However the effectiveness of these incentives has not been authoritatively measured and requires research. Incentives are discussed further below.

Submissions

4.10 Generally submissions received were to promote the usefulness of a particular incentive in encouraging investment from the submitter's perspective (usually the investor). There were also calls for a general review of all incentives to properly evaluate the effectiveness and take-up of the specific incentives.

Revenue implications of a corporate tax increase

4.11 FRCS's current estimates indicate that an increase of 1% in the corporate tax rate will yield $13-14m in revenue[17]. Thus, an increase to 25% - that is, 1% below the regional average – would raise $65-70m. The Committee believes a 25% corporate tax rate is about right. It is below the old 28% tax rate; it is not out of line with international norms; nor in our view does it threaten foreign investment (given that the Committee is not recommending major changes to the current incentives regime at this time).

…but business must be made simpler

4.12 Our general sense is that companies understand that Government needs additional revenue and expect that the generous 20% tax rate they have enjoyed will increase. They appear willing to bear this burden if Government, in return, makes it easier for them to do business. Ease of doing business measures are covered in Chapter 6.

[17] It is possible that this may not be achieved in the short term if companies have tax losses incurred over the Covid period which they can use to offset their taxable profits in the next one or two tax years.

4.13 The Committee also considered whether Government should "earn" the right to increase corporate tax by staging corporate tax increases dependent on achieving specific ease of doing business measures. Ultimately, the Committee concluded that this would not be simple or certain. However the Committee specifically notes to the Government that for business, this is the *quid pro quo.* Those improvements benefit everyone with possibly the greatest proportional benefit, in terms of time and cost saved to MSMEs. Additionally, that the added benefits this would bring in growing the private sector would be a positive in itself for the economy at large.

Encouraging SMEs to incorporate in a company

4.14 One additional aspect of corporate tax concerns SMEs, many of whom are also companies. Generally a company structure is better suited to growing businesses than "sole trading" structures which may put entrepreneurs' personal assets at risk in an uncontrolled way. Companies are also administratively simpler for tax authorities to tax. So it is important that SME owners are not discouraged by the higher corporate tax rate from organizing themselves as companies as they grow. That means that the tax differential between personal income and corporate income should be narrowed[18]. This is the reason the Committee recommends a tax rebate mechanism (of 20% of tax payable – which would take the effective CIT rate back to 20%) for the first $100,000 of corporate income (refer below). It is not a perfect solution (there is a small amount of overall revenue gain foregone) but it lessens the tax burden on incorporated SMEs as they grow[19].

Dividends for shareholders of listed companies

4.15 A further complementary incentive for SPX listed companies is to exempt dividend income for their shareholders. This incentive was designed to encourage a larger number of "retail" investors – families or community groups – to become shareholders of public listed companies. It has not been as successful as was envisaged and appears to disproportionately benefit individuals with large shareholdings who are in a position to pay tax on their income.

Recommendations

a) Standard corporate income tax rate of 25%

b) A tax rebate of 20% of tax payable up to $5,000 (equivalent to 5% of the new CIT rate of 25%; applicable to taxable income up to $100,000). The tax rebate will result in an effective tax rate of 20% on taxable income up to $100,000 for all taxpayers.

- The aim is to provide a supportive lower tax mechanism for MSMEs.
- The CIT changes to be effective from 1 January 2024. This is to allow reasonable time for adjustment by taxpayers and FRCS.

[18] On simple math it will still cost an SME more from a tax viewpoint to be a company (though that is the position now). However well-advised SMEs will incorporate at a critical point of growth for other reasons.

[19] A progressive corporate tax rate might arguably encourage some medium-sized companies to split their businesses among small companies to benefit from the effective lower tax rate. However owning more companies also means significantly more administration, which is probably the strongest disincentive to that.

c) Companies listed on the South Pacific Stock Exchange

- In line with the increase in standard CIT rate, to increase the concessionary rate for SPX listed companies of 10% to 15% effective from 1 January 2024. Subject to that increase, existing time-bound concessionary rates to be honoured.

- The seven-year concessional CIT rate to cease to apply for new companies listed on the South Pacific Stock Exchange after 1 January 2025 (a "last chance" for listing for any companies currently contemplating it for tax reasons).

- The current exemption of income tax on dividends from SPX listed companies should be reviewed in conjunction with any dividend tax regime and any dividend exemption should be conditional on a minimum percentage of shares being held by retail investors as required by SPX.

Personal Income Tax (PIT)

Background

4.16 Fiji residents are taxed on worldwide income. Non-residents and temporary residents are taxed on income sourced in Fiji. Sources of income include employment, business, and property income. Included in employment income are salary, allowances, termination pay and pensions. Non-cash fringe benefits are taxed separately, to the employer, under the Fringe Benefit Tax (FBT) regime.

4.17 Individual income is currently taxed using progressive rates under the personal income tax (PIT) and the (so called) "Social Responsibility" Tax (SRT) regimes.

The marginal PIT rates for resident taxpayers (including SRT) are currently as follows:

Chargeable Income ($)	Income Tax ($)	Social Responsibility Tax ($)	Marginal Tax Rate
0-30,000	Nil	Nil	Nil
30,001 - 50,000	18% of excess over $30,000	Nil	18%
50,001- 270,000	$3,600 +20% of excess over $50,000	Nil	20%
270,001 - 300,000	$47,600 + 20% of excess over $270,000	18% of excess over $270,000	38%
300,001 - 350,000	$53,600 +20% of excess over $300,000	$5,400 + 19% of excess over $300,000	39%
350,001 - 400,000	$63,600 + 20% of excess over $350,000	$14,900 + 20% of excess over $350,000	40%
400,001 - 450,000	$73,600 + 20% of excess over $400,000	$24,900 + 21% of excess over $400,000	41%
450,001 - 500,000	$83,600 + 20% of excess over $450,000	$35,400 + 22% of excess over $450,000	42%
500, 001 - 1,000,000	$93,600 + 20% of excess over $500,000	$46,400 + 23% of excess over $500,000	43%
1,000,001 +	$193,600 + 20% of excess over	$161,400 + 24% of excess over	44%

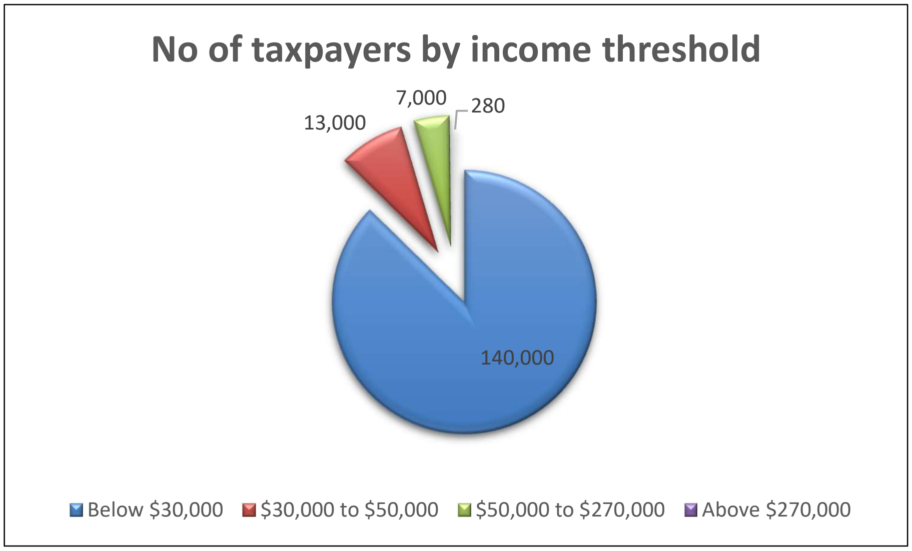
The effective or average tax rate at various income levels would be lower than the marginal tax rate.

Brief analysis

Who *actually pays personal income tax?*

4.18 The following table shows the indicative estimated amount of personal income tax (approximately $180 million) paid by individual taxpayers for the 2019 calendar year (2019 is chosen because it is not distorted by the impact of Covid-19):

Taxable Income Level	No. of Taxpayers[20]	Est of PIT paid $m[21]	Est % of Total Tax	% of Taxpayers
Below $30,000[22]	140,000	$1	<1%	87.0%
$30,000 to $50,000	13,000	$29	16%	8.0%
$50,000 to $270,000	7,000	$122	67%	4.8%
Above $270,000	280	$28	16%	0.2%



4.19 This is important information for people who believe that increases in indirect taxation (principally VAT) can be avoided by taxing those that are more well off. The reality is that there is a relatively smaller number of individual taxpayers who pay personal income tax and not enough well-off people in that group to tax for any significant revenue impact. Specifically, of Fiji's 160,000 individual taxpayers (rounded):

- 140,000 people (or 87%) have taxable incomes below the tax-free threshold of $30,000. They pay no income tax[23]

- 13,000 people (8%) have taxable incomes between $30,000 to $50,000. Together they pay an estimated $29 million in income tax (16% of all personal income tax collected)

[20] The number of taxpayers in 2019 was approximately 160,000 whilst numbers are currently estimated to be 170,000 taxpayers.

[21] The estimate of PIT collection is our preliminary best estimate, based on the available information, but subject to further detailed analysis.

[22] An insignificant number of non-residents who earn below $30,000 pay tax at 20%.

[23] (except for an insignificant number of non-residents who pay tax at 20%)

- 7,000 people (close to 5%) have taxable incomes between $50,000 to $270,000. Collectively this group pays an estimated $122 million in income tax (67% of all personal income tax collected) and

- 280 people (less than 0.2%) have taxable incomes of more than $270,000 per year. Together they pay an estimated $28 million (16% of all personal income tax collected).

4.20 Note that the above summary describes the ***income*** levels at which individuals are taxed, not necessarily the ***total income*** they earn. Many, particularly at the lower end, most likely receive more income, but much of it through dividends, which are tax-exempt (see below).

4.21 70% of PIT is collected through PAYE (Pay As You Earn), which is administered by their employers. Employers, mostly using payroll software, deduct PIT directly from salary and pay it to FRCS directly as a "final tax". Employees generally do not need to file income tax returns[24]. Sometimes the pay-cycle PAYE calculations result in small overpayments or underpayments of tax. In theory, however, these "balance out" over the tax year. PAYE as a final tax coupled with the Commissioner's Assessment regime for PAYE taxpayers means that of the 160,000 registered individual taxpayers, almost 139,000 wage and salary earners (including those below the personal income tax threshold) have no paperwork to do and FRCS staff do not have to process their tax returns to deliver relatively small refunds or demands for additional tax. The Commissioner's Assessment is raised automatically on TPOS. Simplicity is achieved, and significant cost is saved to FRCS; so, from a process viewpoint, these measures are sound and should be maintained without change.

4.22 Around 21,000 individuals earn business income. These include sole traders, professionals who cannot incorporate as companies (eg accountants, doctors, lawyers) and some PAYE individuals with other income streams. While they are all required to file individual tax returns, fewer than 4,000 of these 21,000 people actually pay income tax, because the majority return for business income of less than $30,000.

Social Responsibility Tax (SRT)

4.23 The "Social Responsibility Tax" was originally introduced as a temporary measure in 2012[25]. Its name and application imply that it expects the most well-off to bear more "social responsibility" and contribute more tax. However, the SRT largely fails to achieve that.

4.24 SRT successfully taxes well-off individuals earning salaries, sole proprietors and those earning partnership income. However, a larger proportion of well-off individuals are shareholders in companies. They can organize how they pay themselves by taking relatively low salaries (i.e. below $270,000 on which they pay lower rates of personal income tax - or even below $30,000 on which there is no income tax) and instead have their companies pay them dividends, which are currently tax free. SRT ultimately yields only about F$10 million in revenue. For simplicity reasons it can (and should) simply be folded into the existing personal income tax system with no loss of revenue.

[24]unless they have two or more employments or other income such as rent, dividends or interest.
[25]2012 Budget Address

What does this all mean for revenue and wider participation in taxation?

4.25 Revenue collections from PIT has accordingly ranged between $165 and $210 million between 2018 and 2022. This is about 2% of GDP and about 8-9% of total tax revenue – a relatively small proportion measured against countries similar to Fiji. This is mainly because Fiji's current personal income tax threshold of F$30,000 – about 3 times per capita income - is higher in comparison to similar countries. The norm is closer to 1.5 of GDP per capita (which in Fiji would be about $15,000).

4.26 The IMF's Fiji Tax Policy Review dated April 2021, based on 2019 individual tax returns, notes as follows:

- The majority of individuals earning income did not pay any income tax in 2019. About:

  - 88% of salaried employees
  - 81% of sole traders and business returns (which include dividends) and
  - 61% of partners

  earned taxable income below the F$30,000 threshold. As mentioned previously non-residents in this category paid tax at 20%.

- most income tax (67%) is paid on income in the brackets between $50,000 to $270,000. The circa 280 individuals who earn more than $270,000 in taxable income, paid around F$28 million or 16% of all personal income tax paid.

Table - Fiji: Individual Income and Taxpayer Distribution, 2019 Tax Returns

Bottom Threshold	Top Threshold	Share of Employment Income	Share of business taxable income	Share of partnership taxable income	Effective PAYE tax rate	Effective PIT rate on business income	Share of PAYE taxpayers	Share of individual business taxpayers	Share of partnership taxpayers	Number of PAYE taxpayers	Number of Individual business taxpayers	Number of Partnership taxpayers
0	30,000	0.60	0.31	0.07	0.1%	0.8%	0.88	0.81	0.61	123,045	16,294	312
30,000	50,000	0.18	0.14	0.06	3.7%	4.2%	0.08	0.09	0.11	10,912	1,781	57
50,000	270,000	0.21	0.42	0.33	12.6%	14.3%	0.04	0.09	0.23	5,401	1,884	115
270,000	300,000	0.00	0.02	0.01	19.7%	18.7%	0.00	0.00	0.00	17	38	2
300,000	350,000	0.00	0.02	0.02	22.2%	21.0%	0.00	0.00	0.00	12	26	2
350,000	400,000	0.00	0.02	0.01	24.7%	23.8%	0.00	0.00	0.00	13	23	1
400,000	450,000	0.00	0.01	0.02	24.5%	27.3%	0.00	0.00	0.00	3	13	2
450,000	500,000	0.00	0.00	0.04	29.2%	29.5%	0.00	0.00	0.01	2	3	3
500,000	1,000,000	0.00	0.03	0.14	35.7%	30.6%	0.00	0.00	0.02	5	26	8
1,000,000	3,000,000	0.00	0.02	0.30	42.0%	35.0%	0.00	0.00	0.01	1	8	7
	Total	**1.00**	**1.00**	**1.00**	**3.6%**	**10.3%**	**1.00**	**1.00**	**1.00**	**139,411**	**20,096**	**509**

Source: Fiji: Tax Policy Review, Technical Report, IMF, April 2021

Considerations

Overall

4.27 The PIT system as it stands is generally effective and progressive with few if any exemptions for wage and salary earners (which keeps things simple for FRCS and taxpayers and also keeps FRCS's administration costs low).

4.28 Up until 2012 PIT regimes included specific social support allowances for such as children, supporting elderly parents, and life insurance/FNPF. This is no longer the case.

Should the threshold be lowered?

4.29 More income tax could be raised by reducing the tax-free threshold (currently $30,000) to $20,000. The World Bank PER has proposed this. This would mean the threshold was closer to the international norm; it would add approximately 20,000 more people paying tax and collect (on FRCS's projections) an additional $55 million (because those above the current $30,000 threshold would also pay more income tax, starting at $20,000 instead or $30,000). The "moral" argument would be that even those earning between $20-30,000 should contribute some tax in recognition of the services and support they receive from the Government.

4.30 Is lowering the $30,000 personal income tax threshold better than increasing VAT? Perhaps – but the personal income tax base is so small that lowering the threshold makes almost no difference. FRCS believes that this would raise $55 million. This is equivalent to about a 0.5% increase in VAT. The amounts that can be recovered are relatively small and have an impact those in the $20-30,000 income tax bracket, who will already be required to pay more in VAT and may not qualify for household income support.

Should tax brackets be adjusted?

4.31 The single $50,000-$270,000 (taxed at 20% of income) is unusually wide. There is an argument for breaking this into one or two more brackets and to apply higher tax rates to those brackets. Depending on what those brackets and higher rates were, this would collect very little additional income but would allow a graduated tax rate for those earning between say $50,000 - $150,000 and $150,000 - $270,000. Only 7,000 people are in that whole bracket (see above).

4.32 To reduce complexity, the World Bank also proposes a single unified PIT rate structure (essentially consolidating SRT into PIT) with a simplified rate schedule of two bands above $270,000. The Committee agrees that a simplified rate structure that does not interfere with revenue raising is preferable to the currently complex and multi-rate PIT schedule.

Our views

The VAT impact on personal incomes will already be significant

4.33 If our recommendations for significant increases in VAT are accepted, the impact on those earning below $50,000 will be significant and not everyone can be fully compensated for it. The Committee recognises that many people in this income group may already be contributing support to more than one household.

4.34 If (as the Committee strongly recommends) VAT is to be increased, then some people will need targeted compensatory measures to boost their incomes. The Committee analyses this further below, using the data from the 2019-20 Household and Income Expenditure Survey (HIES).

Threshold

4.35 Ultimately, in the balance of considerations, our recommendation is that, if VAT is to be increased (as the Committee recommends – see above) the F$30,000 tax-free threshold should remain as is. Increased VAT means that people in the $20-30,000 bracket will already be paying more tax through the VAT system on what they spend.

Tax brackets

4.36 While it is not a perfect mathematical solution, there is an argument to reduce the tax rate in the $30-50,000 bracket from 18% to, say, 15% - that is, if VAT rates increase significantly. The lost revenue impact is approximately under $10 million, relatively small against the increased revenue available from an increase in VAT rates.

4.37 Along with this change, there is also the opportunity to change the $50,000-270,000 bracket into a more reasonable and progressive range of say:

(a) $50,000-150,000 (taxed at 20%) and
(b) $150-270,000 (taxed at 22%)

thereby recognising that there is a difference between income earned of say, $60,000 and $160,000 and taxing them accordingly. Similarly, reducing the six tax brackets above $270,000 to the IMF-recommended two brackets of:

(c) $270-400,000 (taxed at 35%) and
(d) above $400,000 (taxed at 44%)

simplifies the overall PIT tax structure. Overall these IMF recommended tax brackets and rates result in approximately the same average tax rates for incomes above $270,000. In some instances the average tax rate is marginally higher, and in other instances it is marginally lower (generally less than 1% variance).

Top tax rate

4.38 The top marginal tax rate of 44% (PIT/SRT) is relatively high; both FRCS and the IMF believe the rate structure for top income earners should come down. There is an argument in the long term for lowering the top marginal tax rate to attract and retain talent and skills. The tax rate also skews top end salaries because many top-level business executives demand high net pay; meaning that employers must bear the higher SRT to attract them. High salaries paid to expatriates in the public sector often attract negative public comment. But this is in part due to the high SRT rates which apply to them. Many locally owned business executives receive similar remunerations but take a large part of it in tax-free dividends from their own companies.

4.39 Changes to these measures have minimal revenue implications, so these matters are left to Government policymakers to decide as Budget measures. However, as an equity and fairness measure, the sentiment is that those of Fiji's top earners who receive a large proportion of their income as dividends should pay some tax on that dividend income. This will also result in some increase in tax revenue although the exact measurement of this is difficult because many shareholders can decide how much money they take in dividends and how much they leave in their companies. This is discussed further below.

Non-resident taxes

4.40 The last category of taxpayers to be considered are non-resident individuals - people who are not tax residents in Fiji (and who would typically pay income tax in other countries). These are non-resident individuals who earn employment, consultancy or other service income from work they perform in Fiji. At this point they are taxed from the first dollar on all income they earn in or from Fiji – that is, their tax-free threshold is zero. There is no strong reason to disturb this policy. Generally they receive credit in their home countries for the tax they pay in Fiji so they are not disadvantaged.

4.41 In summary, it is important to understand Fiji's current fiscal situation - that not enough people earn enough to pay for Government services through direct taxes. **That is why it is the Committee's view that indirect tax increases are necessary.**

Submissions

4.42 Submissions proposed both decreases and increases in the tax-free threshold as well as in marginal rates. There was an appreciation of the need to cushion the impact of any VAT increase on those on lower income levels via social support transfer payments by Government.

Recommendations

4.43 The Committee recommendations are summarized below:

(a) *Resident and non-resident individuals – PIT threshold*

- Maintain tax threshold of $30,000 for resident individuals and zero threshold for non-resident individuals.

(b) *Personal income tax rates above the tax-free threshold*

- Reduce income tax rates in the $30,000 - $50,000 tax bracket by 3% to 15% (from current rate of 18%) to compensate for increases in VAT to the recommended unified rate of 14%.
- Introduce a new tax bracket of $50,000 - $150,000 retaining the tax rate at 20%.
- Introduce a new tax bracket $150,000 - $270,000 with a tax rate of 22%.
- For simplicity SRT should be abolished but the same marginal tax rates introduced into the income tax system for incomes above $270,000. Alternatively, further streamline tax brackets above $270,000 into two brackets:
    - $270,000 - $400,00 (taxed at 35%) and
    - above $400,000 (taxed at 44%).
- Government should make a policy decision, balancing fairness and equity considerations against economic incentives on whether to reduce or maintain those top tax rates.
- Personal income tax should be supplemented by a dividend tax – see next section.

Dividend Taxes

Background

4.44 Dividend withholding taxes were removed in 2000 with the policy aim of imposing tax on company profits at one level only – either at company level (where they are earned) or shareholder level (where they are distributed to shareholders), but not both.

4.45 The "tax once" policy at first sight meets the fairness test. However, this breaks down somewhat when companies benefit from tax concessions and their shareholders receive tax-free profits on which (because of zero-dividend tax rules) they pay no tax.

4.46 This gap was previously addressed in a dividend imputation regime, where "non-qualifying" dividends (that is dividends paid from company income which had not been taxed because of concessions or exemptions) were then taxed in the hands of their shareholders to "make up" for the tax not paid at company level. This regime was complicated (particularly for small and medium companies) and difficult to administer and was subject to changing FRCS interpretations. It was removed in the year 2012, presumably for simplicity reasons.

4.47 A number of other measures – *ad hoc* dividend taxes and branch profit remittance taxes - were then introduced (generally in the range of 1% to 15%) to bridge the "non-qualifying dividend" gap, but they have been removed over time either for simplicity or as an incentive to corporate investors.

Submissions on dividend taxes

4.48 There was a general call to close the tax gap on wealthy individuals who were perceived to pay little in the way of PIT as their main source of income was dividends which were tax-free.

Consideration

4.49 From an equity point of view, there is some justification for a dividend imputation system, particularly for companies who receive tax holidays or other concessions. The counter-argument, however, is that the tax holidays are offered by the Government to encourage investment in particular sectors (often to create jobs, foreign exchange or rural development, etc) to compensate them for the risks they are assuming. So if company owners cannot see those tax benefits in the dividends they receive, will they still be attracted by the incentive?

4.50 At this time, when most people are being asked to assume a greater tax burden, it appears to the Committee that rightfully, shareholders in companies must contribute something by way of dividend tax. It is important to take into account that attractive tax regimes do help draw investors, and private sector investors are targeted by the Government to deliver private sector-led economic growth, with positive results for employment, foreign exchange and economic confidence. So the Government must carefully balance its economic growth strategies against both the increased need for tax revenue and the notions of equity and fairness.

4.51 It is also important for Government to consider that, for some foreign investors, the incentives are of little use – because in the foreign investor's home country, an imputation regime may collect all the tax that the company did not pay in Fiji. Any concession Fiji provides to an Australian-owned company in Fiji may only mean that Australia collects the tax eventually that Fiji has given up. While that is not a good outcome for Fiji, the rules in each country are different. So a tax policy directed to an Australian investor may not work well for an investor, say, from the United States.

How should a dividend tax work?

4.52 The Committee makes no recommendation here because this requires further careful study and the Committee has not received sufficient information, in the short time provided, in the way of submissions or analysis to reach a conclusion. However the options include:

(a) a low rate "flat tax" (of say 5%) on all or any dividends or distributions paid irrespective of tax residency of the recipient. This is simple and does not discriminate on whether the source of the dividends – the company's profits - are fully tax-paid or have been earned with the benefit of concessions

(b) an imputation regime – either:

(i) by which a shareholder (individual) is assessed to tax on all income earned, including dividend income – but receives a credit for any "underlying tax" paid by the company and which is "imputed" in the income received by the shareholder; or

(ii) on dividend distributions (other than resident intercorporate dividends) under a *tax at source* regime to a maximum of the CIT rate (i.e. net of any "underlying tax" paid by the company and which is "imputed" in dividend distributed to the shareholder).

4.53 The mechanics of any dividend imputation regime need to be well thought out and designed to take into account the many applicable scenarios to dividends exist.

4.54 That said, it is also important that intercorporate dividends between resident companies continue to be treated as exempt to avoid double or triple taxation on those same dividends as they pass through corporate entities to individual shareholders.

Recommendations

4.55 We recommend that the Government consult carefully and arrive at an appropriate dividend tax policy taking into account the principles of sustainable revenue, equity and fairness, and simplicity and transparency. Once again it is important that once a decision is made, that a commitment is also made to maintain the regime for a reasonable length of time (at least three years).

4.56 If an immediate tax is considered necessary, Government can decide as an interim measure, to adopt the mechanism under option (a) until such time as the longer-term dividend tax regime is decided on.

Fringe Benefit Tax (FBT)

Background

4.57 Employers provide a range of fringe benefits to their employees. These are subject to fringe benefit tax (FBT) at a flat rate of 20 percent. Taxable non-cash benefits include motor vehicles, housing, housing utilities and ancillary expenses, concessionary interest rates on loans, discounted goods or services, and others.

4.58 Even though the benefit goes to the employee, FBT is imposed on the **employer**. This is administratively simpler because the employer is usually in a better position to calculate the relevant benefit and pay the tax (and of course the employer factors in this cost when it provides fringe benefits to the employee). The value of fringe benefits is "grossed up[26]" for tax. That is, the amount of fringe benefit tax payable on the benefit is added to the taxable value and FBT is calculated and paid on that grossed up amount. The cost of providing the benefit as well as the FBT paid on the benefit are tax deductible to the employer as a cost of business.

Submissions on FBT

4.59 Not many submissions focused on FBT. An adjustment to the rate was proposed in one submission.

Consideration

4.60 Fringe benefits are sometimes criticised as a way for wealthy people to obtain the use of high-end motor vehicles and housing for which others would have to pay more. There are some examples where that may be true. However the same kinds of fringe benefits sometimes extend to everyone in the workforce including housing in remote locations (resorts or mining locations), or company transport (which may be safe and convenient for staff). It is difficult to make a "one size fits all" tax rule for how fringe benefits should be taxed.

4.61 FRCS has at times become overenthusiastic about FBT enforcement, insisting that employers also pay FBT on a workplace morning tea, or free coffee in an office kitchen. The Income Tax Act includes a "small value benefits" exemption as a simplification measure and, in the interests of simplicity for taxpayers (and to avoid them having to perform small, low value tax calculations) FRCS should take greater note of this exemption.

4.62 Because the Committee proposes a higher rate of corporate tax (25%) it follows that the "grossing up" of fringe benefits (see above) would result in a higher rate of FBT (now 33.3%). For simplicity this can be rounded up to 35%.

Recommendations

a) FBT Rate

- Increase FBT rate to 35% (at grossed-up value) in line with the increase in corporate tax rate (at the corporate rate of 25%, the FBT rate grossed up would be 33.33%).
- Retain tax deductibility of FBT as currently allowed.

(b) Review and update of FBT guidelines by FRCS in consultation with stakeholders and industries (eg tourism, mining, BPO sector) to ensure equitable application and eventual enforcement.

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[26] The "gross up" method is designed to encourage an employer to *cash-out* benefits (ie to provide the benefit in cash rather than in-kind).

Tax Incentives and Exemptions

Background

4.63 Fiji has an extensive range of tax incentives and exemptions as follows:

a) tax holidays (ranging from 5 to 20 years), dependent on the level of investment and focused on specific sectors or regions.

b) investment allowances (additional tax deductions for qualifying capital expenditure in addition to depreciation deductions).

c) accelerated depreciation.

d) concessional deductions and exemptions.

e) tax rebates.

There are over 70 different tax incentives and exemptions.

4.64 Tax incentives and exemptions are a well-established part of Fiji's tax and investment landscape. They are offered to attract new local and foreign direct investment, enhancing investment, business activities, employment and economic growth.

4.65 However, tax incentives and exemptions potentially have negative impacts, including:

- loss of tax revenue.

- a perception of unfairness. Taxpayers who do not benefit from the tax incentives and exemptions (notwithstanding their investments and economic contributions) may view the tax system as unfair and resulting in an unlevel playing field. Many local businesses, for example, complain about the particular attention given to tourism industry incentives that are not available to them. Business people at the Labasa consultation noted that, while they were well-established, employed many people and generated economic activity, they did not benefit from the Tax-Free Region (TFR) incentives offered to new businesses starting up there.

- too many collective incentives and exemptions create difficulties in tax administration and compliance. This is partly due to their being poorly defined in the first place, often subject to misinterpretation, but also aggressive action by businesses to try to bring their profits within tax exemptions.

Submissions on Tax Incentives and Exemptions

4.66 Most submissions called for the retention of tax incentives and exemptions. Many of those in favour of this were beneficiaries of those measures and could testify to their effectiveness. Two submissions recommended the review of all incentives and tax exemptions with a view to simplifying Fiji's tax regime.

Considerations

4.67 The World Bank and IMF believe that the revenue losses from concessions could be as high as 2% of GDP (F$200 million). The Committee is not as confident of this and believes that this approach is in any event too theoretical. If the incentives have brought investment to Fiji that would not otherwise have come here, then that investment is arguably a "win".

4.68 At this point there is not enough quality data available on the economic benefits of incentives (e.g. job creation, payroll and PAYE tax impact, social impact, human resource development and capital investment) for the Committee to arrive at a view on individual incentives or an incentive policy as a whole. The Fiji Audio-Visual Commission has in the past studied (and is understood again to be studying) the economic "multiplier" impact of spending by overseas audio-visual companies (almost exclusively in rural areas and with a light environmental touch) and other intangible benefits of this investment. These are important analytical tools to help guide incentive policies.

4.69 However, it does appear that some incentives are too broad and poorly thought out:

(a) two "warehouse incentives" announced in 2019 (one designed to assist companies whose normal business operation is constructing warehouses and leasing it to potential businesses and the other designed to assist companies that construct warehouse(s) for own storage purposes) seemed poorly targeted and unnecessary

(b) as a result of amendments to the law over time, the ICT incentives as drafted are extremely broad and could in theory apply to any business owning a computer system. They do not clearly reflect the intended policy

(c) rebates for audio-visual productions over the last 10 years were, for a time, considered to be the most generous in the world, resulting in Government liabilities estimated by the Minister of Finance to be in the order of $400 million, of which approximately $160 million remains to be paid. The rebates have now been scaled back and in the Committee's view, are more realistic and mutually beneficial.

4.70 In a rapidly changing international tax law environment, where tax authorities are co-operating and harmonizing their national tax laws to tax cross-border and virtual commerce and eliminate tax arbitrage, many of Fiji's incentives run the risk of becoming outdated and, for foreign investors, irrelevant. This underscores the need to evaluate their usefulness, especially if the tax they give away is simply collected somewhere else.

4.71 Given these concerns, a number of guiding principles and good practices should be considered for providing targeted tax incentives and exemptions. The technical staff of the IMF in its Technical Report, *Fiji Tax Policy Review, April 2021* have also recommended certain guiding principles and good practices, including the following:

- Cost-based tax incentives are preferred to profit-based tax incentives. Incentives such as accelerated deprecation or special tax deductions linked to actual additional spending are preferred to incentives that reduce the tax rates on profits (eg an income tax holiday).
- Incentives should be well-targeted with clear aims and objectives with eligibility criteria. So that they are transparently applied, it is preferable that these are not matters of discretion by Ministers or other officials. Clear criteria ensure consistent, transparent and equitable treatment.

- Tax incentives should have a limited time frame. This ensures that the incentives do not continue indefinitely and are reviewed on a regular basis to determine if they are still relevant and necessary.
- FRCS (and not Government departments or other statutory authorities) should be responsible for the implementation and administration of tax exemptions and incentives, and FRCS should monitor incentive beneficiaries after approval of an incentive. This monitoring ensures that firms are adhering to the criteria and not abusing the incentive or exemption.
- Good governance is important for the incentive process. The government's decision-making process, and its policies and administration, should be transparent and subject to scrutiny and evaluation.
- The Government's estimates of revenue forgone from incentives should be published on an annual basis (although the Committee appreciates that this might not be easy to estimate). This can be as a statement as part of the budget process or in a separate tax expenditure statement (or the FRCS "annual tax report" that the Committee has recommended).

Recommendations

a) Most existing incentives and exemptions should be retained for now (with some limited review and tidying up to close gaps and loopholes caused by bad drafting), including exemptions for:

- Hotels and tourism, including retirement villages
- Information Communications and Technology (ICT)
- Agriculture and agro-processing
- Manufacturing
- Medical and health care
- Constructions, including residential housing for low to medium income earners
- Re-cycling businesses.

b) However Government should undertake a special review of the key incentives to:

i) assess their economic impacts (including the probability that without the incentives the investments might have occurred anyway).

ii) narrow down the available incentives and exemptions and align these with Government's policies for economic growth. Ineffective or unnecessary incentives should be brought to an end. For example, the "warehouse" incentive referred to above appears to be an unnecessary sacrifice of much needed revenue. An alternative option would be the reframing of the accelerated depreciation provisions to smoothen the tax vs economic impact by reducing the 100% deduction to say 20% in any 5 of the first 8 years following completion of construction.

iii) developing a transparent and predictable policy around incentives and exemptions including:

- certainty on how long they will continue (include a sunset clause);
- periodic reviews to determine if they achieve the purpose for which they were introduced; and

- whether the economic benefits of the exemption or incentive are sufficient to justify the revenue, compliance and administration costs.

iv) align with Organisation for Economic Co-operation and Development (OECD) initiatives, and in particular to the Pillar Two Global Anti-Base Erosion (GloBE) rules to ensure the incentives are relevant to the needs and expectations of both Fijian and foreign investors

c) Technical assistance from IMF or PFTAC should be considered for a special review. Wider consultation with key stakeholders must be carried out. The new package covering all sectors should be finalised and published by 30 June 2024 with the aim of reforming tax incentives and exemptions effective from 1 January 2025 (although some incentives may end before then).

d) Incentives and exemptions should conform to the principles of simplicity, equity, efficiency and transparency where they are justified, and should be easy to access. If the Government is going to promote their availability as part of its growth strategy, it should not be difficult for investors to use them.

e) Government should publish the estimated annual costs of tax incentives and exemptions as part of the budget process. This will improve transparency and provide Government and the public with information to assess whether the exemptions and incentives are providing value and achieving its aims and objectives.

Value Added Tax (VAT)

Background

4.72 VAT was introduced in 1992 at the rate of 10%, applicable to all goods and services (other than certain "exempt supplies", e.g. banking services). VAT is simple for end consumers (for whom VAT is built into the prices of most things they pay for). It is a complex tax for VAT-registered people who must file (usually monthly) VAT returns, claim "input credits", account for "output tax", consider what supplies they make are "zero rated" and consider the effects of other taxes such as FBT. However, it is beneficial to governments because it is a high revenue earner from a wide tax base. Between 2018 and 2022 FRCS collected VAT as follows:

	FY 2018-19 $m	FY 2019-20 $m	FY 2020-21 $m	FY 2021-22 $m	FY 2022-23 (B) $m
Total tax revenue net collection (excluding fees and charges, grant-in-aid, investment income and capital recoveries)	$2,814	$2,200	$1,413	$1,693	$2,271
VAT revenue net collection	$826	$628	$443	$660	$875
VAT as percentage to total tax revenue	29%	29%	31%	39%	39%
Note – Single VAT rate 9% until 31 March 2022. From 1 April 2022, VAT rates are 0%, 9% and 15%.					

4.73 VAT is accordingly a highly sensitive (and politically controversial) topic. Even small increases in the VAT rate can raise large amounts of public revenue for Government to spend. However, consumers and citizens understand that increases in VAT directly hit their own pockets. It is therefore not always easy for citizens to focus on the greater good (in this case the need for more money for Government) when the prices for everything they buy is rising.

4.74 VAT is traditionally regarded as a "regressive" (rather than a "progressive" tax) because those on lower incomes generally pay more VAT as a proportion of their incomes. However, in absolute dollar terms, it is mostly funded by those on higher incomes because it is a tax on consumption; and those on higher incomes spend more. The Government will collect many times more VAT on a luxury car than VAT from a low-income earner's weekly supermarket spending.

4.75 Since 1992 VAT rates have varied as follows:

- Years 1992 – 1999 - 10% (all goods and services)
- Years 2000 – 2002 - 0% (basic food items and prescription medicine from 2000) and 10%
- Years 2003 – 2010 - 0% (basic food items etc) and 12.5%
- Years 2011 – 2015 - 0% (basic food items etc) and 15%
- Years 2016 – 2022 - 9% (all goods and services)
- From 1 April 2022 - 0% (basic food items etc), 9% (most goods and services) and 15% (tourism related goods and services, luxury goods, professional services, etc).

4.76 Along with VAT, prescribed (tourism related) services have historically always been subject to an additional turnover tax (under different names and rates – e.g. hotel turnover tax or service turnover tax of between 5% - 10%).

4.77 In the 2021-2022 Revised National Budget, VAT moved to three rates for the first time, effective 1 April 2022 (with only one week's notice, causing significant disruption to FRCS and taxpayers). The return to the 0% rate aimed to reduce the price of 21 basic food and common household items to combat inflationary pressures. To make up for the lost revenue on this zero-rating on essential items, the VAT rate was increased to 15% on goods and services such as clothing, luxury goods and professional services and hospitality (although in the case of hospitality, this was already taxed, by other means[27], at a combined rate of 14%).

4.78 The VAT rates restructure appeared to be a response to short-term issues, particularly the prices of basic goods. However, it created some serious side effects, namely:

i) Revenue loss from zero-rating on essential items (ie instead of 9%) was significant, at around F$160m (gross) per year as estimated by FRCS. This revenue, no longer available to Government, was normally used to pay for basic public services. This is inconsistent with sustainable revenue principles.

ii) Zero-rating on essential items undoubtedly helps low-income households by lowering prices. But it lowers prices for **everyone**, including those on the highest incomes, who comparatively purchase greater quantities of basic goods than lower-income families. It is also practically impossible to distinguish between low-priced basic goods (eg soya bean oil, tinned fish) and "luxury" basic goods (eg olive oil and salmon), all of which are zero-rated. So, while zero-rating on essential items is well-intentioned, it is a poorly directed initiative to help those who most need it. It takes revenue away from the Government –

[27] The Environmental and Climate Adaptation Levy, since repealed.

much needed revenue that is critically required to fund basic services and capital investment in public infrastructure, relied on by lower income people.

iii) Three different rates of tax create significant administrative issues for businesses and FRCS (last year's new 15% rate was announced so suddenly that FRCS's own tax system was not ready to accept VAT returns moving to 15% VAT). Consequently, this has:

- burdened retail businesses who must calculate, price, display and record sales for goods and services at different rates of VAT as well as ensure input credits are recorded and claimed at the correct rate for the variety of purchases the business makes.
- created uncertainty for compliant suppliers (because there may be doubt about what rate is applicable to which goods or service). Even honest suppliers may, over many months, mistakenly charge (and return to FRCS) 9% VAT; and only at a later time be told by FRCS "this should have been 15%, please pay the difference", with a resulting tax dispute.
- created loopholes for tax evasion for dishonest suppliers (who may collect the VAT-inclusive price from the consumer and then, in their VAT returns, inflate the value of goods they have supplied at 0% and lower the value of goods or services they have supplied at 15% or 9% - and pocket the difference).

4.79 These outcomes are inconsistent with the principles of simplicity and fairness. They potentially penalise honest taxpayers and reward dishonest ones.

Submissions on VAT

4.80 The most common submission from businesses, especially SMEs, requests for a more unified and administratively simpler VAT regime. The alternatives proposed were for single unified rates (ranging from 9% to 15%) or a dual-rate system (retaining the existing zero-rated category and unifying the 9% and 15% categories into a single rate (again between 9% - 15%)). Certain submissions also advocated retaining the zero-rated category and/or additional support to people under social support and low-income earners.

Considerations

A single VAT rate is pragmatic

4.81 For the previously noted (above) reasons, the Committee believes the following are the fairest and most efficient outcomes for the Government:

a) Adopt a single rate of VAT and remove zero-rating on essential items. This has the following benefits:

i) Sustainable revenue – VAT foregone on the currently zero-rated essential items is significant - $160 million (gross[28]) by FRCS's initial estimate (and applying a 9% rate of VAT). At a higher rate of VAT (as the Committee is recommending) the resulting revenue gain is accordingly greater – closer to $210 million (net) at, say, 14%. In view of the complementary benefits referred to below, this is not revenue that the

[28] "Gross" is before accounting for refunds. Using 9% VAT the net revenue is estimated to be $135 million.

Government should ignore. Indeed, this is additional revenue which can fund transfer payments to the poorest in our population. (see below)

ii) **Simplicity –** in VAT administration for FRCS and for taxpayers. There will be no disputes about what rate should be charged for any goods or services and consequently reduces administrative burdens for businesses.

iii) **Fairness –** significantly reducing the risks of fraud by those who collect and account for VAT to FRCS.

The single rate is also unanimously recommended by the IMF, World Bank and ADB for similar reasons noted.

What should the VAT rate be?

4.82 In the past, VAT has been applied at rates as high as 15% (although the 15% rate was balanced by zero-rating on essential items). As part of its "ambitious" debt reduction strategy, the World Bank has proposed a unified 15% rate.

4.83 Set out below are FRCS's estimates of potential net revenue from unified VAT rates of 10%, 12.5%, 14% and 15% VAT, compared with the current 0-9-15% VAT regime (noting the qualifications below):

	Projected VAT Collection – Net @ current rates (0%, 9% and 15%) - $m	**Estimate Net VAT @ Unified 10% $m**	**Estimate Net VAT @ Unified 12.5% $m**	**Estimate Net VAT @ Unified 14% $m**	**Estimate Net VAT @ Unified 15% $m**
Currently zero-rated essential items	0	150	185	210	220
Currently 9% vatable items	625	695	865	950	1,035
Currently 15% vatable items	295	195	240	270	295
Total potential net VAT revenue at different rates	**920**	**1,040**	**1,290**	**1,430**	**1,550**

Note that:

- Numbers are rounded to the nearest $5m
- The 2022-23 rates are an extrapolation of six months' VAT data from 1 August 2022 to 31 January 2023 (simply doubling the actuals for that period)
- The unified rates are simply a linear calculation based on the extrapolated data for the same period, taking no account of possible decreases in spending resulting from higher VAT rates.
- These are linear numbers, are not adjusted for any change in spending patterns resulting from VAT-driven price increases. The potential VAT revenue numbers assume upwards of $150m in direct support to lower income families, which, together with the increased Government capital and recurrent expenditure we recommend, would be expected to add to consumption expenditure. Better tax compliance is also expected under a unified rate.
- The above potential VAT revenue estimates are net of VAT refunds. The Committee has used the conservative estimate of net VAT of 75% (i.e. after refunds of 25%). FRCS's estimates refund rates range between 20% and 25% (that is, net VAT receipts of between 75% and 80%).

4.84 Looked at another way, the total **net** VAT Collections at different VAT rates have been calculated as follows (rounded to nearest $5m):

VAT Rates (at one rate)	Additional VAT Revenue – current 0% items only	Additional VAT Revenue - All items (including current 0%, 9% and 15% items)
• @10%	• $150 m	• $120 m
• @12.5%	• $185 m	• $370 m
• @14% (at pro-rata)	• $210 m	• $510 m
• @15%	• $220 m	• $630 m

4.85 The table above shows that the Government would earn additional VAT of between $370 million and $630 million applying the rates of 12.5% and 15% respectively (charged at either single rate).

4.86 As the Committee has said previously, it is ultimately for Government to decide how it "mixes and matches" revenue increases using a combination of personal income tax, corporate tax, VAT and departure tax measures. The table above indicates options. Taking into account the Committee's preference for not disturbing the tax-free threshold of $30,000 on personal income tax the Committee believes that the **14% option is the most sustainable, resulting in estimated additional potential VAT revenue to Government of $510 million**. This rate is assumed in the discussion of further measures below.

What about 14% with zero-rating of essential items?

4.87 Our working model has assumed a VAT rate of 14%. Based on FRCS estimates, a 14% VAT rate which retained zero-rating on the existing 21 categories of essential items would result in estimated additional potential VAT revenue of $300 million, meaning that the "cost" to the Government of zero-rating essential items would be about $210 million. If this approach was adopted, the income targeting element of our main proposal (see below) could not be achieved.

4.88 Other variations available to Government would be:

(a) to narrow down the list of essential items to less than 21 or
(b) to have a lower "essential items" VAT rate (eg 5%), to raise some revenue.

However, in all of these scenarios some elements of targeted income support would have to be sacrificed – and in the Committee's view targeted support remains the most equitable and fair way to share the burden of increased VAT, consistent with the tax principles which should be followed.

Timing

4.89 The recommendation is for the increased VAT rate to be applied with effect from 1 January 2024. That is a deliberately long lead time. The Committee believes it is appropriate because it allows everyone time to understand and accept this significant shift through awareness and widespread communication. Consumers should have sufficient time to prepare for additional costs; businesses can adequately prepare their systems; and Government can prepare the necessary groundwork on delivery systems for targeted assistance (and perhaps even deliver the first tranche of assistance **before** the VAT increases come into effect for a more positive impact on the general population).

4.90 The long lead time may attract some criticism because it might allow those with money the flexibility to make high-value purchases before the year ends. People will prefer to buy goods at 9% rather than 14% VAT. However, there is a limit to how much consumers can "stock up" before VAT increases occur – and this is, in the long term, not a major consideration with the more positive outcomes expected.

Should an increased VAT rate be introduced in one step or progressively?

4.91 This may be more a question of political economy than taxation, but the following points are made:

- From the viewpoint of sustainable revenue, Government needs the money **now**, even if it does not have the capacity to spend all of it in short order (particularly on infrastructure, which will take time to plan, design and procure). However, maximizing revenue now is the best way to meet the important complementary objective of managing Government debt more urgently. Reducing Government debt, as noted previously, is not an object for its own sake. In the simplest terms, it is a form of "savings" which gives the Government the ability to respond to future infrastructure needs and unexpected or sudden shocks.

- From the viewpoint of predictability and transparency, if increases are to be introduced progressively, they should be signaled clearly at the beginning. Today's politics can cast doubt on tomorrow's promises – so there may be a confidence gap in the Government's ability to deliver progressive increases of VAT (which may be unpopular).

The impact of VAT increases generally

4.92 There has been public criticism of the Committee's preliminary view that VAT should increase to a rate not greater than 15%. That is expected and inevitable and critics have the right to raise their concerns. Everyone will be impacted and those on lower incomes will be impacted the most. However, for the reasons expressed elsewhere, VAT is the only effective means of raising the significant revenue the Government urgently needs to meet its many commitments. It is also important to remember the following:

(a) for middle to higher income earners, much of what they spend is already taxed at 15% - passenger vehicles, white goods, alcohol and tobacco, clothing and footwear, restaurant and takeaway meals, hotel accommodation, movie tickets and many others.

(b) prescribed services (mainly tourism and professional services) already attract VAT at 15%.

So reducing the VAT rate on these goods and services will result in a loss of revenue.

Cushioning the impact of VAT increases on the poor

4.93 Our recommendations above deliver significant macroeconomic benefits and satisfy most of the required tax principles. They provide the additional funds the Government needs to meet capital expenditure needs, grow the economy, better manage Government debt and better position the Government to meet a major natural disaster. They also ensure that well-off people who consume and have a higher purchasing power, are paying more tax to the Government, based on what they consume.

4.94 But there is no question that these measures would have a direct impact on Fiji's poorest people – those covered by the social welfare system and those who earn modest incomes from the minimum wage, micro-enterprises, subsistence agriculture and the like. The cost of living was a frequent concern raised in public submissions.

4.95 There is very little that can be done in the short term to bring down the cost of living, other than subsidies (and zero-rating on essential items is one form of subsidy – which the Committee has already pointed out do not effectively target those who need the support). The **most** effective way to help those who are most burdened by the high cost of living is through <u>targeted assistance.</u>

4.96 The principles of equity and fairness would suggest that if indirect taxes are to be significantly increased to collect more from people who are well-off (and that is the key aim), then those who are less well-off should receive some of the benefit. That is what is proposed below.

4.97 The Committee does not claim demographic expertise. The broad principles set out below may need more careful examination and refinement. However, the Committee believes better targeting of the increased VAT revenue can be achieved with the following in mind:

Targeted assistance to welfare recipients

4.98 For these purposes the Committee defines all social welfare recipients as poor (even though not all social welfare payments are made on the basis of income – for example aged care pensions go to persons over the age of 65 and are not means tested – see Chapter 2). However, the amounts paid under all existing social welfare schemes total approximately $150 million annually. If social welfare scheme payments are increased by up to 20% **across the board** (a higher percentage than the proposed VAT increase), this would add approximately $30 million to Government's social welfare benefit spending. At $30 million, this would be only 6% of what would be collected at the 14% VAT rate ($510 million). This seems to be a sensible way of re-targeting Government revenue and directly benefitting the most marginalized of our population who need this support.

Targeted assistance to lower-income households.

4.99 Many households are poor even though their members are not necessarily on social welfare rolls. Who are they and how should poor households be measured?

4.100 Some information can be derived from the 2019-20 Household Income and Expenditure Survey **(HIES)**. The HIES collected household data in the 12 months to February 2020 (and therefore takes no account of the Covid-19 pandemic).

4.101 The HIES (para 9.1) represents Fiji's median household annual income at F$20,742. This means that the "lower income half" of Fiji's households – about 95,000 in total (based on the HIES summary of 191,000 households at paragraph 2.2) receive that amount or less. A (necessarily arbitrary) compensation amount of $1,000 per year to households with an income not exceeding, say, $21,000[29], delivered in monthly or two-monthly instalments would (mathematically) amount to $95 million. This number could be varied upwards; or the

[29]There is evidently a wide range of incomes in the so-called "lower half" of Fiji households by income. $1,000 per household would add 10% to the income of a family earning $10,000 but only 5% to the income of a family earning $20,000. However that "sliding scale" of assistance in percentage terms is probably appropriate.

eligibility criteria could be varied (for example increasing the qualifying household income eligibility). That would make the compensation more costly.

4.102 It is up to the Government to decide how much compensation it would pay (and for how long – see below). The Committee's example of targeted assistance to 95,000 households, together with the 20% increase in social welfare payments, would cost about $130 million out of the total $510 million potential revenue earned at a unified tax rate of 14% – this increased potential revenue is about 25% of the total tax revenue collections in calendar year 2022 (the calculations are simplified). There would be additional costs of delivering the compensation (a significant logistical exercise). However, there would also be VAT revenue returned to the Government from the spending of the proposed additional social support transfers.

How long should the assistance continue?

4.103 The Committee does not assume that this assistance – which is designed to help people who are impacted by a sudden rise in VAT – would be permanent. In theory, if the economy is growing and incomes are growing, there would be room to scale back the compensation over time. In practice this may be difficult. However those are political considerations for future governments, outside the Committee's remit.

How efficiently can the Government deliver this assistance?

4.104 Reaching 95,000 households on a regular basis is undoubtedly a significant logistical challenge for Government. However the Government has some experience, and a track record, based on its delivery of Covid-19 relief payments and the February 2023 "Back to School" **(BTS)** package. The BTS package delivered $48 million in two payments to households with a (comparatively high) household income of $50,000 or less – which is (in theory) many more than 95,000 households.

4.105 The Covid-19 payments were criticised as somewhat "hit and miss", but they were also urgent. The Back-to-School payments (verified by school heads) showed that the Government is developing its capacity to verify eligibility and target assistance more accurately. With time to prepare delivery systems, receive applications (the school system would be a good starting point because most eligible households will have school children) and assess eligibility, the Committee believes that the required household assistance could be reasonably efficiently delivered. The Committee understands that the Government made use of private sector assistance (call centres in particular) to help with delivery of Covid-19 assistance. That would seem to be a sensible way to collaborate again.

The opportunity to gain good social data

4.106 Designed well, a scheme of this kind can also be a useful tool to capture important social and household data. In Chapter 2 the Committee has noted that the Government's general social welfare data is poor, limiting the Government's ability to deliver more effective social solutions. Constant contact with lower income households offers a data opportunity that has significant monetary and non-monetary (including social) value in itself.

Are there other ways to deliver the assistance?

4.107 It is possible that there are other more sophisticated ways to deliver this assistance, for example, through a system of tax credits. This would probably require many more people not in the tax system to be registered (even though they would be paying more tax) and may be more administratively complex in the short term (both from the viewpoint of drafting the necessary laws and achieving the required outcomes. However, there are advantages in this approach if and when it can be implemented, particularly in gathering taxpayer and income data for future tax purposes.

Some issues in delivering targeted assistance

4.108 Few mass assistance schemes of the kind proposed are perfect. Questions include:

- **how to identify eligible households.** Both the Covid-19 and BTS initiatives relied on self-identification through applications. The Ministry of Finance, having processed income support payments through the Covid-19 period, is gaining experience in how this could be done and improved.

- **the possibility that social welfare recipients might "double dip"**. It is possible that some households might receive two sets of benefits – both the (increased) social welfare payments and the new targeted household income compensation payments. This is at least possible but not necessarily unfair in context, given that social welfare payments are relatively low anyway. Nor should it be a barrier to the proposed solution.

- **possible fraudulent claims**. Any mass assistance program would involve a risk of fraud. Better data matching (including with welfare records) or other verification tools may detect it and help to eliminate it. However, the possibility of fraud by a small minority is not a good reason to deny assistance to a majority in need of that assistance.

- **whether the level of assistance should be permanent, temporary or reducing as household incomes rise.** There is a case for the assistance being phased out over a few years; making households apply annually for assistance should[30] eliminate those households who have "graduated" above the $21,000 eligibility limit.

- **households with income over $21,000 are impacted too.** That is correct; but the line has to be drawn somewhere. There is no question that, one way or the other, most of Fiji's citizens will be required to pay more tax. The scenario the Committee proposes – that revenue is raised through increased VAT but not through personal income tax – means that generally individuals' post-tax income is not affected, but they have more VAT to pay. The Committee has proposed a lowering of the personal income tax rate threshold for taxpayers in the $30-50,000 bracket as an additional means of compensating that group.

Charity organisations engaged in poverty relief

4.109 Charities engaged in poverty relief often purchase basic food items for distribution. These organisations have a high impact on poverty because they know their clients well – sometimes for generations - and know the needs of particular communities well. In most cases their knowledge is far deeper and more accurate than an under-resourced Government system focused necessarily on quantity and less on quality.

4.110 Few charities are registered for VAT in a manner which would allow them to claim input credits for VAT paid (even if they qualified - as some do), VAT registration would disadvantage them for other reasons). One charity organisation has submitted that an increase in VAT on basic items would directly affect its effectiveness and stretch its budgets for poverty relief.

[30]Assuming honest declarations of income

4.111 The Committee agrees that as a matter of fairness, charity organisations are performing work which is for community benefit. They substitute for Government in some cases and in some ways are the consciences for the rest of us. To preserve the integrity of the VAT system the Committee recommends a budget mechanism which will allow approved not-for-profit charitable organisations to seek grant offset funding for VAT expended. This budget support should be coordinated with the welfare support mechanisms provided by Government.

New sources of VAT revenue

4.112 The current Value Added Tax was introduced during 1991 and is now more than 30 years old. In that time there have been significant developments in the way business is conducted, particularly in e-commerce (online shopping platforms) and the delivery of digital services such as entertainment streaming. These business activities and delivery models provide opportunities for new VAT revenue streams that will likely increase over time. Responsive changes to VAT law are needed now to bring clarity to how VAT applies to these services as well as emerging e-commerce activities. Fiji can learn from other countries which have been able to effectively collect “Netflix taxes” and broaden their revenue bases to include e-commerce.

4.113 A new draft VAT Act has been prepared (with international assistance). This includes coverage of online and streaming type activities referred to above. It has been through an initial consultation with a limited group of stakeholders. This consultation process should now be stepped up to ensure that critical issues are addressed and the best possible draft Bill can be put to Parliament (and the relevant Standing Committee for further consultations). The Bill should go through a proper Parliamentary public consultation process. When it is enacted, appropriate transition times should be allowed for FRCS to adapt its systems and tax professionals to be trained on the new VAT provisions.

Recommendations

4.114 Accordingly, the Committee recommends:

- a unified rate of VAT (that is, no zero-rating on essential items), not greater than 15%. The Committee has used 14% for illustrative purposes but the final rate is a matter of Government policy (see Chapter 1). The VAT increase should be introduced in one step.

If zero-rating is maintained, then the Government has to strongly consider:

- narrowing down the list of essential items
- reducing or eliminating the increased social support and income support targeted transfer payments proposed in this Report

reflecting Government’s lower potential revenue (and the fact that there would be arguably less VAT impact on lower-income families).

- the increased rate should take effect from 1 January 2024 to allow businesses and consumers to prepare adequately and for Government to put targeted assistance delivery mechanisms in place.

- to compensate for the increase to a single unified VAT rate, targeted income assistance to social welfare recipients (20% increase) and lower-income households in the form of periodic cash payments. Assuming a 14% VAT rate, payments of at least $1,000 per year could be comfortably funded.

- moving forward with the new VAT Bill with specific attention to be given to tapping new sources of VAT revenue from digital services and e-commerce.

- an appropriate budget mechanism to relieve approved charitable organisations of the burden of VAT, to improve the effectiveness of their spending in providing relief to some of Fiji's poorest people. This could be in the form of a compensating Government grant for VAT paid.

Capital Gains Tax

Background

4.115 Capital Gains Tax (CGT) is imposed on capital gains arising on disposal of a *capital asset* (as defined). A person disposing of a capital asset is required to file a CGT return and pay CGT on the gain. Unlike other capital gains taxes, it is not an income tax but a transaction tax. Tax is imposed on a transaction basis. It cannot, for example, be set off against the taxpayer's trading losses or a capital loss incurred on disposal of another capital asset.

4.116 The CGT rate is set at 10%, lower than personal or corporate tax rates. The original policy aim of this was simplicity, because (unlike other CGTs) no indexation applies to the seller's "cost base". So, for example, a company may have bought a piece of land in 1970, when it paid $10,000 for it. It now intends to sell the land for $1,000,000. Part of the CGT it is paying reflects inflation, not a true "capital gain". The purchase price is not adjusted for, say, the Consumer Price Index over that time or the holding costs of the asset. Because of that (and for simplicity), the tax is levied at the lower rate of 10%, not the taxpayer's normal rate of tax.

4.117 Certain CGT exemptions are available – for example, when an individual is selling his or her first home. Other exemptions exist where, for example, a group of companies with the same ownership are simply transferring assets between them as part of a corporate reorganisation. Other exemptions, however, are less understandable including:

a) exemption of capital gains on disposal of shares held by a person prior to 1 May 2011. This controversial and highly specific exemption, introduced in August 2021 under the Income Tax (Amendment) (No 2) Act, has no clear rationale that was made known to the Committee. Just as controversially, it relieved any taxpayer owing CGT for the disposal of such shares before August 2021 from the obligation to pay CGT on that tax liability. Resulting revenue foregone up to December 2022 (around 16 months) is about $13 million (FRCS estimate). The special provisions relieving taxpayers who did not pay CGT before the new law came into effect is grossly unfair and has the effect of rewarding taxpayers for non-compliance.

b) CGT does not apply to gains derived on disposal of an asset (excluding shares) used for generating exempt income. This was, the Committee believes, originally intended to shield the sale of assets by not-for-profit organisations from CGT. However, this exemption has other unforeseen consequences and creates a potential "loophole" which should be closed. The provision needs to be reviewed and redrafted to limit the exemption to capital gains made on the disposal of assets used to derive exempt income only for not-for-profit organisations.

c) The general exemption for capital gains of $30,000 or less (increased from $16,000 after August 2020) is available to resident individuals and Fiji citizens – linked to the tax-free threshold for income tax. There is no particularly good reason for this general exemption and accordingly suggest that the threshold is lowered to gains of $10,000 or less; and limited to Fiji resident individuals (excluding temporary residents).

4.118 As the name suggest CGT is normally borne by taxpayers (including companies) who make capital gains. The Committee considered whether CGT should rise from 10% to 12.5%, at least to signal to capital generating taxpayers the need to bear their share of tax increases. However, based on the last four years' figures, the net revenue impact of increasing the CGT rate to 12.5% is only $5 million. The Committee has recommended company tax increases as well as an appropriate form of dividend tax (to be considered subject to further review and evaluation). These are significant tax increases which will be borne by shareholding taxpayers, and are expected to raise more than $100 million per annum. In view of that and the minimal revenue impact of a CGT rise, the Committee has opted for continuity and recommend that the CGT rate remain at 10%.

Recommendations

a) Remove the exemption for disposal of shares acquired before May 2011 and reverse the provisions of the Income Tax (Amendment) (No 2) Act 2021 which gave relief to taxpayers who owed CGT for the disposal of shares before its enactment.

b) Limit the exemption for gains derived from sale of assets used for generating exempt income to not-for-profit and charitable organisations only.

c) Reduce the exemption threshold to gains of $10,000 or less; and limit to Fiji resident individuals (excluding temporary residents).

Departure Tax

Background and Brief Analysis

4.119 Departure Tax was introduced in the year 1986. Originally the tax also served as an airport levy – some of the funds collected were earmarked for airport development. Currently, Departure Tax proceeds (at current rate of $100) are distributed as follows:

a) Consolidated Fund - $75.
b) Airport Fiji Pte Limited - $10.
c) Civil Aviation Authority of Fiji - $5.
d) The environmental levy paid directly to the Consolidated Fund - $10.

4.120 Departure Tax revenue between 2015 to 2022 has been as follows:

	CY 2017	CY 2018	CY 2019	CY 2022
Visitor arrivals	842,884	870,309	894,389	703,665
Transit passengers	93,857	111,990	106,390	114,062
Residents arriving	158,300	147,994	146,764	67,353
Residents departing	168,662	173,612	174,590	109,368
Dept tax rate (FY)	FJD200	FJD200	FJD200	FJD100
Revenue – F$M (FY)	$145	$149	$158	$42

- Calendar Years 2020 and 2021 *are* excluded (in view of COVID border closures during substantial part of those years).
- *Visitor arrivals are tourists only (residents are not included)*
- *Transit passengers - can disembark for up to 96 hours with no departure tax payable or can travel on the same day to their disembarkation point.*
- *Residents - are Fiji citizens and are counted separately from all arrivals and departures.*
- *All passengers embarking from Fiji are charged departure taxes.*

4.121 The revenue earned does not correlate strictly with the total of visitor arrivals and Fiji citizen departures because:

- a visitor defined as staying "in transit" (currently for fewer than 96 hours) is not required to pay Departure Tax. This exemption helps to capture travelers with extra leisure days and for whom Fiji is not the main destination, to ensure they choose Fiji as an overnight or longer transit stop.

- children under the age of 12 are also excluded (presumably to reduce the cost of family travel).

4.122 Departure Tax has provided a stable source of revenue, rising as high as $153 million in the year ending July 2019 when the rate was $200 per adult. For the next three July-end years, Covid restrictions (which applied in all or some of those years) impacted revenue, as did the decrease from $200 to $100, aimed at reducing the costs of travel when tourism resumed.

Submissions on Departure Taxes

4.123 Predictably, some tourism stakeholders urge caution in increasing Departure Tax, saying that it adds to the cost of travel to Fiji and thus risks Fiji's competitiveness against traditional rivals such as Bali (currently charging about F$35 (USD16) and the Cook Islands (approximately F$100 (NZD71.77). These concerns are legitimate. The current tourism rebound is strong, reflecting significant "pent-up demand" but as the post-Covid environment straightens out and if (as predicted) economic growth dips in Fiji's main source markets, questions about Fiji's competitiveness as a tourism destination will undoubtedly return.

Considerations

4.124 Fiji's Departure Tax is higher than in most countries. However, global comparisons are not always easy or valid. In Europe, for example, departure taxes are relatively low, but this reflects the competitiveness of different destinations also connected by land and in an aviation market where low-cost carriers hold sway.

4.125 Departure Tax revenue receipts for the calendar year 2019 was around $158 million, applying the $200 per person rate. In the Government's current circumstances, therefore, doubling the rate from current $100 to $200 – which applied in the pre-Covid period – is an attractive option. We do not see that the Government can afford to forego it. On a simple linear basis (which requires a number of obvious assumptions, including that the tax increase itself would not dent tourism numbers) this would add F$75 million to Government revenue.

4.126 We have tried to consider, as carefully as possible, the impact of returning the Departure Tax to its pre-Covid rates. It is hard to draw conclusions on this. Visitor arrivals continued to increase while the $200 Departure Tax was in place – but that does not answer the question of how much more they might have increased with a lower rate.

4.127 Those who travel (whether visitors or Fiji citizens) generally have the disposable income to do so. So there are good arguments, having regard to the principles of equity and sustainable revenue, to increase Departure Tax. The question is when and by how much.

4.128 We believe that the Departure Tax can return to its $200 rate over time. At this point the Committee is suggesting progressive increases to $150 and ultimately $200 by 1 April 2025. There is an argument that small increases for inflation (say up to 5% a year) could be absorbed relatively easily, but perhaps it is appropriate to pause this increase in 2025. In the meantime, Government in consultation with the industry should conduct focused research and report back on the correlation between these taxes and tourist choices (if any) and identify trends in competitor markets. 2025 would then be a good point to reflect on whether any further increases can or should be made to Departure Tax.

4.129 The Committee considered whether the current 96-hour transit and children-under-12 exemptions should remain. Ultimately, while arguments exist for both changing and keeping them, where those arguments are finely balanced, the Committee believes, in the interests of certainty and predictability, the status quo is preferred until better information is available.

Timing the increases

4.130 The Committee is mindful of repeatedly expressed concerns by the tourism industry that tax changes affecting tourism should be aligned with April-March years as it is for this 12-month period each year that many Fiji tourism properties negotiate with Australian and New Zealand travel wholesalers to package their rates. Some packages include air fares. Accordingly, while the Committee is recommending progressive increases in Departure Tax, the Committee proposes that these apply from **1 April** each year.

Applying the revenue to tourism needs

4.131 If the tourism industry is to bear an increased tax burden it is not unreasonable for the Government to reciprocate by tying (formally or informally) some of the revenue increase to:

a) **critical capital expenditure in tourism areas – or to open up new areas for tourism.** Tourism-related capital expenditure – roads, bridges, water and sewerage, education and training facilities – does not solely benefit tourism operators. Much of this capital expenditure would directly improve the lives of people living in tourism areas and thus serve both economic and social purposes. They also give to the tourism industry the opportunity to look at partnerships with local communities to maximise the economic and social benefits from tourism-directed capital expenditure. This extends to capital expenditure directed to opening up new areas for rural tourism, particularly where there are opportunities for local communities to deliver new and unique experiences. This allows Fiji to retain more value from the tourism dollar and has significant income impacts on rural communities.

b) **tourism promotion activities.** The industry generally argues that well-targeted promotion increases visitor arrivals and thus industry revenue, which is beneficial to the Fijian economy overall. The Government is faced with many "spend money to make money" challenges every year. However, there is some justification in principle to heed the tourism industry's challenge, given the industry's relative size and the fact that its investments largely generate the Departure Tax revenue in the first place.

Committee members are not the experts; they are not in a position to prescribe how these principles might effectively be satisfied. But they illustrate how dialogue could take place between, on one side, a Government which understands and appreciates its sources of revenue, and on the other side, an industry which directly delivers the revenue and is ready to argue its position based on the principle of reciprocity. This might yield economic and social synergies.

Recommendations

a) Restore Departure Tax as follows:

Effective Date	April 2024	April 2025
Rate Increase	\$50	\$50
Revised Rate	\$150	\$200
Additional Revenue increase from current (Pro-rata – annualized)	\$35m	\$70m

b) Government should have structured dialogue with the tourism industry to evaluate and determine the application of a fixed portion of Departure Tax revenue toward:

- tourism promotion expenditure (agreed with the industry)
- critical capital expenditure decided in consultation with industry which meets tourism, both social, economic and infrastructure needs. Development of rural tourism experiences and supporting infrastructure is a good example of how all those objectives might be met.

c) Government and the industry should jointly fund a focused study on the impact of Departure Tax on tourist choices and tourism tax trends in Fiji's competitor markets, to be completed by March 2024 and to enable more carefully considered policy-setting on Departure Tax for future years.

d) Departure Tax

Exemptions (96-hour for transit passengers, children under 12, etc) to remain unchanged.

Water Resource Tax

Background

4.132 Water Resource Tax (WRT) was introduced in 2009. The current structure and rates are as follows:

Volume of water extracted in a month by the person or business (litres)	Applicable rate ($ per litre)
0 — 9,999,999	$0.01
10,000,000 and above	$0.18

4.133 WRT is imposed on "any business extracting water in its natural state"[31]. Accordingly where a "business" extracts 10,000,000 litres of water or more in a month, that person or business is required to pay WRT at the rate of 18 cents for <u>every</u> litre (that is, going back to the first litre) of water extracted in that month. As such, the WRT structure is regressive.

4.134 The bottled water extraction industry is dominated by one major water bottler[32] which sells its premium bottled water product around the world, particularly in the United States where it is the largest-selling imported bottled water by volume. It is a significant contributor to Fiji exports and WRT.

4.135 It is not difficult to infer from the timing and structure of the WRT rates that the WRT was originally imposed specifically with one industry player in mind. Smaller bottlers were made to pay a tax at the rate of 1/18 of the rate applicable to the major player. The arbitrary graduation of the tax rate relative to the volume of water extracted is not consistent with sound or principled tax policy. It instead suggests to large potential investors (including foreign investors) that Fiji is prepared to impose arbitrary and opportunistic taxes on big industry players, not necessarily having regard to fair taxation principles.

4.136 Putting aside those concerns, WRT has been an important source of Government revenue, contributing around $86 million, 4.2% of total Government tax revenues receipts in the 2022 calendar year.

4.137 The WRT has some fundamental issues, however:

a) it is imposed on every "business" that extracts water in its natural state. It is not confined to water bottlers. This means that, strictly applied, any farmer who is "in business" (or any other rural based business) and who extracts water from a borehole should technically, be paying WRT. This is a significant disincentive to the pursuit of commercial agriculture which intends to make use of ground water (sustainably or otherwise).

b) in a point related to (a), the drafting of the WRT law taxes the extraction of all water, regardless of the purpose for which it is used. Remote extraction points away from municipal council water supplies would draw water for a range of purposes including cleaning and sanitation and WRT in imposed on this usage at the same WRT rate.

[31] s.5(2), WRT Act 2008

[32]and some FRC members have professional relationships with FIJI Water, which have been disclosed to the Committee as a whole

c) the arbitrary regressive graduation of the tax rates – from one cent to 18 cents after the 10m litre cut-off is reached – has the unintended consequence of disincentivising other bottled water producers from growing past the 10m litre mark. Once they cross the threshold, they find themselves paying 18 cents per litre on <u>every</u> litre they produce, not just the excess litres over 10 million. So the structure of the tax is unsound.

Submissions

4.138 The Committee received submissions from two water bottlers. One submission recognised the importance of the WRT to Government revenue (and did not seek a reduction in top WRT rate). The submission commented on the WRT from an international benchmark perspective and sought to have water extracted for non-bottling purposes excluded from WRT. The submissions also covered general comments on taxation, ease of doing business and the business environment

4.139 Other more specific (and useful) suggested changes to the Income Tax Act have been referred to the Ministry of Finance as a Budget submission.

Consideration

4.140 There has been no change in the structure of WRT since it was introduced in 2009 so WRT in general is overdue for review having regard to changes in the industry and the global environment.

4.141 Water is a natural resource, so there is an argument for imposing some rate of taxation on its extraction. Having regard to Fiji's need for revenue, the Committee does not see a basis for reducing the top WRT rate.

4.142 As a matter of fairness – and to ensure a less distorted tax regime for other water bottlers seeking to grow their businesses – it would make sense for WRT to be applied progressively (that is, the higher rate applies only to the increment in water volumes in the same way that higher tax rates apply only to increments of personal income at higher levels).

4.143 We do not, in this report, seek to prescribe the progressive bands or rates. That is a matter on which the bottled water industry should consult with the Ministry of Finance having regard to preserving the WRT revenue base (because imposing progressive rates would, in the short term, have some downward impact on WRT revenue) while at the same time encouraging growth in the bottled water industry. Where those rates lie may depend on the current levels of production of existing industry participants and their future development plans.

4.144 It goes without saying that the extraction of water for bottling must be environmentally sustainable and from sustainable sources, the verification of which is a matter for the environmental authorities.

Recommendations

a) Government should explore, with industry participants, a more progressive tax rate incorporating no more than three bands. This is with the aim of encouraging industry growth but not compromising WRT as an important source of revenue for Government. The top WRT rate of 18 cents per litre may need to be marginally increased to compensate for losses arising from a more progressive tax rate.

b) Government should evaluate the pros and cons of WRT being applied only to water extracted for the purposes of bottling or other modes of packaging for sale vs extraction for other uses to determine the most appropriate WRT mechanism.

Customs – Fiscal Duties and Excise

Introduction

4.145 Fiscal duties and import excise tax goods, either on arrival at Fiji's borders or as they leave a local factory. They contribute significant amounts of revenue to the Government. – an estimated $660 million in the year ending 31 July 2023.

4.146 **Fiscal duties** on imports were previously levied in a range of different bands. Over the years, these had been reduced to four bands, and currently at: 0% (duty free), 5%, 15, or 32%. This has simplified Customs collection and reduced disputes and differences between FRCS and importers.

4.147 Fiji also imposes **import excise** on several imported and locally made goods, particularly on tobacco, alcohol, sugary drinks and motor vehicles. The intent of import excises may be evident: They raise revenue on highly discretionary spending, but they are also a policy instrument, using taxation to re-direct preferences (in most of the above cases, towards healthier lifestyles).

4.148 A breakdown of **Customs** revenues receipts (fiscal duty, import excise duty, domestic excise duty and others) for the calendar years is set out below:

Description	CY 2018 ($m)	CY 2019 ($m)	CY 2020 ($m)	CY 2021 ($m)	CY 2022 ($m)
Customs Receipts					
Fiscal duty	441	420	305	281	330
Import excise duty	61	41	13	4	6
Excise duty	174	167	125	112	126
Export duty	9	8	9	7	7
Others	2	2	1	1	1
Less: Rebate	(4)	(6)	(9)	(3)	(2)
Total	**683**	**632**	**444**	**402**	**468**

4.149 The significant revenue earned from Customs duties reflects, to some extent, Fiji's high level of imports.

Considerations

Customs duties and free trade

4.150 Despite recent politically-driven retreats in major economies, there has been consistent pressure over the last 40 years from global agencies towards the promotion of free trade and the reduction of tariff barriers between countries. The theoretical basis for this is "comparative advantage" – that each country should produce the goods that it is best at cost-efficiently producing and exchange them with other countries, with resulting benefits for consumers everywhere, who receive goods at the lowest possible price. The free trade approach, therefore, argues for lower Customs duties. Free trade agreements compel Governments to lower them or in some cases abolish them.

4.151 Powerful voices are also raised against this "one size fits all" approach. These say that small and vulnerable economies will struggle to gain "comparative advantage" against larger ones with similar climatic conditions, economies of scale and higher levels of development; and the challenges are only multiplied for developing countries trying to produce higher value-added goods against larger and more sophisticated economies.

4.152 There are cogent arguments that the free trade approach threatens food and other forms of national security and prevents less developed countries from developing their own "infant industries" (and the jobs that they create). The recent Covid-19 pandemic and the threats it presented to shipping and other essential trade functions was a sharp reminder of Fiji's vulnerability. Significant shipping delays and cost increases – by as much as four times pre-pandemic levels – have impeded investment and significantly raised consumer prices. As Covid recedes, some of these challenges have also receded. However in some cases, particularly as global industries reorganise themselves to manage risks from a similar global event and to respond to the increasing threats from climate change, the global trade environment is permanently changed.

4.153 This is the background against which Fiji must formulate its trade and taxation policies.

A transparent policy framework is needed

4.154 Once again, it is necessary for the Government (in consultation with the private sector – investors, manufacturers, importers and consumer advocates) to develop and share a policy framework around Customs and excise duties and what outcomes they are intended to achieve. Below this is called the **Policy Framework.** This will also need to be coordinated with national strategies for trade, manufacturing, health, and foreign and domestic investment. Some (but not necessarily all) of the relevant factors include:

a) **revenue raising**. For the foreseeable future, the importance of fiscal duty and import excise to Government revenue will not change. Because of its extremely tight fiscal position, Government cannot afford to ignore their revenue-raising potential at present.

b) **discouraging** imports **where local substitutes may exist or could be promoted**. From a national **economic** viewpoint it is easy and convenient, and often cost-effective, to import products that others have produced – but which, with a little effort, Fiji could itself produce (or effectively substitute with a local product). It is not for the Committee to exhort citizens and businesses to change their behaviour. It is for Government to promote import-substitution outcomes that make economic sense for them to do so, including to local investors who may put their capital at risk. This is related somewhat to the "infant industry" argument below.

c) **actively** imposing **barriers to imports to protect "infant" industries.** This is an import substitution strategy (long attempted in many countries with mixed success) designed to retain local value-adding, create jobs and reduce imports. In theory the "infant industry" is protected by a high fiscal duty barrier to enable it to establish and become more efficient to the point where it is competitive with imports and duty protection is no longer required or is phased down). However those import barriers also increase consumer prices. As food security and other strategic questions become live, there is some added rhetorical impetus for pursuing this approach. Industries which have benefited from this approach include flour milling (imported flour products face a 32% tariff) and the local dairy industry, protected by a 32% tariff (which has now reduced). Overall the tariff strategy for the dairy industry has not proved to be successful. Fiji remains highly dependent on imports of quality dairy products.

d) **changing behaviour.** There are obvious health benefits from increasing the prices of alcohol, cigarettes and sugary drinks ("sin goods") in a bid to force people to reduce or end their consumption. From a national viewpoint, luxury motor vehicles and other luxury goods are not necessary – but if people wish to make those purchasing choices (consistent with a free society and a market economy) at least they should contribute to the national treasury as they do so.

e) **environmental issues and natural capital.** If Fiji is to have a national vision at which natural capital is given equal weight, then what we import in terms of consumable and capital goods must be assessed accordingly. Fiji continues to depend heavily on Heavy Fuel Oil (HFO) with high sulphur content for electricity generation and on petrol and diesel-powered motor vehicles. A shift to greener forms of transport and electricity generation must begin (see above) and Customs duty policies must be aligned to this.

4.155 As usual, these factors sometimes conflict and sometimes have unforeseen consequences. Increasing tobacco taxes, for example, balances deterrence with high revenue-raising. Strong taxation measures to increase deterrence may not necessarily have the desired health effects.

4.156 An argument was made to the Committee by the tobacco industry that excessively taxing manufactured tobacco products ("tailor-made" cigarettes, which are easily taxed by "clipping the ticket" as they leave the factory) risked driving consumers to unregulated forms of tobacco (for example *suki,* sold informally in markets and other ways, in a way that cannot be so easily taxed). These substitutes have equally damaging health effects but are harder to tax. So (by this argument) bad health outcomes remain unchanged while the excise duty revenue (the revenue needed to fund health care and anti-tobacco education) falls as consumers move to untaxed tobacco. The Committee does not need to reach a view on that argument. Any conclusions on it should only be reached after testing the evidence. But it is an illustration of why the issues are not always straightforward.

4.157 Once the Policy Framework is settled, it should (of course) be made public and thereafter become the basis for setting duty rates on particular goods – and on the basis that they will remain unchanged for a specified period of time (four or five years). In this way the Government is

- **consultative** (considering the views of everyone)
- **transparent** (**outlining** the factors it considers when setting fiscal duty and import excise for particular goods). This helps importers advocate for rates for new products and may help resolve disputes on what rates should be applied. It also makes it more difficult for those with political or economic connections to seek special treatment on fiscal duty and import excise rates, particularly if what they are requesting is inconsistent with the published Policy Framework. The authorities (and the "special pleaders") then know that those inconsistencies can be publicly questioned

- **predictable.** Again, **businesses** (and to some extent consumers also) can plan with more certainty about their future costs of imported goods, increasing their confidence that particular business strategies will not be derailed by sudden duty changes.

Moving to fiscal duty and import excise where appropriate

4.158 Free trade pressures do not necessarily mean a loss of taxation options. While tariff barriers to imports may be brought down, nations do not necessarily lose their rights to tax goods, as long as imported goods are not discriminated against. So there is an argument in favour of replacing import duties with excise duties to ensure that revenue is not lost when free trade agreements come into force. These are issues for specialists, not the Committee. But, given the Committee's strong advocacy for business and consumer certainty, the Government is requested to "plan ahead" when free trade agreements threaten Customs duties so that a consistent approach is maintained on the taxation of specific goods.

Should CIF or FOB be the basis for duties on imports?

4.159 Currently, FRCS applies fiscal duty and import excise on the full cost of imported goods (ie CIF - Cost plus Insurance and Freight). A number of countries apply Customs duties only on the cost of goods themselves (FOB – "Free on board"). Clearly if FOB rates were used, this would lower Customs duties and should in turn lower consumer prices. However, this approach would also significantly lower Customs revenue. FRCS's current estimate of the likely revenue loss is $60 million per year, mostly from non-basic food and household items.

4.160 The approach is also (like the zero-rating of VAT on essential items) a blunt instrument. Everyone – including those who can afford to pay – benefits from the resulting lower prices, when this is revenue which could be collected to redirect to those in need of relief.

4.161 Overall however, the Committee believes the question is a fair one, best answered in the consultative exercise proposed; to arrive at a concluded Policy Framework. For the moment, it appears that it would be unnecessarily disruptive (and costly for Government) to change course on the Customs revenue base to achieve a short-term economic outcome (ie lowering the cost of living). There may be better (and once again, better targeted) ways to achieve this objective.

Customs – fiscal duties and import excise tax on alcohol

4.162 These subject merits special attention because of its revenue impact.

4.163 Before the pandemic fiscal duty and import excise on alcohol were criticised as excessive, particularly by the tourism industry which alleged that their impact on their own retail pricing in hotel venues triggered negative guest feedback. Hotels were criticised by the previous Government for inflating drinks prices. This criticism appeared not to recognise that the Government's own high alcohol taxes contributed significantly to these prices.

4.164 During the pandemic (and somewhat inexplicably, at a time when border restrictions prevented most tourists from entering Fiji) the Government slashed fiscal duty and import excise on alcohol, apparently with the aim of encouraging tourism when it returned. The tourism recovery has been strong and there are clearly good revenue reasons for alcohol taxes to be increased to more realistic levels. It is fair to take some account of the tourism industry's concerns about the impact on their retail prices, given that tourism will, for the foreseeable future, remain the engine of the economy.

Re-adjusting after the pandemic response

4.165 As part of the pandemic response, over 1,600 import tariffs were reduced. These significantly affected revenue from import duty and in many cases import excise. They also had the effect of lowering consumer prices. This effect may not have been visible to consumers because of other increased costs (particularly freight and local logistics). Consumers suffering those consequences are probably not overly interested in the point that, but for these reductions, price increases could have been worse.

4.166 However, taking into consideration that the economy has now substantially recovered post-pandemic, it may be prudent now to re-visit those tariff reductions to ensure that the rates set are consistent with the Policy Framework proposed. In the short term, and where it makes sense, some duty levels may be able to revert to pre-pandemic levels. In FRCS's estimation, returning to (or near) pre-pandemic levels (including alcohol) would return an extra $100 million in revenue to the Government.

4.167 The high cost of living emerges repeatedly (including in published opinion polls) as a major concern of Fiji's people. These concerns also emerged in our public consultations. Reducing import duties is an attractive option to achieve this. However the countervailing factor is always the need to raise revenue for expenditure which the Government is bound to provide and which consumers also need – especially for infrastructure and critical social services.

4.168 Our recommendations on VAT, for example, will significantly impact consumers. Customs duty rates are an equally critical element in consumer prices. Lowering or increasing these affects both consumer prices and Government revenue.

4.169 Any Government concerned about the cost of living will take these issues into account. However the Committee urges a disciplined and analytically rigorous approach to Customs and excise duties. The Policy Framework should be sound and predictable, for all the reasons set out above. It is then for the Government to decide, with the revenue it has earned, what it will spend in a targeted way in each Budget year, to mitigate cost of living pressures. Dealing with cost-of-living issues are matters for Government to address using more flexible annual Budget measures with the revenue it earns.

Recommendations

General

a) The Ministry of Finance should, in consultation with key stakeholders (such as other key Government departments, consumer advocates, investors, manufacturers, tourism, transport and retail and wholesale businesses) establish – and, importantly, publish and make known - a Policy Framework which informs everyone, including itself, on what fiscal duty and import excise policy is aimed at achieving and how duties on general classes of goods should be applied accordingly. Some of the factors to be considered should include:

- what goods it is important to leave as duty-free, to lower their cost to consumers, investors and local businesses who need them as inputs to be competitive
- what goods it is convenient and sensible to use as the basis for raising Customs and excise revenue, and at what rates (ensuring consistency across the class)
- what goods are of little social utility (luxury goods) for which it is appropriate to tax people (usually those who are well off) who choose to buy them

- what goods actively damage health ("sin goods") and what rates should be applied to them
- on what imported goods it may be appropriate to deliberately raise prices using Customs and excise duty measures to protect local manufacturers (ideally with such protection on a timeline to be phased out)
- how fiscal duty and import excise should be aligned to progressively direct Fiji towards a greener economy. This should include progressively increasing duties on fossil fuels (as greener energy sources are developed and brought online) and applying low or no duty on "green" goods.

The Committee does not recommend major changes in the current structure of Customs and excise duties (except as set out below) until this Policy Framework is complete.

b) The Government should, in the short term, review the pandemic period reductions in Customs and excise duties to see where it is appropriate now to recover revenue. However, these tariffs should ultimately be aligned to the Policy Framework.

Specific

a) The Government can and should, in the short term, progressively increase taxes on alcohol, tobacco and sugary drinks for health reasons. It is possible (as is argued for tobacco – refer above) that taxation of these "sin goods" may reach a point at which they are counter-productive. That would be a useful matter for study but in the meantime both revenue and long-term health imperatives should continue to drive the policy on this special class of goods.

b) Larger motor vehicles (1,500 cc and above) and luxury motor vehicles (2,000 cc and above) generally have less social utility and should bear the highest duty rates, particularly at a time when sacrifice is being demanded of everyone.

c) Fiscal duty and import excise structures should be reviewed with the aim to widen excises on fuel products and motor vehicles (offset by declines in import duties). Increases to address environmental concerns should also be considered. Reforms should be made progressively over the medium term (from 2 to 5 years), with clear outlines of plans and timelines to businesses and stakeholders to enable them to adapt.

d) Concessional and protective duty rates to support specific industries and targeted activities should continue for the next five years, particularly for hotels and tourism, agriculture, manufacturing, renewable energy, BPO enterprises, hospitals and health services, education, sports, charities and NGOs. However these, like tax incentives (refer above), should be the subject of more focused research and study to ensure their utility and overall fairness.

Taxpayer Online Services (TPOS)

Background and Brief Analysis

4.170 FRCS has recently completed its implementation of its Taxpayer Online Service **(TPOS)** with a number of modules (relating to tax types or system functionality) and online functions, including the recent roll-out of Company Income Tax (CIT) and Personal Income Tax (PIT) modules for online income tax return filing under the self-assessment regime.

4.171 TPOS is a modern taxation system which has replaced the aging (and at times not inappropriately named) FITS system. TPOS has been introduced with the aim of improving tax administration and tax compliance together with offering a user-friendly, efficient and effective tax system to all stakeholders including online, as opposed to paper-based filing.

4.172 However, a number of concerns have been raised regarding TPOS, including significant difficulties faced by businesses from time to time, including increased inefficiencies and administrative costs.

4.173 It appears that required technical and quality standards may not have been maintained right from the beginning and at different stages of the TPOS implementation, including stages for initial project scoping, defining core system requirements, defining user and operational requirements (both for FRCS and taxpayers), overall design, development, testing and internal quality assurances. A lack of stakeholder involvement (specifically taxpayers and tax advisers) at the early stages may have contributed to this.

4.174 This has contributed to a rollout of modules with a number of inefficiencies, gaps and issues. These include inaccurate tax penalties being charged, inappropriate automatic tax transfers taking place and a number of system limitations, other inaccurate tax calculations and the absence of print options (both electronic and physical). FRCS's staff have done what they can to address taxpayer concerns but these have not completely alleviated a wide sense of frustration at the rollout.

4.175 Additionally, an automated system also delivers automated penalties and other sanctions which have caused further frustration and cost to businesses, and for tax advisers who have had to argue for the reversal of incorrect, automated, non-compliance penalties which are not the taxpayers' responsibility. It is unfair and unreasonable to impose on taxpayers, a system with such limitations and gaps, and not then provide them reasonable time to deal with the very same limitation and gaps before imposing penalties for non-compliance (particularly where they have no alternative means of complying, e.g. through manual filing).

4.176 FRCS must recognize that for certain changes or requirements, businesses require reasonable time to prepare and, in certain situations, a lead time of at least six months' notice (or one year) is needed particularly when it requires a change in processes for transaction capturing and processing, accounting systems and IT systems.

4.177 These issues underscore the need for early collaboration with stakeholders at every stage – and most critically at the design stage.

4.178 The system has the potential to be effective. It is on the right track if some basic issues can be corrected.

4.179 We believe that FRCS has a new openness to criticism and an ability to respond to obvious errors and to learn lessons. As long as FRCS maintains this collaborative approach, the Committee believes that the short-term issues with TPOS can be ironed out.

Recommendations

4.180 The Committee recommends:

General

a) That FRCS to be provided required resources (human resource with required technical skills and expertise together with required funding) to complete all required enhancements to TPOS system (covering all modules and features), including:

- Rectifying all software and technical issues.
- Rectifying all business rules, including penalties and tax transfers.
- Print option (electronic and physical) at all stages – work in progress, pre-lodgment and post lodgment of all tax returns.
- Remove all penalties that have been incorrectly imposed.
- Remove requirements to provide supporting schedules for Depreciation in a new Excel template recently introduced by FRCS. This new requirement is an unnecessary duplication of fixed assets register / schedule being maintained by taxpayers for many years. It must be recognized that large numbers of businesses have large volumes of fixed assets.

b) FRCS must focus on ensuring that TPOS is user-friendly, and, with the help of stakeholders, resolve issues with the system, including design, structure and critical functionalities (such as printing (electronic or physical copies) options, manage clerk functions, the Tax Agents' Portal facility and the Taxpayers' Portal facility).

c) With regard to Company Income Tax (CIT) and Personal Income Tax (PIT), FRCS should grant reasonable general extensions to all taxpayers (maybe until September 2023, and consequent extensions to tax agents under the Tax Agents Lodgment Programme) for tax year 2022 filings. This is the time it will take to resolve the system challenges for which taxpayers are penalized through no fault of their own.

d) FRCS should commission an independent review of TPOS so that there are "fresh eyes" on the capability and capacity of TPOS to meet the requirements of FRCS. Government (particularly Ministry of Finance) and more importantly the taxpayers and businesses taking cognizance of ease and cost of doing business in this process.

Technical assistance from IMF's Pacific Financial Technical Assistant Centre (PFTAC) may be sought for this.

e) FRCS must give respect to its own laws and SIGs[33] in its system design, meaning more legal input from its own lawyers and taxpayer's lawyers. Over the years (including with FITS) several issues have arisen where the automated systems would not deliver options that the law permits or prescribes. FRCS has responded to concerns saying that "the system is not designed for that." <u>The law must drive the system design</u> - not the other way around.

[33] Standard Interpretation Guidelines issued by FRCS, from time to time, on particular tax provisions or measures.

Specific

f) TPOS business rules

- TPOS business rules in relation to penalties to be improved and corrected (wherever required) on an urgent priority basis. It has been observed that incorrect penalties were being imposed while certain TPOS modules were still being implemented and rolled out.

g) Tax credits held under taxpayers' account

- Penalties should be calculated on the basis of tax liability (ie net of tax credits held under taxpayers' accounts, which would include advance taxes paid), and not on gross tax payable as currently calculated in TPOS. The Tax Administration Act can be amended if that level of clarity is required.

VAT Monitoring System

Background and Brief Analysis

4.181 In 2017 FRCS introduced an Electronic Fiscal Devices (EFD) policy (commonly referred as the VAT Monitoring System **(VMS)**). Retail supermarkets and pharmacies were brought into the system under Phase 1. Subsequently, Phases 2 and Phase 3 were introduced extending to other sectors, as below:

- Phase 1 - Supermarkets, Pharmacies
- Phase 2 - Law Firms, Accounting Firms, Medical Centre, Travel Agencies, Hardware Companies
- Phase 3 - Wholesale, Manufacturing, Construction, Accommodation, Food Services and others.

4.182 The VMS reflects a growing movement among tax agencies globally to "fiscalise" business systems used for accounting to ensure better collection of income tax. The process is relatively new and even newer in the few developing countries where it has been rolled out, and where businesses tend to have recording systems ranging from wholly paper-based all the way up to sophisticated internationally licensed technology. The VMS was imposed without wide consultation or taxpayer education, with perhaps predictable results. FRCS indicates that it does not currently have the resources to effectively "mine" the data that the VMS collects in any event.

4.183 Based on a number of concerns raised and submissions received, observations made by the Committee include the following:

a) The VMS has been highly problematic for FRCS as well as businesses, with a small number of Phase 1 and 2 businesses still not on VMS. Some suffered disproportionate financial penalties in the implementation phase for non-compliance. Phase 3 has been put on hold until (at the earliest) January 2024 while the new Government evaluates its future (and that of the whole VMS system).

b) Despite earlier promises to the contrary, VMS has imposed significant costs and administrative burdens on the majority of the businesses across all levels – SMEs, large, diverse and large groups of companies or multinationals.

c) There are significant concerns about the technical and operational capability of the VMS system (or at least the modules on which FRCS works) and its suitability and compatibility with systems used by businesses in Fiji, and certainly, given the cost to taxpayers, whether it has yielded commensurate value to FRCS (see (e) below).

d) Evidence from tax professionals and taxpayers is that VMS has been extremely difficult and challenging for businesses of all sizes. A number of issues and concerns raised since its introduction appear not to have been resolved satisfactorily.

e) It appears that the VMS information collected by FRCS is not being used effectively anyway, even if it is accurate. It is understood that Phase I and 2 implementations have (so far) generated about 2tb of data which FRCS is not in a position to efficiently process (if at all). VMS has not been integrated into NTIS, and technical capabilities and capacity for efficient and effective integration need to be evaluated.

f) The VMS threshold of $100,000 was introduced after widespread concern and complaints. This has significantly impacted the policy rationale for introducing VMS, which was aimed at managing high-risk VAT compliance and "black economy" concerns.

4.184 FRCS reports that almost 19,500 businesses (comprising approximately 10,000 companies; 7,800 individuals; 1,000 partnerships and 700 other business types) are registered for VAT, and of this the number of businesses registered for VMS is summarized below:

Date	No. Businesses Registered for VAT	No. of Businesses Registered for VMS	Percentage Registered for VMS
Phase 1	164	159	97%
Phase 2	528	512	97%

4.185 In summary, with fewer than 700 out of 19,500 businesses in the VMS at present, VMS in its current form is unlikely to achieve its objectives without imposing significant and disproportionate burdens on a range of businesses. It may be that a fiscalisation strategy will come into its own in future. But Fiji's attempt to break new ground in the region may have been premature. Fiji is probably better being a "fast follower" of neighbours such as Australia and New Zealand in its use of more sophisticated tax systems. It needs to give priority to more fundamental tax issues at this time.

Recommendations

4.186 Accordingly the Committee recommends that FRCS:

a) Suspend the bulk of the Phase 3 VMS implementation – bring high risk cash businesses into the VMS net whilst suspending the rollout for other low risk and generally VAT compliant industry groups.

b) Ensure all those businesses that should have been captured as part of Phases 1 and 2 are brought into the net

c) Seek technical assistance from IMF's Pacific Financial Technical Assistant Centre (PFTAC) for detailed review of VMS and its usefulness and relevance, taking into consideration:

- The compliance costs and burden on businesses,
- The capacity and capability of businesses, particularly SMEs, and

- The use of information and data to FRCS and level of improved compliance.

4.187 Evaluate alternative options, in the context of Fiji's business environment, for achieving improved compliance and promoting voluntary compliance and whether VMS should be a part of the strategy at this time.

Tax Compliance

Background

4.188 According to a recent World Bank Review, Fiji's revenue administration is assessed to be relatively sound by regional standards.

4.189 The World Bank Review also noted that recent audits conducted by FRCS revealed increasing tax avoidance and evasion in Fiji, with practices such as transfer pricing, profits shifting and customs valuation issues. FRCS has also noted taxpayers' failure to register for various taxes, limited uptake of the online taxpayer platform, non-filing of tax returns, non-payment or delayed payment of taxes and inadequate record keeping.

4.190 It is critical that FRCS provide efficient and effective tax administration services with customer focus approach. Also, it is critical that FRCS take effective measures and actions to create an environment that encourages and support voluntary compliance.

4.191 Despite concerns about the number of non-compliant taxpayers and businesses however, it is important for FRCS to stay focused on the fact the majority of taxpayers and businesses are compliant taxpayers and would likely remain compliant. Steps to combat fraud should not trip up or unnecessarily inconvenience compliant taxpayers. Business understands the "80/20" rule. FRCS needs to recognise the same, and ensure that for compliant taxpayers, its practices are simple, easy to comply with, fair and reasonable.

4.192 Recently, FRCS has launched its Compliance Improvement Strategy (CIS) 2023 – 2025. The main objective of the CIS is to encourage voluntary compliance where taxpayers honestly register their business, file returns, pay taxes on time and accurately report all tax information to FRCS. The CIS will focus on taxpayer segments where compliance risk is evident including Customer Service, Small and Medium taxpayers comprising identified high-risk sectors, VAT paying taxpayers, large and international taxpayers, Customs Import and Export and Border Security. All risks highlighted in each segment have a corresponding strategy as a proposed mitigation of these compliance risks.

4.193 The Committee supports this approach. It is consistent with (and has drawn significantly from) the approach taken by efficient revenue collection agencies such as Australia and New Zealand.

4.194 There is a need to reduce the confrontational approach to revenue collection which has prevailed in Fiji for the last 15 years, in which taxpayers live in fear of highly aggressive FRCS officials who imposed inflexible penalties for small and sometimes explainable errors, despite having good records or reasonable excuses (sometimes caused by FRCS's own inflexible systems) for non-compliance. These actions burdened taxpayers with significant additional costs – either to pay the tax or to engage tax advisers to contest the penalties. This approach tended also to discourage taxpayers from seeking guidance from FRCS or from voluntary disclosure of errors. In that respect it was counterproductive. It also scarred Fiji's international reputation as a sound place to do business.

4.195 A more balanced and user-friendly approach is likely to improve compliance (or certainly not make it worse). This has been put into practice even before the launch of the CIS (including to help taxpayers during the challenging times of Covid-19) resulting in an overall decrease (anecdotally at least) in complaints against FRCS. The current, more effective progress to a service-oriented organisation trying to consult more widely, as opposed to the previous culture of an authoritative enforcement agency has certainly been welcomed.

Recommendations

(a) FRCS should have adequate funding and resources for tax administration improvements and ensuring appropriate skills.

(b) FRCS should have strong, appropriately resourced, customer support teams at all locations to assist taxpayers with tax registrations, use of TPOS, resolving problems and issues and providing assistance and guidance, particularly to small and medium businesses.

(c) FRCS should consider establishing special units at all locations to provide hands-on assistance and support to micro and SME taxpayers and businesses, including for tax registrations, TPOS registrations, filing of tax returns.

(d) FRCS should also consider and evaluate investing in mobile units reaching out to existing and potential taxpayers and businesses to improve taxpayer registration and compliance.

(e) Enhance compliance teams with adequate skills and experienced manpower, and with particular focus on high-risk areas, including VAT, customs and excise, transfer pricing, tax avoidance structures and activities.

(f) Establish a special team for monitoring and inspections (including field inspections and on-site inspections) ensuring businesses are compliant, businesses are registered, businesses are issuing proper tax invoices with reliable equipment (cash registers, Point of Sale, etc). This should include a risk-based approach and special focus on cash (and cash only) businesses to ensure these businesses are appropriately captured for tax including VAT and income tax.

Compliance Penalties, Tax Transfers, Tax Refunds

Introduction

4.196 In April 2023 FRCS launched its Compliance Improvement Strategy **(CIS)** 2023 – 2025 (https://www.frcs.org.fj/about-us/voluntary-tax-compliance/). Its main objective was to promote voluntary tax compliance where taxpayers honestly register their business, file returns, pay taxes on time and accurately report all tax information to FRCS. This strategy uses a risk-based approach to focus FRCS' audit and compliance measures.

4.197 FRCS should treat the large majority of its taxpayers as compliant, or well-intentioned towards compliance, and that a reasonableness approach be adopted with these taxpayers for occasional or explainable non-compliance. However this must be balanced with FRCS having the capacity to take strong action, including prosecution, against taxpayers who deliberately attempt to defraud the tax system. Prosecutions tend to be few and far between. There is nothing wrong with FRCS using the prosecution process to remind taxpayers that it has "teeth" and will use them when necessary.

4.198 The CIS is an excellent start to ensuring greater tax compliance. But its sanctions policies could be clearer. FRCS has a (limited) range of administrative options (usually involving penalties, "compounding" in Customs cases and occasionally prosecution) to address non-compliance. But to ensure that taxpayers understand that everyone is treated equitably, FRCS should ensure that it has a transparent enforcement policy so that taxpayers understand the consequences of non-compliance and know what to expect when things go wrong. FRC also supports imposition of penalties on defaulting taxpayers, particularly taxpayers involved with unlawful tax avoidance and tax evasion activities.

Recommendations

General

a) FRCS should continue its taxpayer-centric and technologically focused approach to revenue collection. However it may also need to consider the needs of, and assist, some less sophisticated business owners, even if this comes at a cost. This is an investment in better compliance, ensuring more positive attitudes towards FRCS and taxation generally and in these business owners as potentially higher taxpayers in future

b) FRCS should, as part of its compliance strategy, have adequate resources for strong action against fraudulent or recklessly negligent taxpayers in order to send the message that, while it will take a co-operative attitude to well-intentioned taxpayers, it will not tolerate those who deliberately default. This would be helped by developing (and publishing) a transparent enforcement policy.

Specific

a) Penalties Rates – Late Payment and Late Lodgements

- Late Payment Penalty (LPP) – Starting penalty rate to be at 10% (reduced from 25%) and increasing by say, 3% per month.

- Late Lodgement Penalty – LLP - Penalty to be at the rate of 1% of tax payable amount (net of any tax credit held) for each month of delays. If no tax payable, then fixed penalty to be as follows:

  - For taxpayers with taxable income of $100,000 or under - $1 for each day of default.
  - For taxpayers with taxable income over $100,000 - $5 for each day of default.

- Remission of penalty should be for genuine and limited circumstances. There should be documented policy and procedure to provide transparency and circumstances under which penalty remission request is to be considered.

b) Compliance Penalties – incorrect tax returns, unlawful tax avoidance and tax evasion.

- In respect to incorrect tax returns, unlawful tax avoidance and tax evasion, harsh penalties should be imposed taking into consideration the nature of defaults, the nature of compliance adjustments by FRCS (technical interpretation versus tax evasion), historical background.

- Penalties framework and penalty matrix (based on the set criteria) to be developed and made available publicly available.

- For repeat serious offenders with reckless behaviour and actions should be prosecuted.

c) A number of concerns have been raised in the past in regard to transfer of tax credits from one tax account to another tax account without notifications, or inappropriate tax transfers.

   Tax transfers should only be from any tax credit held for refunds.

   Any tax credit balance as advance tax payment or payment pending filing of tax returns, should not be used for any other overdue tax returns.

d) FRCS should not hold tax credits without any valid reasons, particularly Value Added Tax.

   Interest should be paid where there is delay in issuing tax refunds.

Contractual Provisional Tax (CPT)

Background

4.199 CPT is challenging for everyone, including policymakers. It is difficult to administer and not a significant revenue earner in itself (F$16 million in calendar year 2022). However it is important as a compliance measure and for fairness (see below).

4.200 CPT itself is an advance tax. The recipient of services is required to pay 95% of the gross sale amount (adjusted for VAT) to the supplier and the other 5% to FRCS; when the supplier files its tax return, it provides evidence to FRCS of the 5% tax that the customer paid; and the supplier is entitled to a credit for that 5% amount (since it has already been paid on the supplier's behalf).

4.201 CPT is arguably important because it ensures fairness. It is an important mechanism for capturing tax that might otherwise be evaded. Some SME owners, in particular, engage in "cash only" transactions on which they do not pay income tax (because their businesses may be small enough to not be registered for VAT[34]). This not only deprives the Government of tax revenue but it is unfair on other businesses (including SME owners) that try to honestly meet their tax obligations.

4.202 However it is not simple. Businesses have to make two payments (5% and 95%) instead of one; many consumers, who often do not even know about the law, ignore it; and it creates several other administrative issues for the customer, the supplier and FRCS. So FRCS has introduced "workarounds" including the so-called "Certificate of Exemption" (COE) for compliant, taxpaying suppliers. If they can produce a COE to their customers, their customers do not have to make the deduction at source and payment to FRCS.

Simplicity would dictate that CPT be abolished altogether. However, for the reasons above, that would not be fair. CPT is also a means of bringing new taxpayers "into the net" to ensure that they are contributing their fair share of tax.

[34] Turnover of less than $100,000

4.203 Some of the issues associated with CPT include:

a) Risk of non-payment of CPT deductions to FRCS. In this regard, FRCS must give a tax credit to service providers even if the customer did not pay it or properly return for that tax.

b) Difficulties and issues relating to timing differences, particularly for businesses with balance dates other than 31 December.

c) Difficulties faced by FRCS for capturing and recording income tax credits for CPT into the income tax account of the service providers.
d) Under the CPT regime, FRCS is obligated to provide tax credit to service providers notwithstanding non-filing of CPT returns or non-payment of CPT by customers of service providers.

Some of the administrative requirements on suppliers, particularly around COEs, can be cumbersome. They must apply for COEs; FRCS must consider each application; this takes time and causes frustration to CPT suppliers.

Consideration

4.204 We believe that there are ways to make CPT compliance simpler. Simplifying the process may result in some revenue loss; but the purpose of CPT is not really to raise revenue but to achieve fairness. The simplified process would still give FRCS the information it needed to take steps against defaulters.

4.205 The process for issuing COEs should move from an application basis to an "exceptions" basis. In other words, everyone is automatically issued a COE if they are tax compliant. Only those who are not compliant need to engage with FRCS to obtain one.

Recommendations

1. Exempt the requirement for deduction of 5% CPT provided the service provider is registered for VAT and issues a VAT invoice.

2. Certificate of Exemption regime to continue and to be available for businesses which are not registered for VAT (and not required to be registered) if they are tax compliant.

3. FRCS to issue Certificates of Exemption automatically by 30 November each year to relevant contractors (covering January to December period into the following year), unless:

   - their tax returns are not up to date (or extension of time has been granted by FRCS for valid reasons), and

   - their tax payments are not up to date (or extension of time has been granted by FRCS for valid reasons).

EU Blacklisting

Introduction

4.206 In or about 2019 the European Union included Fiji on its list of "non-co-operative" tax jurisdictions. Fiji remains on the list[35] at the time of writing this Report, together with approximately 15 other countries, many of them recognised tax havens (which Fiji is not).

4.207 The issue appears to have arisen, in part, out of poor communication. The EU was particularly concerned about three specific tax incentives[36] offered to investors which were assessed as *harmful preferential tax regimes* (including in terms of transparency) and the fact that Fiji had not joined the Global Forum and has not signed and ratified the Organisation for Economic Co-operation and Development (OECD) Multilateral Convention on Mutual Administrative Assistance[37] which promotes tax transparency. Until recently the Government appears to have done little to correct it or to take other remedial steps. In the four years since Fiji was added to the list, a number of countries have successfully taken steps to exit the list while Fiji remains.

4.208 It is difficult to assess the damage created by this situation, which has led to known instances of European-owned business disestablishing in Fiji and a likely weakening of European investor confidence. Impressions once gained are difficult to shift.

4.209 Pro-active steps are now being taken to have Fiji removed from the list. The resolution of the issue appears not to be difficult and the Government must, as a matter of priority, clear the air after an unnecessarily damaging four years of inaction.

Recommendations

4.210 FRCS, the Ministry of Finance and the Ministry of Foreign Affairs must give priority to determining a resolution to Fiji's listing as a 'non-co-operative jurisdiction by:

a) Ensuring through clear communication with the relevant diplomatic parties (in Brussels) that clarification is sought and offered on the communications necessary to satisfy the EU that the listing is no longer appropriate.

b) To the extent that measures are required to ensure that Fiji is a signatory of the Global Forum and OECD Multilateral Convention on Mutual Administrative Assistance and compliant with its requirements, and those actions are taken immediately (or put onto a timetable satisfactory to the EU).

c) Ideally, the Minister of Finance is able to announce in the 2023-23 Budget Address that the issue has been resolved and specify a time when Fiji will be removed from the list.

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35 (https://www.revenue.ie/en/companies-and-charities/documents/eu-list-non-cooperative-jurisdictions.pdf)

36 Lower corporate tax rate for regional / global headquarters, export income deductions and certain ICT incentives.

37 The Committee notes that Fiji signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) otherwise known as the Multilateral Instrument (MLI) in Paris along with 67 other countries on 7th June 2017. Source: https://www.frcs.org.fj/news/2017-2/fiji-signs-oecd-multilateral-instrument/

Taxation Laws and Regulations – Other Taxes and Specific Provisions

4.211 Other taxes and specific provisions which have an impact on businesses, investments and Government revenue bear specific mention. These may require review with the aim of promoting business activity and investment and improving the cost and ease of doing businesses and protecting Fiji's revenue base.

Gambling Turnover Tax (GTT)

4.212 GTT is charged at the rate of 15% on lawful forms of gaming in Fiji, principally lotteries such as TattsLotto. Current GTT revenue is around $2.6 million per annum.

4.213 **We recommend** an increase in GTT to 20% on all prescribed activities, with a resulting net revenue increase estimated at $0.9 million.

Electronic Distribution Platform – Offshore Remote Services and Supply of Goods (Digital Market Place)

4.214 Increasing (and significant) amounts of spending is taking place through digital platforms. This includes content streaming (paid for by subscription or "pay per view") and the supply of goods on online platforms such as Amazon.

4.215 These platforms and their offshore providers offer a reasonable (and growing) base for future taxation revenue. They tend to be used more by the well off. Traditional tax laws do not capture this income because the suppliers are not resident in Fiji and (given the virtual nature of its activities) are often able to create structures deeming them resident in low-tax countries.

4.216 Tax authorities globally are now taking steps to capture this income by imposing digital services taxes on these non-resident suppliers in their domestic laws. They are working co-operatively and across borders to secure these revenue streams from money paid by their own residents. This is a (probably still small but expanding) potential source of revenue for the Fiji government. The proposed new VAT Act contemplates some of these measures.

4.217 Government and FRCS need to ensure they are ready to move early on these measures so as not to miss the revenue opportunities they create; but also to improve certainty for the relevant taxpayers. Fiji does not have the capacity to innovate on these tax measures (and should not try to). But it can be a "fast follower" of tax authorities in Australia and New Zealand as they develop their approaches to taxing digital services.

Recommendations

4.218 **We recommend** that the Ministry of Finance and FRCS convene a task force to investigate and recommend the nature, timing and appropriate rates that should be applied to digital services and similar taxes. The task force should comprise Ministry and FRCS staff and private sector specialists, including those with experience of the international application of these taxes.

Telecommunication Levy

Background

4.219 A telecommunications levy of 1% is paid by telecommunication companies for voice calls on behalf of customers. The revenue from the levy has not been significant and was around $0.8 million in calendar year 2022.

4.220 Many countries have introduced special taxes on telecommunication services with a wider revenue base and higher rates, raising significantly more revenue compared to Fiji. Consideration should be given to widen the base by including data usage and other services for telecommunications levy and also increasing the rate from the current 1%.

Recommendations

4.221 In consultation with the industry participants and stakeholders, including telecommunication companies, consider widening the current revenue base to include data, together with a fair and reasonable rate. This may be more publicly acceptable if the Government commits to applying this revenue to improve communications services – and be seen as a form of "user pays" revenue.

Stamp Duty

Background

4.222 Stamp duty was first introduced in Fiji in 1920. It was abolished exactly 100 years later, in 2020.

4.223 Stamp duty is an *ad valorem* (by value) tax on specified "instruments" (i.e. documents). These previously included transfers of land, shares in companies and debt instruments such as mortgages and company charges. It raised significant amounts of revenue in the calendar years (CYs) 2018-2020 as follows:

CY 2018 - $98 million
CY 2019 - $79 million
CY 2020 - $42 million.

4.224 Stamp duty was abolished in 2020 as a means of reducing business costs and improving the flow of business transactions (which could often be slowed down by stamp duty arguments and processes). In Government's current dire financial situation, it is legitimate to ask if stamp duty should be brought back to boost Government revenue.

4.225 We have concluded that this would not be good policy, for the following reasons:

a) **Business simplification**. It is critical that Fiji "turn a new leaf" – and more importantly, be seen to be doing so - on ensuring that business and investment can be conducted simply and with a minimum of red tape. Stamp duty processing can add to it. There are other ways to get more money from business (including a reasonable increase in the corporate rate) than to add new taxes and processes.

b) **Consistency.** Having just abolished stamp duty, Fiji's reputation for tax predictability, currently not strong, would once again be weakened by re-imposing it. First impressions matter for investors. Fiji must change its current reputation for tax complexity and unpredictability to a high-level impression of consistency, simplicity and certainty.

c) **Not a rational tax.** While few tax systems can claim to be wholly logical or pure, stamp duty does not count as a logical way to collect revenue. It is a tax on documents, meaning that undocumented transactions attract no duty, incentivizing businesses to create (sometimes complex) legal structures to avoid it. It is also an "up front" burden on businesses. In the past an investor acquiring land would need to pay between 3% and 10% of the cost of the land to buy it and then an additional 1.75% on any mortgage granted to a bank to secure the borrowing to buy it – all before the investor earned any return on the investment. A number of exemptions were then granted to minimize the effects on smaller investors which made the system more complex (and also offered lawful ways to larger investors to avoid tax). This added to complexity (refer point (a) above).

4.226 In terms of the taxing principles referred to at the beginning of this chapter, re-imposing stamp duty does not in the Committee's view meet the tests of simplicity, certainty or predictability.

4.227 The Committee believes that one of the most critical elements of economic recovery is to give investors, both domestic and foreign, better access to land for development. This will involve simplifying laws in relation to land acquisition such as the current Land Sales Act. To bring stamp duty back into the tax mix would, for all the reasons above, send the wrong signals to the investment community on whom Fiji ultimately depends on to grow the economy.

Recommendations

4.228 At this time, the Committee recommends **against** the re-imposition of stamp duty.

Double Tax Agreements (DTAs)

Background

4.229 Fiji has a total of 11 DTAs – with Australia, New Zealand, Papua New Guinea, United Kingdom, Singapore, Japan, India, Malaysia, Korea, Qatar and United Arab Emirates.

4.230 DTAs help international trade and investment. They ensure that offshore businesses who invest in or trade with Fiji businesses (and vice versa) do not end up paying tax in both countries (i.e. "double tax"). This lowers their costs of business and encourage cross-border business and investment. They also allow tax authorities to share information with each other to combat tax evasion and avoidance.

4.231 As a simple principle, the more DTAs Fiji has, the more investors Fiji is able to attract. However DTAs are complex, time-consuming things to negotiate; and Fiji is generally not high on the list of priorities of its bigger trading partners and sources of investment. DTA expertise (needed for the best outcomes) is also expensive. Fiji needs the services of international tax specialists, who follow modern trends and practices in the fast-changing world of international taxation and are able to advise and train Fiji tax officials on how best to negotiate and employ DTAs to Fiji's advantage. These skills are not generally available in Fiji.

Submissions

4.232 The Committee is aware that the Fiji Institute of Chartered Accountants has for many years highlighted the need for the renegotiation of existing DTAs, particularly with Fiji's major trading partners, to ensure the inclusion of more modern terminology (e.g. technical fees) and the fair attribution of tax in respect of Fiji sourced income by non-residents.

Consideration

4.233 A number of Fiji's DTAs are decades old, including with Fiji's key trading partners such as Australia, New Zealand, the United Kingdom and Japan. Business models and structures have moved on in that time but the DTAs have not kept pace with them. Notably Fiji has no tax treaties with the United States or any South Pacific country (except Papua New Guinea). These could materially improve returns for Fiji exporters and US investors in Fiji.

4.234 DTAs facilitate trade and investment. But they can also impact tax revenue, forcing Fiji to "give away" tax revenue that it does not have to give away.

4.235 The implications of neglecting DTA renewal and monitoring are too complex to be detailed here. However the specialised agencies responsible, FRCS, MoF and the Ministry of Foreign Affairs (whose diplomatic channels can be used to initiate DTA negotiations) need to pay greater attention to DTA issues to ensure that Fiji is successfully promoting its own trade and investment opportunities and collecting the right amount of tax from cross-border economic engagement. Taking the time (and spending the money) to improve Fiji's DTAs has potentially quick direct and indirect paybacks – more direct revenue to FRCS, and also more revenue for Fiji businesses, meaning ultimately more revenue for FRCS.

Recommendations

a) Review Tax Treaty Policy

MoF and FRCS should review and enhance its current DTA policies to guide future treaty negotiations and to improve treaty outcomes for Fiji by providing clear guidelines and setting out the negotiation parameters for the main Articles of tax treaties impacting on Fiji's source taxing rights.

b) Review of Tax Treaties with Key Trading Partners Re-negotiate and Update Taxation Treaties

MOF and FRCS should give priority to a review of DTAs with Australia and New Zealand, and identify treaty articles requiring changes to improve outcomes for Fiji including for:

- Promoting trade and investments
- Avoidance of double taxation
- Tax sparing provisions, including corporate tax and tax incentives which are critical for Fiji (including incentives for hotels and tourism and ICT)
- Taxing rights and erosion of revenue considerations and conventions
- Income from digital services
- Dividends
- Exchange of information to improve compliance
- Efficient and fast resolution of disputes through 'competent authority' arrangements

- Mechanisms for issuing joint guidelines to provide guidance on mutual agreed position and clarity on matters and issues of common interests.

Upon completion of review and careful evaluation and analysis, identify areas which should be considered for possible further formal negotiations to achieve improved position for Fiji.

c) Technical Fees

i) Fiji is an importer of capital and ordinary services particularly from developed nations. Fiji DTAs should contain a Technical Fees Article which covers ordinary services including management services other than royalties.

ii) The non-resident withholding tax should be fair and reasonable (to allow sourcing of services at fair and reasonable price).

d) Tax Treaties with Pacific Island Countries

- Initiate dialogue through Pacific Islands Forum together with other required processes for negotiating and having double tax agreements with all Pacific Island countries, preferably one agreement covering all Pacific Islands, but excluding Australia and New Zealand given the significant high levels of trade and investment with these two countries.

e) Set aside a budget for treaty negotiations and expertise

DTA negotiations are not matters that can be left to Fiji tax officials, who have other priorities in the day-to-day administration of tax. DTA negotiations should be a specific new Government project with funds set aside for dedicated experts to be appointed and to provide the necessary guidance in those negotiations.

General review of tax laws

Background

4.236 In the last 15 years a number of new taxation laws and regulations have been imposed through amending laws, particularly in the Income Tax Act, Tax Administration Act and related Regulations. Many of them have been rushed, reactive and poorly thought out. Few of them have been consulted on. This has resulted in a number of gaps, loopholes and ambiguities within taxation laws and regulations which are bad for both taxpayers and FRCS and encourage non-compliance or create disputes.

Consideration

4.237 The Tax Administration Act (2009) and Income Tax Act (2015) – are now due for a general evaluation. There have been a number of amendments to those laws since they were enacted. This is not unusual for tax legislation. Unfortunately, however, many of the changes to these laws took place in an atmosphere of distrust and without wider consultation which, if it had occurred, would have clarified issues and made the laws work better for both taxpayers and FRCS. This underscores the need for review now, at a time when there is a better working relationship between FRCS, taxpayers and experienced tax professionals. Clearer tax laws contribute to the ease of doing business.

Recommendations

(a) Government should appoint a small working group of tax officials, taxpayers and tax professionals to holistically review all current tax laws and regulations to "straighten out" poor legal drafting, illogical amendments, close loopholes and make them simpler and clearer with a view to ensuring that:

   (a) laws and regulations are made more consistent with the principles outlined in paragraph 4.1 above

   (b) they improve ease of doing business.

Tax Revenue – Indicative Potential Tax Impact from Proposed Tax Measures

4.238 Indicative estimated potential increase revenue impact from the proposed tax measures, together with other relevant information are summarized below. Full details have been provided in earlier relevant sections.

Tax Type	Tax Collection in CY[38] 2022 (rounded to nearest F$5m)	Current Rate(s)	Proposed Rate(s)	Indicative Estimated Potential increased Revenue Impact from the Change	Comments
Value Added Tax	$880m	0%, 9% and 15%	Options for one unified rate or two rates between 0% to 15% - refer VAT section.	$370m to $630m	• At 12.5% to 15% (refer further analysis in VAT section). • Any changes to be from 1 January 2024. • Unified VAT rate preferred together with targeted income assistance to social welfare recipients and low-income households.
Company Tax	$275m	20% 10% for SPX	25% (with effective 20% (via tax rebate) for taxable income under $100k) 15% for SPX (applicable to companies on concessionary rate only)	$70m	• Tax rebate for income under $100k to support SMEs (effective tax rate of 20%). • Approx. $13m to $14m for each 1% increase. • Concessionary rate incentive for SPX listed entities to cease from 1 January 2025.
Personal Tax:	$180m	Upto $30k - 0% $30k to $50k - 18% $50k to $270k - 20% Above $270k - 38% to 43%	0% 15% 20% - 22% 38% to 43%	Overall, estimated to be neutral.	• Reduced by 3% • 20% between $50k - $150k • 22% between $150k - $270k • Structure over $270k to be streamlined. • SRT to be combined with income tax and reduced number of brackets with similar level of taxes – to be reviewed by Govt together with dividend tax. • Total SRT collections in 2022 - $5.5m.

[38] CY = calendar year

Indicative estimated potential increase revenue impact from the proposed tax measures, together with other relevant information are summarized below. Full details have been provided in earlier relevant sections (Cont'd)

Tax Type	Tax Collection in CY 2022 (rounded to nearest F$5m)	Current Rate(s)	Proposed Rate(s)	Indicative Estimated Potential increased Revenue Impact from the Change	Comments
Dividend Tax	Nil	Exempt	To be considered by Govt.		• Assuming $300m dividends @ say, 3% to 5% - $9m to $15m. • To be reviewed by Govt. together with PIT. Dividends rates to be reasonable and attractive for businesses and investments. Preferably, simple system for tax compliance and tax administration. • Average dividend tax collections in 2016 and 2017 was around $4m.
Capital Gains Tax	$19m	10%	10%	Nil. However, some additional revenue potential from the changes proposed.	• No change in rate suggested at this stage. • Remove exemption to shares acquired before May 2011. • Consider reducing $30k threshold to $10k, and limit to Fiji residence individuals. • Review and limit CGT exemption relating to assets deriving exempt income to not-for-profit organisations.
Departure Tax	$42m (2022) $158m (2019)	$100	$150 – from April 2024 $200 – from April 2025	$75	• Previously, $200 ($185 Govt., $10 AFL, $5 CAAF). • Increase to be over 2 years. • Exemption for 96 hours transit passengers and children under 12 to continue.

Indicative estimated potential increase revenue impact from the proposed tax measures, together with other relevant information are summarized below. Full details have been provided in earlier relevant sections (Cont'd)

Tax Type	Tax Collection in CY 2022 (rounded to nearest F$5m)	Current Rate(s)	Proposed Rate(s)	Indicative Estimated Potential increased Revenue Impact from the Change	Comments
Fringe Benefit Tax	$16m	20% (benefit values grossed up)	35% (CIT grossed up rate therefore no gross up of benefit values)	$6m	• Aligned with company tax increase (on grossed-up rate), therefore no gross up on calculation going forward. FBT to remain tax deductible. • FBT guidelines to be reviewed and updated by FRCS in consultation with stakeholders (particularly for tourism, mining, BPO sectors).
Tax Incentives and Exemption					• Existing incentives and exemptions should generally be retained for now (subject to limited reviews to close the gaps and loopholes – including incentives for warehouse, accelerated depreciation). • However, Govt. should undertake special review with transparent and predictable policy. • Should conform principles of simplicity, efficiency and transparency.
Customs and Excise	$470m	Import fiscal duty 0% to 32%, plus import and local excise duty. Liquor, tobacco and vehicles are subject to duty based on value or volume (ad valorem).			• Tax structure and rates to be reviewed and rationalized. • Selective and targeted increases or decreases • Refer customs and excise section for further details.

Indicative estimated potential increase revenue impact from the proposed tax measures is summarized below, together with other relevant information are summarized below. Full details have been provided in earlier relevant sections (Cont'd)

Tax Type	Tax Collection in CY 2022 (rounded to nearest F$5m)	Current Rate(s)	Proposed Rate(s)	Indicative Estimated Potential increased Revenue Impact from the Change	Comments
Water Resource Tax	$85m	1c to 18c per litre			• Tax structure and rates to be reviewed and restructured (with progressive tax rates) and ensuring no significant revenue impact. • Changes in consultation with industry participants.
Other Matters					• Gambling Turnover Tax – to be increased from 15% to 20% • Stamp duty – not to be re-imposed at this time. • Telecommunication Levy – to be reviewed in consultation with stakeholders • TPOS, VMS, tax compliance penalties, tax refunds, contractual provision tax, EU blacklisting. • Taxation laws and regulations – to be reviewed in conjunction with stakeholders (including tax agents and practitioners)

CHAPTER 5

5.0 GOVERNMENT'S NON-TAX REVENUE AND RECOVERY OF COSTS

Introduction

5.1 **Non-tax revenue.** We define Government's non-tax revenue as money earned by Government that falls outside the conventional definition of tax (principally the taxes and duties referred to in Chapter 3). These are significant sources of money for the Government.

5.2 Non-tax revenue receipts during financial years 2019-20 to 2021-22 and budgeted revenue for 2022-23 are as follows:

Non-Tax Revenue (NTR) Operating Receipts $m	2019-2020 (Actual - $m)	2020-2021 (Actual - $m)	2021-2022 (Actual - $m)	2022-2023 (Budget - $m)
Fees, Fines, Charges & Penalties	142.2	123.7	148.7	159.9
Grants in Aid	67.6	283.8	232.6	245.0
Dividends received Investments	49.5	51.3	61.7	67.8
Reimbursement & Recoveries	14.0	24.3	15.1	86.2
Other Revenue & Surpluses	31.5	28.6	33.4	32.2
Interest on Term Loans and Advances	0.4	2.6	0.7	6.9
Sales of Government Assets	211.3	210.5	1.8	15.0
Interest from Bank Balance	2.2	2.1	1.1	1.0
Return of Surplus Capital from Investment	4.3	3.5	3.7	3.8
Exchange Rate Gain	0.2	0.0	0.0	0.0
Total NTR (with sales of assets)	**523.2**	**730.4**	**498.8**	**617.8**
Total NTR (exc. sales of assets)	**311.9**	**519.9**	**497.0**	**602.8**
% of Govt revenue (excluding sale of assets)	11%	24%	23%	21%
% of GDP	3%	6%	5%	5%

5.3 The amounts are significant. Managed well, they are potentially good sources of Government revenue which could relieve taxpayers of significant burdens of direct and indirect taxation. They are different in nature and require different approaches:

(a) grants in aid are generally tied to specific projects and are high over the 2019-22 period, reflecting increased levels of direct budget support during the Covid-19 pandemic

(b) dividends are generally the result of successful corporatisation of Government functions (for example, electricity, airports) and performance of Government entities. There is further scope for corporatisation and performance improvements, and this needs to be the focus of attention on Government entities (see Chapter 7)

(c) fees and charges are the most significant. A number of submissions to the Committee suggested increased fines as a means of raising revenue. However this is not particularly practical. The amounts available from fines are relatively small; they frequently involve time-consuming and expensive collection processes, including prosecution. Fines are generally intended to deter bad behaviour, not to collect revenue.

After a discussion of general principles the Committee focuses on fees, fines and charges income with comments and recommendations on dividend income and grants in aid.

General principles

5.4 **Government services.** Government departments and statutory authorities do and regulate a lot of things, including activities in which many Fiji citizens are involved daily. For example, the Land Transport Authority (**LTA)** collects motor vehicle registration fees (which many still colloquially call "wheel tax") and road user levy. The Water Authority of Fiji supplies water and sewerage services to all of us (not always regularly) for which we pay (not very much). The Immigration Department supplies passports and charges employers fees for work permits. In a narrower sub-set of users, professional advisers and real estate agents request thousands of land title searches from the Registrar of Titles every year; company officials make filings of their corporate information with the Registrar of Companies and individuals make requests for birth certificates from the of Births, Deaths and Marriages Registry (albeit frequently through the Post Fiji). These are examples of some of the "lesser" services Government provides (after social services such as education and health) and for which it charges.

5.5 **Costs of provision.** Almost all of these services are necessary functions of Government because they relate to Government regulation. They are not services offered by the private sector (whether some could be effectively outsourced to the private sector, however, is a different question). All of these services come at a cost. Generally, the highest cost is for customer-facing personnel (at office counters or online) or who process application forms. Some services apply specialised information technology platforms using expensive computer hardware and software which must be paid for, maintained and renewed, including software licence fees.

5.6 "**User pays" – right or wrong?** The costs of providing many Government services are borne by the Government even though in many cases the benefit of these services flows to only a small section of the community. So it appears logical and fair that those who derive the benefit should pay to allow Government recover those costs. If these costs are not fully recovered they are a burden on all of Fiji's people; those unrecovered costs could have been spent on services with universal benefits such as health, education and welfare, all of which lift national living standards and productivity. This leads to the well-understood principle of "user pays". In the private sector, users do not just pay the cost of services provided; they also contribute to the profit element demanded by those who assume the risk of providing the service and are entitled to a reward for doing so. That model is not always easy to replicate in the public sector, however. In the case of some services (water being a good example), some users cannot afford to pay and equity demands that the Government support those users' access to the service. In the case of water this is ultimately for public benefit. Water and sewerage services are essential for health; if some people do not have access to it because they cannot afford to pay, their health is likely to be affected, adding to the costs of public health. So well-directed water subsidies should deliver cost benefits in health costs avoided.

5.7 **Birth certificates.** Other services are also important to those on limited incomes. Fiji citizens often complain that they need "a birth certificate for everything" in order to gain access to regular or one-off benefits provided by Government. In 2019 the Government announced increases in costs to obtain birth certificates to between $10 and $15 (depending on whether citizens were obtaining the service from the central registry or Post Fiji). This was arguably a sensible cost recovery move, having regard to the cost of administering the Births Deaths and Marriages Registry. However, there was a public outcry about these costs being imposed on people who could least afford it – those who needed birth certificates in order to apply for Government financial assistance. In 2021 the Government, possibly under popular pressure, announced that birth certificates would be available at no cost. But this meant that the cost recovery principle had been abandoned. The solution in that particular situation probably lies in better regulation (including digitisation); it should not be necessary to have "a birth certificate for everything". But it illustrates the competing challenges for Government when considering how to recover costs for some of the specific services it provides.

5.8 **The law and Government revenue.** The law does not allow the Government to arbitrarily impose fees and charges; the Constitution (in common with those of many other constitutions) requires that Government **revenue**, whether it is taxation or otherwise, can only be imposed by a written law. That is accountable and democratic; as citizens we should only pay for what our elected representatives have agreed we should pay. However, it can also be bureaucratically challenging. Many fees and charges imposed by Government are contained in complex regulations which must be drafted (or amended) by lawyers and approved by Cabinet. So, for example, search fees at the Registry of Titles are still measured in cents per page under the Land Transfer Regulations, even though most users at the Registry of Titles (property owners, lawyers, banks) could afford to pay more. Search revenue at the Titles Registry in the last three Government financial years ranged between $155,000 and $208,000 or less than $10 per search. This is a fraction of the cost of providing the services. There are complaints about poor service levels; it can take many weeks for the transfer of a title to be officially recorded after lodgement. These issues have an impact on the ease of doing business and business confidence. Questions are asked about why title searches and conveyancing processes have not been moved online as they are in other countries (and has largely occurred at the Fiji Companies Registry). The answer to that question may be because there are no funds; and yet the Titles Registry could be a model for a more efficient online service funded by proper cost recovery.

5.9 **Changing the laws relating to Government revenue.** Many fees and charges are imposed under Regulations (see above), which require amendment to increase fees. In some cases, to change cost recovery mechanisms may require Parliament to change legislation. There are already many demands on the time of Government lawyers, Cabinet and Parliament on law-making and regulation. Changes to rules on fees and charges are low priority activities for Government lawyers responding to more pressing demands for legal changes. This means that regulations on fees and charges do not change, even though increasing fees and charges imposed many years ago could significantly increase Government revenue and fund better levels of service.

5.10 **Public services, statutory bodies and Government companies.** Further complicating issues around cost recovery is the fact that many Government services are provided by statutory authorities (Land Transport Authority, Civil Aviation Authority of Fiji, Biosecurity Authority of Fiji, etc). In theory these bodies operate independently under their own boards and officials. The reason for delegating specific public functions to such statutory bodies is (again, in theory) to ensure that they operate independently and flexibly and are not bound up by the sometimes bureaucratic processes of Government (some of which are necessary to ensure proper democratic accountability). However in recent years the Government has maintained such tight operational control over statutory authorities that in many cases they have functioned to all intents as if they were Government departments. This defeats the purpose of giving them their independence. Other services traditionally regarded as public services (airports, electricity) have been handed off to Government companies under a corporatisation process, sometimes leading (as in the case of the former Fiji Electricity Authority, now Energy Fiji Limited) to full or partial privatisation. The theory behind this is that they should operate as commercial entities, providing services for profit. Profitable businesses build their balance sheets to enable future investment in higher quality services, and contribute dividends to the Government, which are (or should be) an important source of Government revenue. However some of these companies are monopolies, leading to complaints that they use their monopoly power to over-charge; some monopolies are regulated by the Fiji Competition and Consumer Commission **(FCCC).**

Submissions and consideration of issues

5.11 A number of Government ministries, departments and statutory authorities made presentations and submissions to the Committee; these touched on the revenue they collect and their options for further fee recovery. Many of the themes were similar. In this chapter the focus is, by way of short studies, on:

(a) two statutory bodies, the Land Transport Authority **(LTA)** and Water Authority of Fiji **(WAF)** and

(b) one Government department (Immigration).

(c) some general comments on revenue derived from Government-owned entities.

These short studies are intended to help to illustrate (including through lessons learned) how the Government can apply itself generally to improving its non-tax revenue; but also the (sometimes unintended) consequences of poor Government policies towards non-tax revenue earning agencies.

Land Transport Authority (LTA)

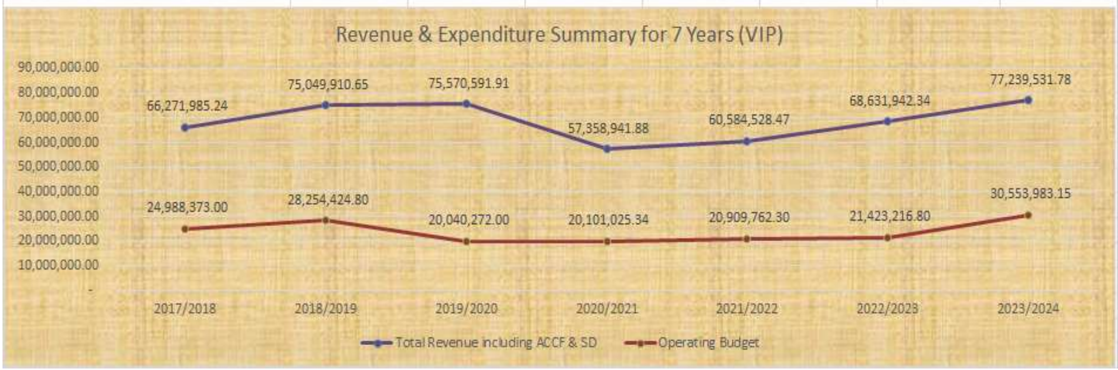
5.12 The Land Transport Authority (LTA) was established under the Land Transport Act 1998 as a statutory body to improve financial management and operational efficiency of transport regulation, to be commercially oriented (given its revenue potential from fees payable by the transport sector) with strict accountability guidelines and to give effect to Government policy on deregulation. Its core functions include registration and licensing of vehicles and drivers, road safety and protection of the environment, traffic management and fare regulation for public service vehicles.

LTA presentation

5.13 LTA made a comprehensive presentation to the Committee covering the impact of fiscal consolidation on its operations and five (ambitious) proposals to improve revenue and operations.

5.14 As with other statutory authorities, LTA is not in control of its own revenue. Revenue received is paid into the Consolidated Fund and in return, LTA receives an operating grant. LTA earns both "planned" revenue (registrations, licensing, permits and inspection fees – approximately 74%) and "unplanned" revenue (speed cameras and other enforcement activities). It has been a consistent net revenue earner for Government (although it believes that it could have earned more revenue with more operational funding):

Revenue & Expenditure Summary	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	Pro-rata 2022/2023	Estimate 2023/2024
Total Revenue including ACCF & SD	66,271,985.24	75,049,910.65	75,570,591.91	57,358,941.88	60,584,528.47	68,631,942.34	77,239,531.78
Operating Budget	24,988,373.00	28,254,424.80	20,040,272.00	20,101,025.34	20,909,762.30	21,423,216.80	30,553,983.15



5.15 Important elements from LTA's presentation included that:

- LTA believes fines must be increased as they are not generally deterring poor driver behaviour, including speeding. This would (incidentally) increase revenue

- a number of LTA's fees for services – including for vehicle inspections and PSV permits – have not been increased for 20 years and are now heavily discounted compared to the cost of providing the service

- budgetary and funding constraints, including the current round of "fiscal consolidation" have compromised a number of its core functions, particularly regulatory monitoring and enforcement. For example, Government no longer funds overtime payments for LTA personnel. As a result, LTA believes that overloaded trucks operate largely by night in the knowledge that they will not be subject to weighbridge inspections, with consequent damage to roads and risks to vehicle fitness.

5.16 LTA's issues (which its own staff have identified) tend to reflect a pattern of poor cost recovery across many different departments and agencies of Government which could be addressed with more focused attention. These are not always popular – many of LTA's regulatory targets are voters. There is also political sensitivity to increasing charges on the bus industry given that the bus industry generally complains about increasing costs while its own regulated fare pricing structures are too low. This raises the question of whether it is fair or economically transparent for an agency such as LTA, which incurs costs in regulating transport activity, to be prevented from making full recovery of those costs – on the basis that the Government, if it wishes to subsidise these costs, can reimburse LTA to the extent of the subsidy.

Water Authority of Fiji – Water Rates and Wastewater Charges

Background

5.17 Water services have been showing signs of strain for many years, with frequent water cuts, non-scheduled outages and vulnerability during natural disasters. Because water is an essential good, issues in connection with it are highly visible and politically sensitive. However years of neglect of the water sector – including, most critically, the necessary cost recovery measures that would enable it to be financially self-sustaining and able to effectively deliver services – have presented an important lesson on Government financial management, the impact of under-investing and refusing to face facts, possibly because they are politically too hard. It is also a "wake-up call" on Government's urgent need to focus on infrastructure.

WAF presentation

5.18 WAF made an early and impactful presentation to the Committee. Among the key points made were as follows:

a) 82% of Fiji's population has access to water (with 100% targeted by 2030 in accordance with United Nations Sustainable Development Goals **(SDGs)**). 98% of the urban population has access compared to 58% of the rural population

b) access to WAF waste water services nationally is at 28%. The cost to reach the 100% SDG target by 2030 – and to achieve full environmental compliance - would be (approximately) **$10 billion**

c) waste water treatment plants have just been desludged for the first time in 30 years. Environmental compliance for wastewater treatment plants is now "a significant challenge for all plants." In other words, none are environmentally compliant

d) WAF is not financially self-sustaining, partly because it has had no update in water tariffs for 20 years. Fiji has the cheapest residential water rates in the Pacific, at **15 cents per 1,000 litres.** This is an eye-opening figure. That volume of bottled water would cost at least $2,000.

e) WAF's annual revenue is approximately $33 million. Arrears of water rates exceed $33 million

f) more than 151,000 people benefit from the current government free water allowance. WAF has no data on whether they continue to need free water or are now able to "pay their way"

g) WAF's annual capital expenditure budget between 2018/19 and 2022/23 financial years has been reduced by more than half, to $115 million. WAF will need $800 million over the next five years for water and waste water infrastructure renewal. The wastewater sector alone will need $180 million in that time "to work towards compliance obligations"

h) WAF's operational expenditure is rising as more capacity is opened up and will pass $100m per year in 2026

i) WAF cannot afford new plant and equipment, meaning it must hire it when needed (which is expensive and inefficient). It has half the fleet of motor vehicles it needs for ordinary customer operations (150 compared with 350 for EFL) and cannot buy more

j) nearly half of all the water WAF collects, treats and distributes to consumers is lost through leakage (wasting $23 million a year). WAF experienced:

   i) 200 bursts/100km of water mains (global benchmark is 13)
   ii) 300 leaks/1000 service connections (global benchmark is 3)

k) WAF does not control its own revenue. Instead it receives operational grants from the Ministry of Finance every six months. Because it cannot be certain how much money it will receive, this constrains its ability to enter into (often more economical) longer term contracts

l) like many employers, WAF is rapidly losing skilled and experienced staff to migration.

5.19 WAF made submissions to the Fiji Competition and Consumer Commission (FCCC) in 2019 to implement a 10-year plan to bring water tariffs up to full cost recovery level. So far FCCC has not authorised WAF to allow it to increase pricing. We touch on this further below.

5.20 Water rates and wastewater charges currently are as follows:

Description	Rates per 1,000 litres
Water rates:	
• Up to 50,000 units (litres)	15.3 cents
• Between 51,000 to 100,000 units (litres)	43.9 cents
• 101,000 and above units (litres)	83.8 cents
Wastewater charges	20 cents

WAF - conclusions

5.21 WAF's operations are – and for many years have been - self-evidently unsustainable. There is a direct link between the lack of action on cost recovery and pricing and the current state of WAF's infrastructure and operations. The information set out in this part is sourced from WAF (the conclusions are the Committee's own).

5.22 Water services management and related infrastructure are crucial for economic growth, food security, public health, and trade. Harnessing water's productive potential and mitigating its destructive force should remain a key priority to achieve better social and economic outcomes. Water investment takes place in a complex and dynamic socio-economic and environmental context. This environment includes factors such as population growth, increasing urbanization, increasing ecological and environmental degradation, and most recently, the significant impacts of climate change.

5.23 WAF has prepared a *Water Sector Strategy 2050 Concept Paper, March 2023,* the first national level strategy focusing on water, outlining Fiji's water sector priority projects and programs over the next 27 years. The Committee supports the Concept Paper, which we understand will be further deliberated on with wider stakeholders and updated to provide a basis for developing a Strategic Plan for WAF. That strategic plan aims to enable WAF to transform its service delivery, be financially sustainable and meet the significant demands of climate change on its assets and operations.

5.24 The necessary $800 million in capital expenditure over the next five years that WAF has identified would appear to be the bare minimum and immediately subject to change in the event that its infrastructure suffered major damage in a natural disaster. WAF believes significant action is necessary to mitigate risks of infrastructure damage, service disruption, and environmental or health hazards during extreme climate events (or, as described elsewhere, external and unplanned "shocks"). For example, there will need to be full protection of water intakes, treatment plants, and pumping stations to respond to floods of greater magnitude that are now more frequent, and which will lead to supply disruptions. Protecting water infrastructure against a "50 year flood" would be feasible but would likely require the relocation of more than 25 of those facilities. The alternative for WAF is simply to manage this risk as best it can.

5.25 WAF's existing water and wastewater systems are inefficient – from water extractions at catchment sites to the end of the piping network where consumers receive water. Either there is not enough water during prolonged dry spells (as is occurring at the time of writing this report), or water is polluted or dirty during periods of continuous heavy rains, or lost whilst being transported to consumers and excessively used. We have already commented on the loss of nearly half of WAF's treated water between its treatment plants and its consumers, due to ageing infrastructure and illegal connections.

5.26 This is not just about convenience for consumers. The social and economic impacts are significant. A report released by the World Health Organization (WHO) on behalf of UN-Water states that every dollar invested in water and sanitation returns $4.30 with significant GDP gains through reduced healthcare costs and other social benefits such as reduced pollution, greater workplace productivity, increased school attendance and greater dignity, privacy and safety.

5.27 Investment in the water and sanitation sector in Fiji has been seriously compromised. WAF was initially set up to be a commercial statutory body in 2010. In stark contrast to the Fiji Electricity Authority (now fully corporatized and part privatized as Energy Fiji Limited, fully economically sustaining and with a strong balance sheet), WAF has not progressed since that time. It remains reliant on Government funding both for operational and capital expenditure. Its current revenue is able to fund less than 50% of its projected operational costs.

5.28 As Fiji's economy grow in the coming years, key sectors such as tourism, agriculture, construction and manufacturing and real estate will grow accordingly. The water sector needs to be ready to cater for this growth. If "business as usual" continues, this will not be sufficient to meet sectoral and economic growth and will be a constraint on economic growth. Without tariff revisions, WAF cannot fund any of the $1.4 billion in capital investment required in the next decade.

5.29 The FCCC was asked, in its engagement with the Committee, about the reasons for inaction on WAF's proposal to increase its tariff to allow WAF to become more financially sustainable.

FCCC's answer was that WAF was not yet in a position to submit detailed information which would allow FCCC to go through the necessary economic exercise to set the required tariff structure. The Committee was unimpressed by this response. It would surely be evident to FCCC, an economic regulator with a statutory responsibility to suppliers as well as consumers, that a retail rate of 15 cents per 1,000 litres was not economic and that an increase of this rate would not be unfair on consumers. It would have been possible for an interim increase to have been granted (albeit with only limited detailed economic information) to allow WAF to move onto a path of financial sustainability while more information was obtained on the economic case for tariff increases and a more detailed cost recovery plan agreed. Instead, WAF has had to continue, grossly underfunded, for four years because the regulator says "first give us all of the details". An unimaginative regulatory response from FCCC has accordingly been another factor in the current poor state of WAF's finances and operations.

Department of Immigration – Passport, Visa and Permit Fees

5.30 The Department of Immigration made a short presentation to the Committee. Its management has good data and has analysed it well; it understands its position in relation to its peers in other countries; and it has a clear cost recovery and revenue-raising strategy. It is already a net contributor to Government revenue, recovering on average $11 million a year over the last five years, principally from passport and permit income; on average its expenditure, at $5.5 million, has been about half of that amount over the last five years (generally under budget). Undoubtedly the Department has a number of advantages over other departments that make revenue and data collection and planning easier. It has a "captive market" of citizens who can only travel if they receive passports; generally those who apply for permits (principally short and long-term work permits) have the means to pay and revenue collection is accordingly relatively simple. However it is still encouraging that the Department is thinking ahead.

5.31 The Department has studied immigration services and fee charging in other countries. It believes that it can raise significantly more revenue for Government – as high as F$60 million per annum - including:

a) significant increases in its current fee structure. It believes for example that current work permit fees, at $632 per permit (there is no difference in fees between short and long-term permits) is low compared to other countries and could be significantly increased. It acknowledges that in return for this, service standards and turnaround times should improve (see below)

b) online services fees

c) a $5 fee on all departures

d) a "visa on arrival" fee of up to $50 for all tourists. The Department noted that it is almost standard, even for tourism-dependent countries, for tourists to expect to apply for an online visa and to pay a fee.

5.32 The Committee also reviewed with the Department the concept of higher charges for urgent applications or "priority service". This is applied for urgent passport applications (one-day turnarounds) but the Committee believes this could be extended to other services.

5.33 The Committee believes that some of these plans may be overly ambitious (and ultimately not achievable), particularly given the costs already borne by travellers in Departure Tax. Fiji citizens complain at the current standard passport fee of $200 plus VAT (though the Committee believes that they are reasonable). However the good news is that the Department is actively attempting to identify new revenue streams which can both contribute to Government revenue and fund the improvement of its own services. This includes costs associated with immigration facilitation for Fiji citizens through other countries' "e-gates" (because unlike other immigration services, Fiji's Immigration Department also manages passport documentation for Fiji citizens).

5.34 The Department is also thinking about improvement of services, including eliminating immigration bond requirements for employers, which ties up employer funds and adds an unnecessary administrative burden on the Department. The purpose of the bonds is to give security to the Government for the cost of paying the travel costs of permit holders who need to be exited and cannot pay for their own travel. The Department's data shows that the risk of this, for permit holders at least, is very low and does not warrant the administrative cost and burden of holding millions of dollars "in trust". This is a brisk, sensible and risk-based approach to administration.

5.35 It is not all good news; employers complain that processing of work permit applications, in particular, remains extremely slow and some paperwork requirements are both unnecessarily and unrealistic. The Department pleads human resource constraints, saying it needs an additional 12 qualified staff to improve turnaround times. The Committee is not entirely convinced; it believes a critical look at the Department's operating procedures and documentary requirements could deliver better efficiency.

5.36 A question arose during the presentation on whether the additional personnel required by the Department could be deployed from other departments in the Government. This does not appear to be easy to do because there is no process for doing it. No Government Department appears to have the incentive to offer under-used staff to other Departments to save its own costs and better use skilled and experienced people; if a Department wants new staff it generally needs to advertise and recruit them (having obtained the consent of the Ministry of Finance to breach the current hiring freeze). This lack of flexibility is something we address in our recommendations at Chapter 7.

Equity Investments and Dividends

Background

5.37 State Owned Enterprises (SOEs) play a pivotal role in the economy given their large asset base, contributions to GDP, employment generation and provision of public goods and services. Government shares and investments in SOEs comprise a major component of Government's total assets, so continuous monitoring and surveillance of their financial performance and position is critical to maximise non-tax revenue returns and improve service delivery. The management of SOE liabilities is equally important to safeguard fiscal risks and guarantee the long-term sustainability of those entities.

Overall SOE Portfolio Performance

The table below shows the financial position and performance of all 25 Government entities currently identified as SOEs:

Financial Indicators	Total SOE Portfolio			
	2018	2019	2020	2021
	(000's)	(000's)	(000's)	(000's)
Total Assets	6,759,221	8,261,51	8,038,161	8,473,146
Total Liabilities	3,007,820	4,402,93	4,338,620	4,930,838
Shareholder's Equity	3,751,401	3,858,58	3,699,541	3,542,308
Total Revenue	2,231,491	2,435,69	1,486,103	1,302,799
Total Expenditure	2,076,478	2,200,88	1,561,877	1,478,593
Net Profit After Tax	**155,013**	**234,813**	**(75,774)**	**(175,794)**
Dividends	121,313	73,300	20,760	20,920
Return on Assets (ROA)	2.36%	3.13 %	(0.93)%	(2.13)%
Return on Equity (ROE)	4.3%	6.2%	(2.0)%	(4.9)%
Debt to Equity	80%	114%	117%	139%

(Source: Ministry of Economy – Supplement to the 2022-2023 Budget Address, 15 July 2022)

5.38 The total asset base of the SOE portfolio has grown significantly since 2018, standing at over $8.4 billion at the end of 2021 with entities in the infrastructure and transport sectors having the largest asset base. This growth was due to an increase in total assets of SOEs in the infrastructure and transport sectors, including FA, EFL, WAF and Fiji Airports.

5.39 In the 2020 COVID-19 Response Budget, Government announced that it would convert its loans to Pacific Fishing Company Limited (PAFCO), Viti Corp Company Limited (VCCL), Food Processors (Fiji) Limited (FPFL), Fiji Rice Limited (FRL), and Fiji Sugar Corporation Limited (FSC) into equity. As such, the Ministry of Economy is working with SOEs to ensure that all the prerequisites for the debt-to-equity conversion are met.

5.40 According to a recent study review report by ADB (*Finding Balance 2023 – Benchmarking Performance and Building Climate Resilience in Pacific State-Owned Enterprises, March 2023*):

a) Generally, Fiji's SOEs have been profitable, with an average portfolio ROE of 4% and ROA of 2.1% for the period 2010–2021. Average profitability improved from 2015 to 2021 as compared to 2010–2014. SOEs' ability to efficiently use their assets has declined steadily over the past 10 years, however, from 40% in 2010 to 17% in 2021.

b) In general, the portfolio's growth in assets has not been matched by a commensurate increase in revenue: portfolio assets increased in value by 67% in the 12 years to 2021, while portfolio revenue dropped 31% over the same period. Excluding 2020 and 2021, portfolio assets increased in value by 74% in the 10 years to 2019, while portfolio revenue increased 39% over the same period.

c) This implies that SOEs are, on average, **either overinvesting in assets or not charging enough for the services they are providing, or both**.

d) The portfolio is dominated by the four largest SOEs in terms of assets, two of which contributed 76% of portfolio profits in the period 2015–2021: EFL contributed 44% and Fiji Airports 32%. Fiji Sugar Corporation generated 57% of portfolio losses over the same period.

e) The Government should critically assess whether it retains ownership of smaller SOEs, given monitoring requirements, their lack of strategic value, and their capacity to crowd out private sector activity.

5.41 SOEs are a current focus of the Government and suggestions on how their performance can be improved are beyond the scope of the Committee, other than to note their contributions to non-tax revenue and the need to continue to improve their financial performance. The better their financial performance, the more revenue is available to Government to improve public services or alternatively lessen the burden on taxpayers.

5.42 Overall, however, the Committee notes that Fiji has, in the past decade, a generally poor track record on privatisation and the development of useful public private partnerships (PPPs). In the view of some Committee members, this has to do with the Government's failure to collaborate effectively with the private sector (including potential investors within Fiji and overseas) and to be a trusted partner for the private sector. The private sector's trust in the Government to behave fairly and predictably, add value to a relationship and have a sophisticated understanding of sometimes complicated financial and strategic issues is generally low.

Grants in Aid

Background

5.43 Grant in Aid receipts from bilateral and multilateral partners during financial years 2019-20 to 2021-22 and budgeted revenue for 2022-23 are as follows:

	2019-2020 (Actual - $m)	2020-2021 (Actual - $m)	2021-2022 (Actual - $m)	2022-2023 (Budget - $m)
Grants in Aid – cash receipts	68	284	232	245
Grants in Aid – in kind		72	16	32

(Source: Ministry of Economy – Supplement to the 2022-2023 Budget Address, 15 July 2022).

5.44 The Covid and post-Covid environments resulted in a rapid increase in cash payments from governments such as Australia and New Zealand, who are strong aid partners to Fiji and reliable sources of help in every crisis. Funds have been made available for general budget support (but with the particular intention of supporting the welfare budget). As the effects of the pandemic recede and the economy improves, it would be unrealistic to expect this level of cash support to continue.

5.45 However it is critical for the Government to focus on obtaining all the development assistance it can, not just in cash but in kind. The reforms that we are recommending will require a substantial application of skills – thousands of hours of expertise, little of which is available locally.

5.46 The Committee has not had the opportunity to establish how effective the Government is in searching for, obtaining and executing on development assistance opportunities (including significant available funds in both the public and private sectors from green funds and for climate change resilience). We assume, however, that this has capability has been impacted by the Government's own loss of skilled personnel. It is in the Government's interests to ramp up this capability – even if it has to source these skills from outside Government and pay for them. In the Committee's view this could have a quick payback in terms of development assistance funds obtained and executed.

5.47 Perhaps because of current geopolitics, Fiji is currently the focus of significant attention from its traditional development partners; it needs to make the most of it. We see a role for an invigorated Department of National Planning to more actively search for sources of support – in both cash and kind – to mesh with funding for projects set out in the National Infrastructure Investment Plan (refer Chapter 7).

Recommendations

General

5.48 **Government must develop a set of general principles on cost recovery to apply to all of its services**

These principles should include:

(a) the application of user-pays principles to Government services, including regular monitoring (at least three-yearly) for changes in costs and a convenient process to increase charges in line with increases in costs

(b) accounting for full recovery of costs (including human resources, ongoing operational expenditure and amortisation of capital expenditure) in the setting of costs for services

(c) ensuring that costs are reviewed critically and with a view to eliminating duplication and increasing efficiency including through the use of technology and other innovations where possible

(d) seeking opportunities, where reasonable, to earn net revenue from Government services on an ability to pay basis

(e) to what extent agencies are able to keep the revenue they collect (or a portion of it) for operations (as opposed to remitting it to the Consolidated Fund and waiting for arbitrary allocations of six-monthly grant funding) and appropriate measures and incentives to ensure they optimise their own operations on both revenue and non-revenue key performance indicators (KPIs)

(f) transparency and predictability in cost-setting. Users should know what they are paying for and why; and should be given reasonable notice of cost increases

(g) private sector participation in cost-setting decisions (including users of the services)

(h) whether differential pricing or progressive cost recovery is appropriate (eg whether fees can be charged to users based on the turnover or number of employees of the user or some other similar measure)

(i) clarity on what process should be required when equity demands that services be provided at low or no cost to:

- all people (for example, education, health, which should be universal) or

- some people (for example, water and power, which can be supplied at discounted rates to those who cannot afford to pay the full amount)

(j) in the case of low or no-cost services, how these should be funded, ie

- by an agreed discount regime applied by the provider or

- subvention payments from Government (which may be more transparent)

and ensuring that there is a process for ongoing monitoring of those who receive discounted services so that those no longer in need of them can be "graduated" out of discounts.

5.49 **Cost recovery measures need to be addressed by a dedicated and empowered team, not the agencies who recover them**

Changing cost recovery measures is about changing existing structures. In Chapter 2 the Committee sets out the specific process it believes must be followed to effect changes – that is, using dedicated, empowered and independent teams of people to deliver a "whole package" rather than leaving changes to already burdened senior civil servants or consultants who may write a report on which no further action is taken. A similar process could be considered to improve cost recovery measures across the Government, for example, setting up a dedicated Costs Recovery Working Group, led by members from outside Government, to systematically review cost recovery in each Government department and statutory body in line with a unified set of principles (see below).

5.50 **Independent agencies (including statutory bodies) should be generally bound by the cost recovery principles in 5.48 but allowed to set their own course within their own governing law, without political interference.**

Independent agencies have been given their independence for a reason. The Government needs to respect that independence. Some agencies do not have control over their own funding and must return all their receipts to the Consolidated Fund and wait for operating grants from Government. There may be good reasons for this in some cases (for example where fees earn significant net revenue and are not all needed to meet agency costs) but these matters need to be carefully evaluated, negotiated and made clear with each agency in accordance with the principles set out above.

5.51 **Increased fees and charges must be accompanied by improved levels of service**

These must include:

- improved customer-oriented focus and mindset
- improved quality of services including turnaround times and modes of delivery (electronic where possible – "move the data, not the people")
- Improved e-governance, automation and electronic platforms, including e-payments through wider network and options.

5.52 **Improving compliance and collections of arrears**

Government agencies should:

(a) have more flexible options for periodic payment of annual fees to avoid arrears

(b) have more systemised approaches to debt recovery

(c) evaluate and where considered appropriate, seek amendments to their laws to "fast-track" debt recovery actions including garnishee orders (where priority should be accorded for recovery of funds paid for publicly-funded services).

Water Authority of Fiji

5.53 **Government must move urgently and give priority to putting WAF onto a financially sustainable footing.**

This must include:

(a) finding the necessary funding to ensure that urgent capital expenditure is not delayed while WAF progresses to financial sustainability. WAF has identified this amount at $800 million over the next five years. The aim must be to improve the quality of infrastructure and services on an urgent priority basis in the short term (within the next five years) and develop quality and sustainable infrastructure in a medium to long term for current and future generations. Any further delay has the potential to adversely affect the infrastructure needed for private sector investment, business confidence and long-term economic growth

(b) immediately putting together the necessary elements (including requesting FCCC review and rate-setting) for tariff restructuring and rates for water and wastewater. It should be possible to begin the progressive increase in tariff rates from 1 January 2024, to commercially sustainable levels (accepting that these rate rises may have to take place over several years to enable consumers to adapt). Tariff-setting should also consider:

(i) minimum connection charges

(ii) incentives for water conservation (because at 15 cents per 1,000 litres there are currently none)

(iii) continuation of support (free water or discounted rates) funded by Government subvention payments so that these social subsidies are Government's responsibility, not WAF's. It will be for Government to monitor and determine ongoing eligibility of subsidized water recipients (and as a matter of equity and efficiency, Government should have a mechanism for this).

(c) It would seem obvious, as part of any such restructuring, that WAF would be allowed to retain all the revenue that it earned (given that it will take some years to progress towards financial sustainability and will continue to need Government support for operations and capital expenditure). Even at full cost recovery WAF will need to retain all of its revenue to maintain its assets and develop the quality of its infrastructure, given the billions of dollars it requires to meet basic human development, environmental and reliability standards.

Immigration Department

5.54 The Government should urgently review the Department's proposals for revenue raising through increased fees for existing services, given that these are well-developed and (at least in part) easily executable. However these should come into effect from 1 January 2024, in order to give time:

(c) for its clients to adjust to the new rates

(d) for the Department to take concrete steps, in consultation with users (which is particularly important), to simplify permit requirements and documentation and achieve better turnaround times. A short-term measure may be to tie higher fees to shorter turnaround times and efficient services.

5.55 The Government should, in the coming months, also look at the Department's proposed new services (and the revenue-raising opportunities they may create), mindful of:

(a) the costs the Department will have to bear both for providing efficient services and facilitating the international movement of Fiji citizens and

(b) wider economic implications, including the imposition of costs on tourists. This may mean a mix of revenue options including adjustment of Departure Tax if the online visa fee concept is to be adopted.

However, for fees affecting the tourism industry, simplicity and ease of travelling to Fiji must be paramount. The current visa free travel to Fiji for tourists from designated countries (without the need for an online visa fee) provides significant competitive advantage to Fiji.

5.56 The elimination of immigration bond requirements for permit holders is commended and Government is encouraged to take the necessary steps to achieve this outcome in the shortest possible time. Much increased focus is required on IT infrastructure and efficient and online services. This will require added resources (both financial and human resources). It seems that the Department will require additional funding to attract and retain qualified and skilled IT team for managing IT systems as well as risk management.

State Owned Enterprises

5.57 The Committee makes no specific recommendations on SOE issues, given that these are significant and the detail of these is beyond its scope. It goes without saying (and this is to say nothing new) that SOE reform and attention to their financial performance is critical to Government finances to achieve better financial sustainability, particularly for those SOEs which are under-performing and have significant debt guaranteed by the Government. However privatisation or public-private partnership (PPP) options should be explored where possible and appropriate. We comment on some of these issues (including PPPs) in Chapter 7.

Grant in Aid

5.58 **Government needs to take a pro-active approach to searching for development assistance in both cash and kind, not just from traditional foreign government sources but also from non-government and multilateral development agency funds.** "Pro-active" in this context means engaging dedicated personnel (including external consultants if necessary) on a full-time basis to source this assistance, prepare proposals in conjunction with the National Planning Department and to ensure their execution. This is not necessarily the strength of diplomats or public servants; this activity needs to be viewed semi-commercially, on an "economic payback" basis, so that the effort is not seen as incidental to some other function. Ideally funds should be "hunted down" and potential sources of funds pro-actively targeted, to meet the specific priorities in a national development plan or the National Infrastructure Investment Plan. If Fiji can pursue this funding more efficiently than its peers, it stands to gain from accessing it more quickly and within the often restricted "timing windows" within which it is available.

5.59 **Government must pay particular attention to obtaining "in kind" assistance in terms of skills.** At first sight this includes skills in financial modelling, legislative drafting, engineering and procurement, planning and environmental laws and policy and ease of doing business.

5.60 **Non-traditional models to use skills are available.** The traditional model of obtaining scarce skills capabilities – an expatriate flown into Fiji for a three-year term before leaving again – is not the only model by which those skills can be obtained. Foreign governments can be asked to make experienced staff in their own government organisations available to Fiji government departments on a part-time basis without leaving home. Support can be provided through virtual meetings (perhaps supplemented by regular "fly in" visits).

CHAPTER 6

6.0 REMOVING IMPEDIMENTS TO ECONOMIC GROWTH

Introduction

6.1 Detailed plans for growing the economy are not in the Committee's scope. That is the function of forums such as the National Economic Summit and the Cabinet. But it is evident that sound, fairly distributed economic growth benefits everyone. It lifts all incomes and generally increases consumption; it allows Government to collect greater amounts of both direct taxes (such as personal income tax and corporate income tax) and indirect taxes (such as VAT and Customs duty). This in turn allows Government to invest and spend on public services. It also lowers Government's debt burden. Economic growth raises GDP; if GDP rises faster than Government debt[39], it follows that the debt to GDP ratio reduces. This gives the Government greater room for planned borrowing (to invest further) or unplanned borrowing (to meet a crisis or catastrophe).

6.2 Fiji's average economic growth over the last decade has been just over 3% per annum – not particularly impressive. Unfortunately much of this growth has come from either Government spending (increasing Government debt) or consumption spending - not from strong private sector investment. This pattern must change – but businesses will not invest in Fiji if the investment climate is poor. Later in this chapter we consider some of the impediments.

6.3 The Committee believes that Fiji's future economic growth is now threatened by weaknesses in basic physical infrastructure, particularly water, electric power and roads and bridges. These may restrict (and appear already to be restricting) Fiji's ability to build hotels, factories, warehouses and office buildings (physical capital) which would grow the economy in its current form. In terms of the new areas of the economy on which Fiji is focused – including electronic services, agriculture and the rural economy – these cannot be developed without better transport and communications infrastructure (roads, jetties, telecommunications and airports).

6.4 On the human capital side, skills losses – now accelerating - are an equally serious threat. Accountants, nurses, skilled construction, ICT and engineering workers, hospitality staff, heavy vehicle drivers and many others, both in private and public sectors, are all leaving Fiji, attracted by high salaries and easier access to First World countries who need them. They are unlikely to return in the near future. While higher inward remittances are anticipated from these flows, without these people's skills, Fiji is unable to "join up" the resources it has to add value and grow. This means an urgent need to continually train new people (our youth) and to make those skilled people we have more productive. Although the direct economic benefits are harder to correlate, it must be evident that investment in health, education and welfare and overall human potential (human capital) increases people's economic productivity, which is critical to growth – the "demographic dividend" referred to in Chapter 1.

[39]It is important to clarify this point. It is unlikely that the Government's nominal debt (currently about F$9.5 billion excluding contingent liabilities) – will fall, at least in a short to medium term. However, as the economy grows, that debt **as a percentage of GDP** will fall. As long as that ratio is falling consistently, Fiji's Government debt problem is being addressed.

6.5 The Government's current debt situation restricts its ability to invest in the physical and human capital Fiji needs for both human development and economic growth. It is not realistic to believe that Fiji can build the necessary infrastructure to secure economic growth without increasing tax revenue. If tax revenue is not increased, infrastructure development will suffer – and so will economic growth and human development. Government must, on the capital expenditure side at least, "spend money to make money". The very same debt to GDP levels, if not substantially reduced over time, restrict Fiji's ability to build more expensive climate-resistant infrastructure – even though severe climate events, including cyclones and floods, will continue to impose large costs on the Government and the community and divert Government's money.

6.6 These are realities that Fiji cannot change in the short term. They create deep challenges that mean trade-offs for Fiji's people. Increased taxation may lower many people's living standards and choices, in the short term at least. But unless people contribute, through their taxes, to increased Government investment, their living standards in the longer term – in terms of their health, education and access to economic opportunities – will also be compromised.

Confidence-building

6.7 Not everything is about money. There are also intangible elements which, managed correctly, promote economic growth. Chief among these is building confidence among a broader range of investors – existing and future, resident and non-resident – who are the drivers of private sector-led growth. There are "quick wins" to be gained through more efficient government, better and less restrictive regulation and better understanding of the challenges faced by the economy. In the section below we discuss some of their common complaints.

6.8 Critical to confidence-building is building what could broadly be described as social capital – shared values and strong institutions which improve our collaboration and work towards common goals. These include efficiency and collaboration in our three arms of Government, in which people have confidence that their views will be heard, that they can effect change if they can make a fair case for it, and that their disputes – including with the Government – can be fairly resolved. These attributes improve social stability, lower political and regulatory risk and build economic confidence. These things do not cost significant amounts of money. They result from a different, more open and more service-driven attitude to governance.

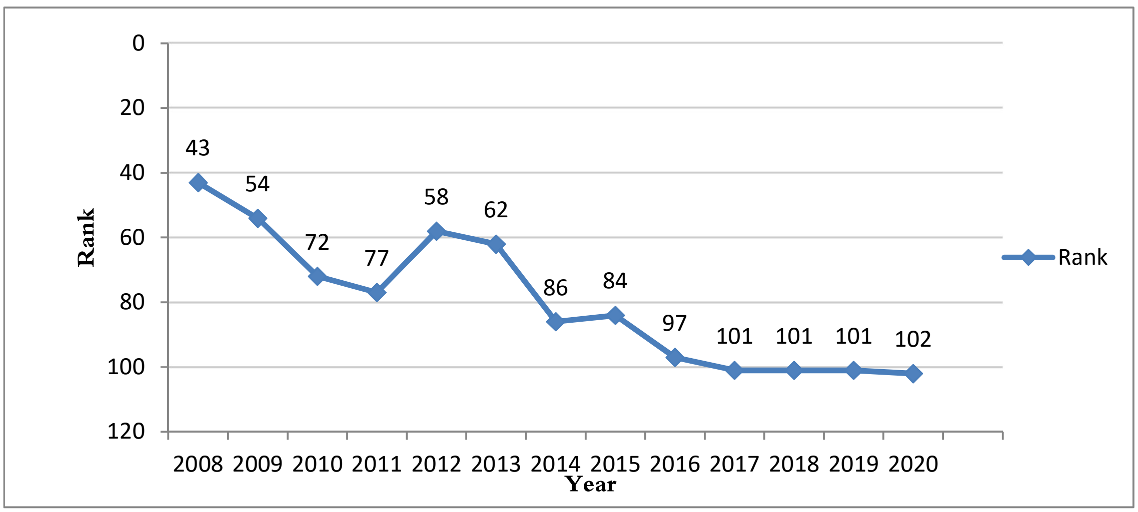
6.9 In December 2022 there was a successful democratic transition from the previous government to the new one. This in itself was a confidence-builder; after all, Fiji's relationship with democracy has not always been positive. The new government has declared that it wishes to be more collaborative and consultative than its predecessor and at this stage these promises appear to be borne out. The repeal of the Media Industry Development Act signalled a willingness to lift restrictions on free speech and criticism; there appears to be a new sense of willingness to openly discuss issues such as Fiji's health challenges. The National Economic Summit has concluded with generally positive results, and a number of consultative exercises – including this Committee's – have taken place. The Government has opened up many of its processes – including, for example, the trouble-shooting Investment Facilitation Committee – to private sector participation, signalling a willingness to listen and follow outside advice.

6.10 The new government is possibly still in its so-called "political honeymoon" period, before the day to day machinations and cares of public office further burden it. But it is important that these confidence-building measures continue – and that its consultation and collaboration are seen to deliver results. From the viewpoint of economic growth, an openness and willingness to suffer some public criticism, share information with the private sector and to involve the private and NGO sectors directly in its problem-solving, offer valuable new solutions to the Government. Some of the matters referred to below have already benefited from this approach. Some of them are "quick fixes" from an administrative viewpoint. Others require deeper long-term work.

Ease of doing business

6.11 Fiji's performance since 2008 on the World Bank's Ease of Doing Business Index[40] was notoriously poor. In common with other indices, it showed Fiji falling well behind other countries in its regulatory approach to investment:

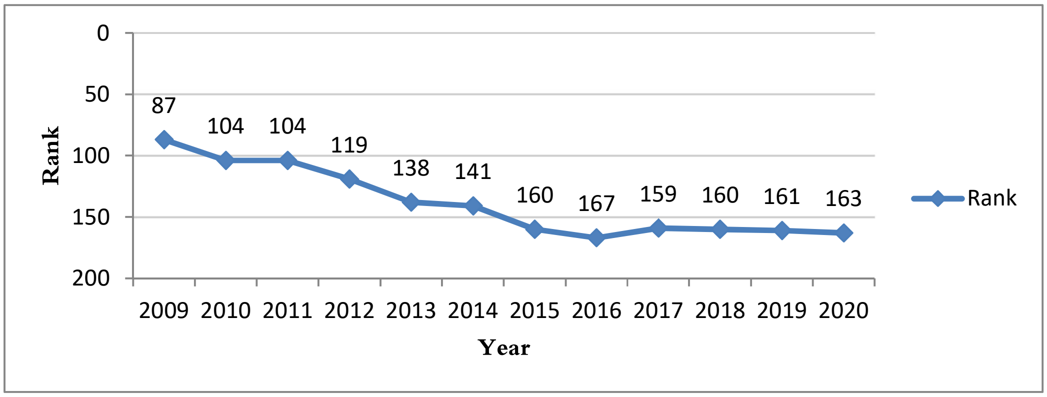
Fiji: World Bank Ease of Doing Business Rankings 2008-2020 (190 countries)



Fiji: World Bank Ease of Starting Business Rankings 2008-2020 (190 countries)

[40] Since discontinued and to be replaced with a new business enabling environment index ("B READY") in 2024. Fiji will not feature on this index until 2026.

6.12 Fiji's performance on the Ease of Starting a Business sub-index was significantly worse, ending 2020 ranked 163 (out of 190) countries:



6.13 These rankings were the subject of occasional Government comment in the past, criticising the World Bank's methodology and suggesting that those who provided the relevant data for the index had an anti-government agenda. Meanwhile, the Government would announce and embark on "investment reforms" – with limited wider consultation with the private sector – which regularly drove Fiji's rankings further down. These facts are raised here, so that the Government can learn lessons – to be willing to listen to criticism and to consult relevant stakeholders on what needs to be done and how to do it.

Duplication and slowness in foreign currency payments

6.14 Businesses complain about complicated rules on outwards payments to meet trade and service payments, management fees, dividends and capital, particularly the need to work with two agencies, RBF and FRCS. This is a function of exchange control, by which the Reserve Bank of Fiji **(RBF)** effectively rations foreign currency available to Fiji residents for the purpose of protecting Fiji's foreign currency reserves. The reasons Fiji needs exchange control are generally understood; RBF has an efficient system of "delegated approvals" to commercial banks which enables the majority of routine offshore payments to occur directly and without RBF involvement. However, FRCS has long insisted on being able to regulate remitters' payments by requiring them first to obtain a "tax clearance" – in other words to ensure that certain tax obligations were met before their payments could be made. This "double regulation" irritated businesses, many of whom were making routine trade payments supported by customs entries, principal debt repayments, or re-imbursement of expenses.

6.15 In response to complaints and, having assessed Fiji's post-Covid reserves situation, RBF has recently widened delegated authorities and simplified documentary processes, a positive step. FRCS too, has improved its process by offering a "blanket" tax clearance (say for $1 million) against which remitters can "work off" remittances. This saves them going to FRCS every time they wish to make an offshore payment. These developments are relatively recent but they reflect a new willingness to confront business problems and seek practical solutions. That said, there is still scope for FRCS to better integrate its ASYCUDA (customs) system to the tax clearance process so that a duty paid customs entry is the only paperwork an importer needs to facilitate settlement of trade payments.

6.16 The lesson appears to have been learned to avoid the "gateway" approach to regulation - that a person must go through one regulator's "gate" before he or she can move on to the next one. This – in common with other processes, meant that multiple regulatory processes had to be pursued sequentially, not in parallel, slowing down the path to the end. Greater trust in the remitter, together with effective use of data tools to verify compliance, appears to have significantly improved this problem. The key now is for the regulators to better communicate that there is a solution (as at time of writing this new development did not appear to be widely known).

6.17 **FRCS and RBF should continue to review the efficacy of the "tax clearance" process and take a data-driven approach to enforcing tax collection on offshore payments.** This is considered to be a relatively simple "fix", involving only a change in processes (not laws) for FRCS, working with RBF and the relevant trading banks.

Investment Act issues

6.18 The Investment Regulations 2022 require any foreign investor investing in Fiji to bring into Fiji a minimum of $300,000 within three months of incorporating or registering its business. The Regulations threaten fines and even imprisonment (!) for those who do not. This is hardly a confidence builder and the detail in the Regulations causes both investors and their professional advisers, considerable frustration. There are multiple reasons why it may not be convenient or efficient to comply with a rigid timeline of that kind. There is a (time-consuming) process of applying to the Minister for Trade for an exemption from the requirement – but this costs time and money, distracts Government officials and breaches a basic principle that, as far as possible in an investment environment, discretions should be removed from public officials.

6.19 In 2021 Fiji introduced the new Investment Act. Consultation was sparse, in keeping with the then norm; the new law was passed by Parliament under urgency and without extensive debate. The new Investment Act eliminated the sometimes complicated processes for businesses (some of them majority owned by Fiji citizens) to obtain "Foreign Investment Registration Certificates" - so that was a positive step. However, the minimum investment rules, generally, were not. The justification appears to be that people investing in Fiji should bring in a minimum amount of foreign exchange to do so. Even if that made sense (which for many "capital light" service businesses it does not) the three-month timeline – with its outlandish and threatening sanctions - is arbitrary and inconvenient. Many businesses need a much longer lead time.

6.20 This complaint focuses some attention on the need for an Investment Act at all. The new Act, poorly drafted and confusing, does very little other than to espouse "guarantees" to foreign investors of specific legal rights, which are the same rights available to everyone in Fiji anyway. Some of those guarantees – for example, that they can freely and without delay make payments in foreign currency – are not hedged with "fine print" meaning that they do not have those rights at all (Paragraph 6.14 above is evidence of that). Section 7 of the Act imposes a vague and incomprehensible requirement for certain businesses (*inter alia…critical infrastructure…security of supply of critical inputs)* to first obtain the consent of the Minister of Trade before beginning business. There are no rules or guidance on what may or may not be caught – and this ignores that in any strategic business (telecommunications, ports, banking etc) there are already sector-specific regulators who must be satisfied. Section 7, therefore, adds uncertainty and duplication to a foreign investor's entry process.

6.21 The Investment Act should be critically reviewed:

(a) first, to determine whether it is needed at all;

(b) second to relax or completely eliminate the minimum investment requirements

(c) third, if it is to be retained, to review the vague s.7 requirements creating additional regulatory requirements for (unspecified) investors.

There is also a need to make the investment and immigration regimes work better. This will involve a comprehensive review of policy and law (see further below).

The Court and dispute resolution system

6.22 Fiji Court processes depend on 50-year old rules of procedure that have had little substantive modernisation since they were first issued. It can take months or years to take a simple case through the Court system. Fiji courts generally take many months to issue even simple pre-trial rulings; it is not unusual to wait for years for court rulings to be issued. The Fiji Court of Appeal backlog is now measured in years. Modern case management practices are largely absent and alternative dispute resolution **(ADR)** options such as mediation or arbitration, which could divert disputes from the court system and relieve some pressure on it, are rarely taken up.

6.23 Effective law is the foundation for all investments and businesses. Without efficient and effective enforcement of their economic rights, confidence can be severely impacted. Although Fiji has recently entered into international agreements governing practices such as international arbitration and mediation, these mean nothing if Fiji courts cannot effectively and efficiently enforce rights against entities within their jurisdiction. This situation needs to be addressed before it gets any worse. A welcome step was the promise by the Attorney-General at the National Economic Summit that he intended to ensure that the Fiji Court of Appeal heard cases year-round, instead of in limited sessions, to begin clearing its caseload; but deeper, more systemic problems need to be addressed. Nor is this just an issue for business; criminal and family law issues and a host of other specialist areas (including environmental law) are also affected by slow and inefficient court processes.

6.24 There is always sensitivity about commenting on or critically appraising the Court system. Courts guard their constitutional independence and resist executive interference in their operations (as is appropriate under constitutional rules). However, courts, like all branches of government, are still accountable for the public resources they use and are required to be efficient. New court leadership appears to be sensitive to the need for greater efficiency, so the Government should take the opportunity to look critically at what is needed to effect fundamental change.

6.25 **The Government should convene a working group to examine ways to improve the efficiency of the Court system.** This should include judicial and public officials, legal practitioners and private sector representatives, covering subject matter such as adequacy of court resources, modernising outdated practices and whether compulsory reference to ADR should be introduced to improve its take-up and relieve pressure on the court system.

Frustrating routine compliance procedures for business

6.26 All businesses are frustrated by inefficient, inflexible and paper-based regular compliance processes required by the National Fire Authority, the Occupational Health and Safety Section of the Ministry of Employment, health inspections and liquor licensing for the food and hospitality trades. MSMEs in particular complain about these processes because generally they have fewer employees (and in some cases none at all) meaning that time they need for their businesses is consumed in form-filling, waiting for inspectors and cashiers or addressing queries. This process was previously complicated by the additional requirement of business licences. The previous government addressed this by abolishing business licences, eliminating one source of complaint[41]. However, the issues are not over. These processes seem to suffer from the same "gateway" syndrome identified above - one process cannot move forward until another is completed (and sometimes businesses are left confused about whose process comes first).

6.27 The Government has shown a reinvigorated approach to the MSME sector, understanding its importance in the wider economy and its ability to improve individuals' economic circumstances. In response to this feedback it appears to now be taking steps, with technical support from the International Finance Corporation, to move these compliance requirements online. This may avoid the sequential "go through the gates" approach. The commitment is welcome. However, the proposed solutions, including the architecture for any online system, should be scrutinised by regulators **and users** (including MSMEs), who should be involved at the governance level of the project. Automation is often a useful step towards efficiency but not necessarily an end in itself. If the underlying laws and processes are inefficient, an automated process will remain so.

6.28 **Government should promptly address business complaints about routine business procedures such as OHS, NFA, health and liquor permits to ensure they are made simpler and minimise time and cost in obtaining permissions**. The private sector must be involved at all stages of delivering the reforms.

Government services online

6.29 Government has been progressively moving a number of its processes online. Businesses and investors are already familiar with online filing processes with agencies such as FNPF, FRCS and the Companies Office (with differing levels of satisfaction). The Government's digital transformation group within the Ministry of Communications, Digital Fiji, made a presentation to the Committee noting developments such as the Government e-payment platform (which in the Committee's view should be more widely available across Government ministries and departments), a new *Vola ni Kawa Bula* registration system, the establishment of centralised data hubs to enable information sharing among critical agencies (so far, FNPF, FRCS, the Fiji Elections Office, the National Fire Authority, three Government Departments (Communications, Trade and Lands) and the Fiji Financial Intelligence Unit). However, its resources were substantially diverted to the Covid-19 response including the CareFiji mobile app, various registries related to vaccinations and vaccination compliance, financial assistance packages and international vaccination passes.

[41] but consequently deprived local government of critical licence revenue. The better and more revenue-friendly solution would have been to simplify the business licence requirements and de-link them from the others.

6.30 Digital Fiji is now embarking on a business-focused digital transformation process, including a "Starting a Business Sub-system" and digitising the construction permits process. Significantly, it is now moving its project governance away from committees made up wholly of Government Ministers and Permanent Secretaries to the Investment Facilitation Committee which has (at least a few) private sector participants. However, in (this) Committee's view that private sector participation should be strengthened. There is no particular reason for secrecy about the digitisation process and every reason to encourage openness about its progress and the challenges it faces.

6.31 Digital Fiji appears to recognise that digitisation of itself is not the solution; the underlying regulatory processes need to be critically reviewed and streamlined before they are digitised. This continues to be true, for example, at the Companies Registry, where a lack of experience hampers the processing of new filings once they have occurred. Electronic filing may have eliminated a physical office visit but is not necessarily a seamless path to the end result. Equally, some systems appear to be designed which assume usual outcomes, not necessarily all outcomes permitted or contemplated by the law. It is not unusual to be told that an IT system does not permit a specific legal option – so "the system is driving the law" instead of the other way around.

6.32 IT systems designed to meet regulatory needs need to be sensitive to this regulatory point, not just the (also important) need for customer service. FRCS's TPOS system (which was designed and implemented by a private foreign IT company, and not Digital Fiji) and its recent rollout of its company tax return and personal tax return filing templates, is a good example. For many months the system had no print function for tax filers, limited 'manage clerk functions' and impractical templates for the delivery of relevant financial information (including poorly designed and impracticable depreciation schedules). This was a signal of a serious failure to consult end users right from the beginning. To FRCS's credit, it has now responded to critical feedback and is now working with users and their advisers on practical solutions.

6.33 Digital Fiji has identified issues critical to its future as more robust ICT infrastructure, cybersecurity challenges and (in a familiar refrain) a lack of human resources and specific ICT skills. There is no question that the digitisation process needs to continue with critical Government investment and support. This signals to the business and investment community that Fiji is responsive to demands for modernisation and cost-effective and efficient regulatory compliance.

6.34 **Government should continue the digitisation process and efficient online services (including e-payment platform roll-out), and give priority to investing in both the technical and human resources to ensure that it can deliver cost-effective and efficient regulatory compliance.** However, it can learn from past lessons and take advantage of greater government openness, in particular, by ensuring that its project governance (working groups, steering committees and user groups) have strong private sector and end user participation.

Physical capital formation challenges

Land Sales Act

6.35 The Land Sales Act is a 49-year old law (originally enacted to charge a land sales tax) which also regulates foreign ownership of land. Any non-resident (as defined) must obtain the consent of the Minister of Lands to acquire more than one acre of land; any change of ownership of land (of any area) between non-residents also requires this consent. However, a simple consent process can take weeks, sometimes months, to complete. The law is poorly worded and generates unnecessary litigation after failed or disputed transactions and creates uncertainty for non-resident investors on the legality of their leases.

6.36 Major amendments to the Act in 2014 punished non-residents with fines if they did not build a home of at least $250,000 in value on their purchased vacant lots within two years of purchase (or, for vacant lots already owned, within two years of the amending law). The then Government ignored criticism that it was impossible even to obtain development consents and build a property in that timeframe. A cumbersome and bureaucratic "exemption" process yielded few if any results for property owners. The amendment significantly affected the market for residential and lifestyle lots in non-urban areas (for example, Taveuni, Maui Bay, Koro, Pacific Harbour) where non-resident retirees could invest, bring in capital and skills (often used for community benefit) and create employment. This is an area of investment that can be reinvigorated and re-developed if well regulated (see below).

6.37 Non-resident ownership of land in any country can be a challenging issue; this needs to be an issue opened up to wider debate. Certainly, there can be sensitivity about foreigners speculating in or "land banking" large tracts of land with no other productive purpose. A sensible law can appropriately regulate this. But transactions in smaller blocks of land, often no more than one or two hectares in area, should not be impeded. Ministerial consents (when they finally arrive) are invariably granted for these smaller land purchases anyway – which leads to the question of the need to regulate them at that level.

6.38 **Government should review and replace the Land Sales Act (in consultation with the public) to integrate its policies on non-resident land ownership with its foreign investment, immigration, rural development and small business development policies (some of which may also need review). Non-resident transactions in small parcels of land should not be impeded and the existing construction conditions should be reviewed and revised to bring about a streamlined and efficient process.**

State Lands Act processes

6.39 Slow, bureaucratic and inflexible consent and documentation processes involving State leases – including foreshore leases – discourage investors. This has two negative effects – it slows down investment generally, but it also prevents the Government from making the best use of its own assets (assuming that its current policies are aimed at achieving this. At Chapter 7 we have suggested that the Lands Department should comprehensively review its State land assets law, policies and procedures for better Government revenue).

6.40 Foreshore leases are only available from the Department of Lands (because foreshore land is the property of the State). However, many developments in coastal areas, not limited to tourism, are dependent on efficient delivery and processing of foreshore leases. The processing of foreshore lease applications, including *qoliqoli* compensation, can take months, sometimes years. A thorough overhaul of all State Lease processes is required.

6.41 The Government should set up a working group, with private sector involvement, to comprehensively review the law, policy and procedures underpinning the State Lands Act to ensure that:

(a) routine State Lease processes and documentation are achieved quickly

(b) foreshore lease processes are improved and the time taken to process foreshore lease applications significantly shortened

(c) State Lands Act processes are integrated with policies to improve Government revenue-raising and cost recovery from Government's State Land assets.

Electricity

6.42 A number of complaints were heard by the Committee about difficulties developers face in gaining access to electricity infrastructure. Developers complain about the excessive costs for which they are quoted by Energy Fiji Limited **(EFL)** for power infrastructure for new developments. EFL, for its part, says that developers are free to meet their own infrastructure requirements as long as they conform to appropriate standards; and EFL cannot risk its capital to build infrastructure for development projects that may not occur[42].

6.43 There are looming challenges for Fiji's electricity supply; in economic development and environmental terms they are now critical. EFL has multiple challenges. These include its current pricing structure, regulated by the FCCC and due for four-yearly review in October 2023. Electricity charges are likely to increase following that review. This will add further pressure on consumers and businesses. EFL also has urgent capacity needs (short and long term) which EFL believes it has no choice but to meet with significant addition of fossil-fuel (diesel and heavy fuel oil) burning capacity – potentially a further 50 megawatts (MW) costing nearly $200 million (intended as a "stop gap" until more renewable energy sources are developed and thereafter as backup capacity). Arguably, this could have been avoided or minimized if EFL had made a faster start on renewables. On top of this, temporary diesel capacity will be needed to meet short term challenges (drought conditions affecting hydro power).

6.44 EFL is heavily criticised by the renewables industry for failing to develop renewables opportunities – it is accused of being the South Pacific region's weakest performer on renewable energy development, particularly in the solar energy sector. EFL says that opportunities presented to it are not cost-effective and commercial having regard to the regulated tariffs it must charge and its need to earn a commercial return, as its commercial mandate requires (and noting that it is 49% privately owned).

6.45 Lack of availability of cost-effective sources of electricity has the potential to be an economic growth constraint. Although EFL is commercially well organized with a strong balance sheet, it appears to be not yet equipped for a renewable energy-sourced future despite opportunities that appear to be (and to have been) available to it. The need to invest in a further 50MW in fossil fuel technology (even as a future back-up to manage risk) will have adverse effects on the environment, the balance of payments and national energy security. This should have been avoided with more focused Government attention applied years ago on a national renewables strategy.

[42]EFL advises that it does have a standard process of "buying back" from developers key infrastructure they have funded in order to connect their developments – so ultimately EFL carries this cost.

6.46 EFL is not wrong to be commercially focused. A strong commercial orientation, which allowed the former Fiji Electricity Authority to become EFL has resulted in Fiji's electricity supply being significantly better than, say, water (whose problems we have discussed elsewhere). FEA was allowed to commercialise – and to earn a commercial return - while the Water Authority was not. However – and possibly because it has not had the right signals from Government in the past – EFL has stayed focused on commercial return as its primary objective, instead of looking to a renewables-driven future and (if it does not believe renewables yet to be commercially sound) looking for Government support to drive it. EFL must pivot to renewable energy and begin to take seriously the renewable energy targets it has been set. It will take time to build extensive renewable energy capacity to respond to energy needs more cost-effectively with renewable energy sources. **This is a priority as critical as water.**

6.47 **Government must urgently convene a working group on the electricity sector including EFL, FCCC as market regulator, the renewables industry and technical partners such as IFC (who are working with EFL on available options).** While EFL must be allowed to operate commercially and without Government interference, Government may have to step in to "make up the difference", even if only temporarily, which EFL claims is the funding difference between renewable and non-renewable investment options (with possible recovery of any Government investment at a later time).

Department of Environment (DOE) and Department of Town and Country Planning (DTCP)

6.48 Complaints are regularly levelled against the DOE for

(a) excessively slow processing of applications, with EIA processes and other simple applications (for example for re-certification of consultants) taking months

(b) poor responsiveness to follow ups and

(c) heavy handed regulation, including excessive issuing of prohibition notices.

6.49 As far as the Committee can judge, the criticisms are somewhat borne out but they appear, at least to some extent, to be a function of a lack of resources and reactive regulation as a result. In its presentation to the Committee, the Department pointed out that its budget has been repeatedly cut since the 2019-20 year ($10m) to $3.4m in the current year, even as the number of interactions with the Department grow. In the last financial year a total of 30 staff in three offices have been processing upwards of 4,800 different applications in areas as diverse as Environmental Impact Assessments, waste disposal permits and ozone depleting substance permits. The Director notes that her current budget allows her $10,000 per year for enforcement action meaning that her ability to take steps against defaulters is severely compromised.

6.50 The DoE has come under criticism for issuing prohibition notices for claimed environmental breaches without warning, disrupting business operations and forcing them to devote time and resources to addressing DoE's actions. In some cases, political intervention has been required to lift prohibition notices, which is clearly undesirable and leads to the impression (true or otherwise) that the law is different for the best connected. However, it seems equally true that some of Fiji's biggest polluters are State-owned utilities who are not necessarily compliant – also leading to the impression that some polluters are treated as "too big to fail".

6.51 Notwithstanding the need to protect the environment, a more realistic approach is required to environmental regulation including, on the Department's side, better communication and perhaps greater reliance on improvement notices with reasonable timelines to achieve the required compliance. The Department is clearly aggressive in its actions to protect the environment, but there may be times when a more proportionate response is appropriate – and possibly, overall, a more organized and strategic one.

6.52 However, this cannot be expected of DOE with resources currently allocated to it. If Fiji is to take seriously the protection of its natural capital – its environment – it must take DoE processes seriously and resource it effectively. The number of applications the DoE is processing are signs of a business community that understands the importance of the environment and is willing to comply with the legal requirements. The Government must reciprocate with an efficient, transparent process of environmental regulation. One of DOE's requirements is support to digitalise its processes, linking them where possible with other relevant processes. This would improve its own case management; it would also make the application process more transparent to applicants (who could monitor progress) and give to the Government important data with which to develop and maintain an environmental policy consistent with sustainable economic development.

6.53 DTCP is also accused of delays in approvals. Its regulatory process is more complex, because it involves interaction with town and city councils (many of whom are too small to have the required planning and related processing skills) and the Fiji Roads Authority. DTCP says that it is meeting its required timelines but having to reject a number of applications delivered to it after processing by local government because local government officials have not attended to their processing responsibilities correctly; and this is presented as DTCP's own delays. DTCP, too, has suffered budget cuts at similar levels to DOE. It has no resources for anything but processing and is unable to review past data and develop strategies which could improve efficiency, responsiveness and – more importantly – sound and sustainable urban planning. It seems unlikely that small local bodies will at any time soon accumulate the required town planning expertise – so it is likely that DTCP will need to be resourced to provide them the help – or for a complete overhaul of the relevant town planning legislation or processes to occur.

6.54 The DOE and DTCP situations are examples of where Government cost-cutting has been counter-productive. The end result has been resource-deprived regulators being unable to respond to critical investment projects with adverse effects on land developments and economic growth opportunities. While the two organisations are separate it would make sense to review them together to ensure that nothing "falls between the cracks" in the likely reform of their laws or processes. However it is done, the situation is urgent.

6.55 **The Government must urgently convene a working group – Government, private sector, professional advisers and technical support sources (if available) to review DoE and DTCP laws and processes,** including:

a) short term measures to speed up processing of applications and simplify standard operating procedures

b) longer term measures, including changes to the Environment Management Act, the Town Planning Act and the relevant Regulations, to simplify processing

c) if additional funding has a “quick dividend” in terms of better resourcing to speed up processing, to urgently provide this additional funding

d) a review of DOE’s compliance policy, including alternatives to the issue of prohibition notices, to ensure a better working relationship with businesses and investors.

Human capital

Immigration policy and review

6.56 Immigration Department processes attract negative business and investor comment in terms of time to process long-term and short-term permits. The Department pleads human resource constraints, saying it needs 12 additional staff to improve turnaround times. Law and policy changes three years ago (without consultation) restricted urgent travel into Fiji by overseas consultants, technicians and other skilled professionals on urgent basis (previously permitted under 14-day business visa on arrival for number of visa-free countries), greatly inconveniencing businesses, including in the manufacturing and medical field, who may urgently need technical assistance when machines break down. The resulting stop-gap solutions were poorly understood and time-consuming to execute when a simple, transparent policy could have saved time and resources. Steps have been taken by the new government, in consultation with business, to normalize the situation and to consult more widely on the impacts. These steps are welcome but there is more work to do.

6.57 The current acute shortage of skilled workers (principally due to migration to Australia and New Zealand) is having a significant impact on both public and private sector business and investment. Businesses have no choice but to import skills to remain efficient. Accordingly, there is an urgent need to streamline the requirements (to make it much easier and faster to apply) for short term and long term work permits, and the processing time by Immigration Department must be shortened. Another easy source of potential skills are qualified spouses of expatriates, who are already located in Fiji and often have scarce skills; but are prevented even from doing voluntary work in non-profit organisations where they can add value without displacing local employees. Where they have scarce skills they could be “fast tracked” into workplaces (including hospitals, universities and professional firms) where they can contribute productively.

6.58 A full-scale immigration law and policy review is required to rethink the policy approach to immigration as a source of economic growth. This links naturally to other challenging and restrictive laws such as the Land Sales Act and the Investment Regulations referred to earlier in this chapter. The global retirement market is a multi-billion-dollar industry. Nations such as Costa Rica, Panama, Thailand and the Philippines are able to use flexible immigration policies and laws to generate significant foreign investment in local real estate, services and businesses from retirees. These laws include making available permanent residence and citizenship, the rules for which have been arbitrarily changed, again without consultation, at least twice in the last 10 years.

6.59 At the other end of the age scale is the growing ‘nomad’ market of younger workers whose jobs are fully online and who are no longer physically tethered to the countries from which they derive their income. They are a source of foreign exchange, potentially tax revenue (PIT and VAT), and, frequently, twenty-first century skills. If Government can develop an integrated policy around foreign ownership of land (in small parcels), investment rules and immigration requirements – and to create more confidence in the health care system - it has the potential to develop a market that, for Fiji, is still largely untapped. In an environment where Fiji continues to lose skills, experience and expertise, a potential inward flow of skills – at whatever age level – would be a critical bonus.

6.60 The Government should set up a working group to review Fiji's immigration policies, processes and requirements for business visas and short term and long term work permits. The review of policies may also be linked to policies on non-resident land ownership and investment rules, to deliver clear, transparent rules on retiree and investor immigration as an economic growth and skills upgrading measure. The working group should have public, private sector and migration expert participation and be resourced and prepared to critically review and prepare draft laws and discussion papers for public consultation (including any amendments required after the consultation process).

Finally – a positive story from Biosecurity Authority of Fiji

6.61 In the course of its presentation to the Committee the Biosecurity Authority of Fiji (**BAF**) reported that it had managed in recent months to deliver a total of 87 "biosecurity pathways" for the export of agricultural produce to New Zealand – only 12 of which were taken up. This is an example of strong, pro-active regulation delivering opportunities for agriculture – if only the regulation and the opportunities can be "joined up" between BAF, the Agriculture Department (expertise and policy support), Fiji Agro-Marketing (in terms of identifying possible market access opportunities) and the Ministry of Trade (identifying export markets).

CHAPTER 7

7.0 GOVERNMENT EXPENDITURE AND VALUE FOR MONEY

Introduction

7.1 A reader hoping to find in this report the complete answer on how to make the Government financially efficient may be disappointed. The short answer is that the Committee has only begun to learn how much work this involves.

7.2 The Government is a large, multi-billion dollar undertaking; the biggest "business" in Fiji, dependent on a limited pool of skilled people to run it. The public demand (as is their right) efficient and accountable government, but this is never easy to measure objectively. In the private sector profit is the standard (though not the only) measure. Clearly in the public sector the expected outcomes are different. The public are also part of the body politic who make demands on political leaders and the public purse which may be challenged as poor uses of public funds. One person's claim of poorly prioritized expenditure, say on a road or IT system, can be justified by another person as a good long-term future investment.

7.3 At Chapter 2 we argue forcefully why the Government needs to urgently raise more revenue to address infrastructure, debt and other urgent expenditure needs. Taxpayers are entitled to ask, if they are being asked to suffer increases in VAT, water and (possibly) electricity charges, why the Government cannot spend less. There is a strong sense among critics (including former opposition politicians who are now in Government), that the Government is inefficient, has too many employees and wastes money. The most visible (and accountable) people in the Government – its Ministers – appear to an irritated public to be forever cutting cakes in expensive hotels, travelling overseas and stepping out of expensive four-wheel drive vehicles.

7.4 In the scheme of $3.8 billion in annual expenditure the amounts involved are small (although a rough estimate from the Ministry of Finance is that the annual running costs of a Ministerial vehicle and driver are about $84,000; multiplied by 29 this amounts to more than $2.4 million). Ministers are busy and in constant demand from citizens; giving them drivers and safe and secure transport is not unreasonable. But the public are entitled to demand frugality from their government and to see Ministers setting an example. This was not the norm in the past Government and the new one does not appear, in these things, to be markedly different.

7.5 If there are "too many" public servants, where should the cuts come from? These include teachers, nurses, Police and prison officers; many others, it is true, are desk-bound administrators but, without their planning, record-keeping and supervision, many of the public services people have come to rely on and expect cannot be effectively delivered. Turning a budgeted allocation into delivery on the ground requires several steps, most of which require skilled staff. The World Bank PER does not consider Fiji's public sector wage bill to be excessively high compared to some of its peers. However a single number does not tell every story. Fiji public sector wage costs rose significantly between 2016 and 2019 through a combination of higher wages and more recruitment; they fell slightly in 2020 (principally, the World Bank says, because Fiji had 500 fewer teachers) and in 2021 because employers' FNPF contribution rates were reduced from 10% to 7%. The Government's wage bill is around the F$1 billion mark, so a 3% FNPF contribution reduction saves the Government $30 million per year. The World Bank believes that Fiji's public sector wage costs need to be held down; this can be achieved (the Committee concludes) through wage restraint, redeployment of resources rather than new hires or reducing employee numbers.

7.6 Wasteful expenditure appears principally to have occurred, however, on "big ticket" items. We have commented in Chapter 2 on TELS and other tertiary education funding, which the World Bank believes was inefficiently delivered (and on which it is advising restraint); spending on the Walesi network is alleged to have exceeded $120 million, about four times what commentators believe it should have been when it was in large part duplicating existing broadcasting infrastructure; it would be difficult to see how the $55 million Queen Elizabeth Drive refurbishment in Suva, which did not concern a critical road, could have been an infrastructure priority. The infamous Lautoka swimming poor project – currently stalled after $12 million in spending - is another highly visible example of public funds poorly spent.

7.7 Finally, the public is also entitled to better value for money in terms of the service levels it receives from the Government. If taxpayers are going to meet Government costs through taxation they are entitled to this. Throughout this Report we have made recommendations which go to improving the value that citizens get from their Government. They should be able to actively contribute to these improvements by being able to lodge complaints and have them addressed; and to be informed of the progress Government agencies are making to improve on service levels, through public reporting on progress on measurable targets.

Overview

7.8 The Committee's overall impressions are that:

(a) a complete re-think is required on Government's recurrent and capital spending and the value it obtains for that spending

(b) the Government has not in the last decade created the space, internally within Government or externally, to allow robust engagement and debate on how it spends money and accounts for its spending. Its transparency and accountability with public funds – including how well it has spent them - has been limited and this has adversely affected spending decisions

(c) "value for money" is not as simple as cutting spending. Indeed, a lack of spending in key Government departments, as well as a lack of spending on maintenance of Government assets, may have resulted in material long-term losses, both of value for Government and for timely economic growth. In many cases Government may get better value by spending more, not less

(d) in the short term, urgent capital expenditure is required – certainly on water, health, roads and bridges, education facilities – and additional recurrent expenditure on health and specific regulatory departments whose shortages of resources (people and skills) are impeding investment (the Departments of Environment and Town and Country Planning being identified in Chapter 6 as two examples)

(e) working with the private sector is important. There is a poor appreciation of the skills and experience the private sector has to offer. Specialised skills providers are often rejected out of hand as overcharging and profiteering, without a better understanding of how their costs are structured and how they are able to add long term value.

7.9 The Committee has learned significantly from the presentations and submissions made to it. These are too voluminous to set out in full here. To stay focused on key issues, it has reported on some of those learnings as additional comments to its recommendations below.

Good governance and good financial management

7.10 Poor spending outcomes occur because of poor prioritization (projects on which money should not have been spent) or poor management (good projects, badly managed). The best preventative mechanisms for poor spending outcomes are those well-known words, "accountability and transparency", but these words, too, have to be given practical meaning.

7.11 "Accountability" usually means that someone is held responsible and suffers a sanction – and this acts as a deterrent to others. Calls are frequently made for investigations to take place for poor spending outcomes – particularly where waste, fraud or corruption are involved - and for the perpetrators to be dismissed. However investigations are work for skilled personnel, who are limited in number or (if sourced from the private sector) expensive to obtain; procedural fairness for those investigated means that they must be given time to respond or object to processes they consider unreasonable; and any subsequent disciplinary action such as dismissal or prosecution may result in long, time-consuming and expensive legal processes. These accountability mechanisms, too, demand significant public resources at a time when the Government is being told it must spend less. Does this mean disciplinary actions should not be pursued? Of course not; they are essential to drive accountability. However there are limits to what can realistically be pursued with the demands on the limited resources of Government.

7.12 Transparency, well managed, offers other positive outcomes. If the public is informed about and engaged in discussing and scrutinizing the Government's financial management, this can improve spending decisions by spurring public officials (including political leaders) to consider, before they make or allow poor decisions, the consequences of those decisions, including personal embarrassment and loss of office.

7.13 In the last decade Government appears to have been inward-looking and relatively closed to genuine scrutiny or debate on its finances and financial management. While it published financial data at Budget time (and much-publicised "Budget consultations" appeared to take place), Fiji's global ratings on budget transparency, measured by the International Budget Partnership's 2021 Open Budget Survey[43], were generally poor. Fiji rated 37/100 for budget transparency, where IBP considers 61/100 to be a satisfactory score; on budget oversight Fiji rated 28/100, with IBP noting that "the legislature and supreme audit institution in Fiji [the Office of the Auditor-General], together, provide weak oversight during the budget process". Parliament's oversight was rated at only 17/100, suggesting poor scrutiny from Parliamentarians on how Government spends its money.

7.14 The Government also appeared to be intolerant of scrutiny from the Auditor-General's office, with a notable incident in 2017 when the Auditor-General, a constitutional officer, was pressured to publicly "apologise" for alleged "errors" in an earlier report which was critical of the Government.

7.15 An atmosphere of general resistance to criticism is unlikely to produce robust and contestable engagement among public servants – the officials who have the most information - on the

[43] https://internationalbudget.org/open-budget-survey/country-results/2021/fiji

best spending priorities. This legacy appeared to be reflected in departmental presentations, few of which touched on value for money or cost efficiency issues.

7.16 Two other observations stand out (among many) for the Committee:

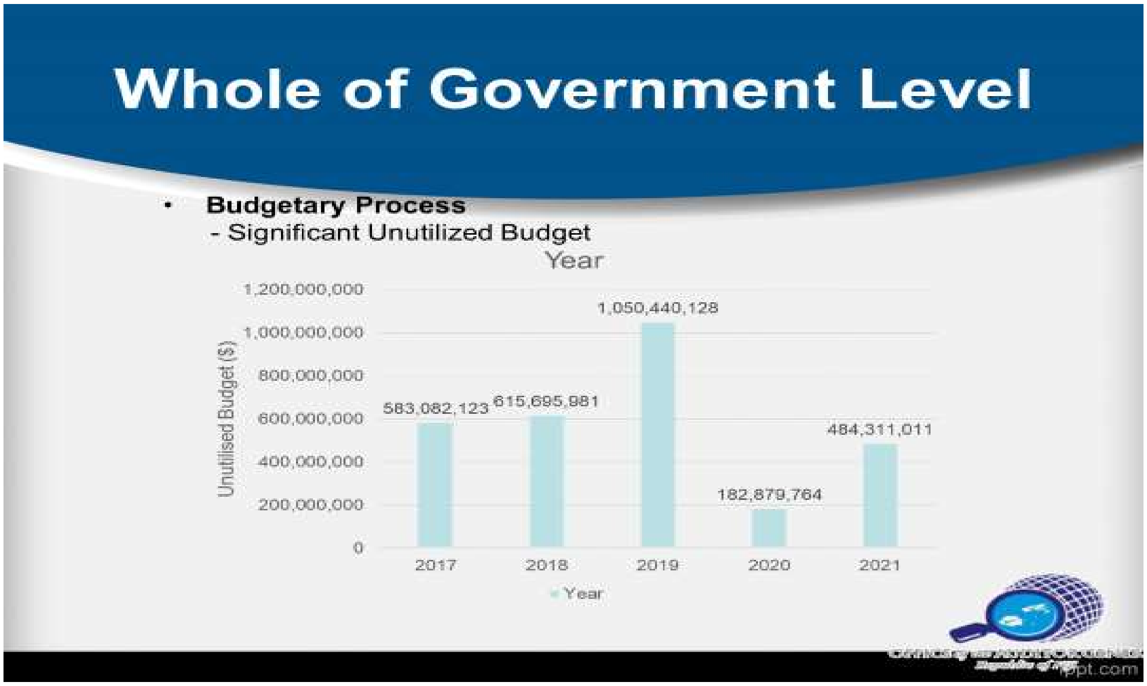
Head 50

(a) The Committee has also noted the extensive and increasing use of "Head 50" expenditure. "Head 50" expenditure (Miscellaneous Services), controlled by the Ministry of Economy (now Finance), took up increasing amounts of the National Budget, rising from just over 5% of total Government expenditure in 2014 to almost 20% in the 2021/22 year. The amounts spent under "Head 50" included for activities such as the TELS and Toppers schemes (refer Chapter 2), which would ordinarily fall under the Education Ministry, and public broadcasting grants, which would ordinarily be a Ministry of Communications function). That nearly one-fifth of the Budget in one year could be considered "miscellaneous" and not more rigidly controlled or planned for does not inspire confidence.

Items	2014	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Total	142	306.5	369.5	535.4	314.4	395.75	459.3	662.7	540.3
Capital construction			1.1	10.4	6.7	4.3	1	6.1	14.9
Capital purchases	9.4	10.6	17.7	28.2	25.3	29.5	29.12	29.6	31.9
Capital grants and transfers	98.1	241.6	286.5	385.8	204.1	279.3	361.04	473.1	351.1
Balance operating exp (ex. VAT)	30.4	50.4	59.4	104.3	70.8	75.8	62.04	140.3	128.3
Expenditure	2723	3296.3	3060.3	3741.1	3600.1	3353.5	3190.3	3414.1	3812.1
% of Expenditure	**5.2%**	**9.30%**	**12.07%**	**14.31%**	**8.73%**	**11.80%**	**14.40%**	**19.41%**	**14.17%**

Unutilized Budget

(b) In the 2017-2021 financial years, significant amounts of budgeted Government money went unused. The Office of the Auditor-General noted that of these amounts between 47% and 69% of this money was for unused capital expenditure. This suggests that much budgeted capital expenditure for any year was more aspirational than real – it could not be delivered, or it could not (in any event) be funded. This clearly impacts the credibility of Government's budgeting process.



Source: Office of Auditor-General

Submissions

7.17 We received a number of public submissions on Government spending. Most of them tended to be anecdotal or rhetorical. They appeared to follow from people's personal experiences with the public service; they generally did not identify clear ways to save large amounts of money. This may reflect the generally poor level of information in the public domain about Government budgeting and spending and performance against budget. Some were focused on the arguably more visible signs of Government excess, including Ministerial motor vehicles, expensive hotel conferences and overseas travel.

Ministry presentations

7.18 Generally presentations from Government departments were focused more on what more they could do (including, in cases, to increase revenue) but not on what money they could save. This appears, in part, because there appear to be few incentives on department heads to save money. Indeed, according to one departmental head, to save money simply invites a reduction in budget funding for the following year which means less available cash to redeploy where needed for what the Department considers to be its priority work (or unforeseen work to which it must respond).

Government financial accountability

7.19 Government's own financial accountability continues to be below par, with the Office of the Auditor-General pointing out that 40% of all its 121 audit clients are in various stages of arrears in delivery of their annual accounts. Private sector Committee members view this statistic with surprise. Financial accountability is central to every organisation which earns and spends money and Government agencies are no different. Without up to date accounts and annual reports, they cannot effectively plan for future years, meaning, inevitably, repeated inefficiencies.

Statutory body and Government company audit delays – "not our accounts"

7.20 Equally surprising are the delays in accounts for some Government companies and statutory bodies. The Auditor-General advises that one reason for delay is that their board members refuse to sign accounts for past periods during which they were not appointed, presumably for fear of the consequences, including public criticism, if issues are discovered for those periods. This attitude may result from poor legal advice and poorer understanding of their roles, but it may also indicate the general climate in which Government's fiscal affairs were conducted in the past (and, in turn, an insight into why many qualified private sector individuals would not accept appointment to statutory boards).

7.21 Board members are expected to be diligent and results-oriented. Issuing audited accounts are fundamental to what they do. They cannot choose to do nothing because their predecessors did nothing. They need to issue out the accounts for those earlier periods as a fundamental responsibility (and can state limitations and provide disclosure notes to accounts appropriately as they wish). They should also be advised, and understand, that whatever accounts they have (diligently) reviewed and signed, they cannot be held legally accountable for decisions which, as a fact, they did not make or actions which, as a fact, they did not take.

Asset management and infrastructure financing

7.22 The Committee received an early (and eye-opening) presentation from the World Bank and Asian Development Bank on challenges Fiji faced in infrastructure financing. These included the following (broadly summarised) conclusions:

a) in the simplest terms, the Government does not currently have the money to pay – whether directly or through borrowing - for the infrastructure Fiji needs. For example (and in addition to the many other needs we have highlighted in this Report), 40 bridges and three jetties are in a "critical state". Replacing the 10 "most critical" bridges in the next two to three years will cost at least $150 million

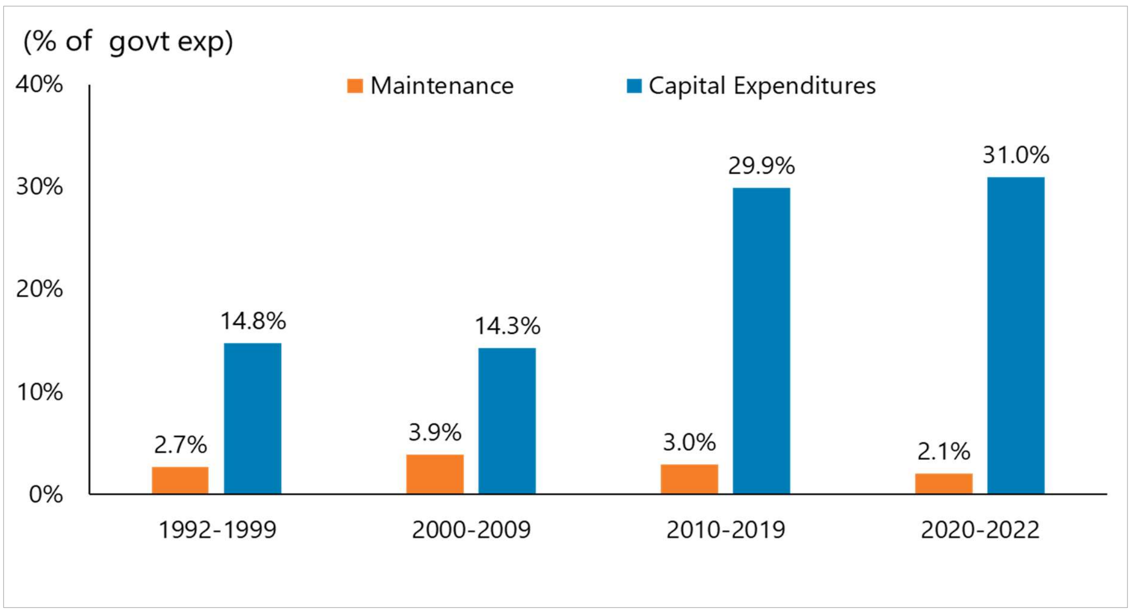
b) the scarcity of funding for infrastructure (which the Committee emphasises, can only be met in the medium term through increased taxation) means that the Government must be disciplined about the investment projects it chooses and how they are planned and executed. Fiji is developing a National Infrastructure Investment Plan (which lists more than 30 "priority projects" worth about $7 billion across different sectors including water and sewerage, roads and bridges, rural infrastructure and housing) to help guide the Government on prioritizing capital expenditure to only those projects which have the strongest economic and social case for it

(c) early planning for major capital projects is essential. Some capital projects are approved before critical preliminary work – environmental impacts, land procurement – is begun or completed, meaning funds (including loan funds) are approved and allocated but the project cannot begin. This may help to explain the historically poor use of capital budgets highlighted by the Auditor-General earlier in this chapter

(d) in keeping with other Pacific countries, Fiji spends disproportionately more on new capital expenditure than on maintenance over the life of the assets. It was suggested that this should be 5-1 in favour of maintenance. The frank assessment is that Fiji had this ratio exactly the wrong way around; the result was a habit of "build-deteriorate-build" capital expenditure that Fiji was finding hard to break. "It is much cheaper to fund routine maintenance now, to keep new infrastructure in good working order," the ADB advises, "than allowing it to deteriorate to a level where a rebuild is the only option."

(e) ADB, in common with many other advisers, has emphasised the need to better mobilise Fiji's state-owned enterprises, who own and spend on much of Fiji's critical infrastructure (roads, power and water, housing, agriculture, development banking) to do better.

Fiji Budget Expenditure: Capital vs. Maintenance (1992-2022)



Source: ADB

Government entities and value for money

Fiji Roads Authority

7.23 The Committee was surprised to hear from the Fiji Roads Authority, which is budgeted to receive upwards of $400 million a year for capital and maintenance work on major roads, that FRA had no strategic plan; projects were selected by senior management and spending allocated on the basis of six-monthly grants allocated to it by the Ministry of Finance (in common with organisations such as WAF and the LTA). It agreed that this made long-term planning difficult.

Sugar industry support

7.24 The World Bank PER is critical of Government support for the sugar industry, noting that over the 2017-21 period average Government support for the industry was $80 million per year with other indirect costs borne by consumers and other allocative distortions in the economy, which it valued at $116 million annually or 1% of GDP. It believes that the Government support is poorly targeted and favours bigger farmers; it has not succeeded in any event in improving the importance, competitiveness or profitability of the sugar sector.

7.25 The Ministry of Sugar, in its presentation to the Committee, differed with the World Bank on the annual costs of support, asserted that 200,000 people depended on the industry; highlighted ongoing challenges in finding markets, grower issues, cane production issues and increasing adverse climate events. The Ministry indicated that its diversification plans included co-generation projects and evaluation of refined sugar and ethanol; however these ideas have not been substantially advanced.

7.26 The Committee cannot see that there has been any significant improvement in the industry over the last decade, despite the hundreds of millions of dollars allocated to it, or any concerted attempt, despite decades of warning, to restructure it. It is generally claimed that 200,000 people depend on the sugar industry; but in an industry now only contributing 1% to GDP, the Committee considers that number to be doubtful, given the changing dynamics of farming families. Current Government support appears to be directed at boosting cane production but there appears to be no strategy on how to make that production profitable.

7.27 The Government needs to confront the issues the industry faces and set a strategy for it. In the Committee's view this is likely to be, at best, a significantly downsized and more focused industry with fewer farmers involved in it (and with others diversified into other products). It is difficult to justify significant amounts spent on supporting the industry without a clear vision of how this support will add economic or social value, at a time of so many competing demands on the Government's funds.

Military spending

7.28 The military is a significant employer and potential external revenue earner (and international profile builder) for Fiji through peacekeeping activities; it can play an extended role through naval forces in protection of Fiji's border and marine resources; and also in civil defence during natural disasters, including assisting in quick restoration of basic services with an effective Engineering Corps. However the military too, must be able to "pay its way" when Government funds are scarce.

7.29 In the last five years the Republic of Fiji Military Forces has been allocated the following amounts for domestic operations and peacekeeping, respectively:

RFMF Expenditure Trend			
Year	**Budget Provision ($)**	**Actual Spending ($)**	**Average Annual Spending**
2017-2018	96,143,507	92,409,469	95.7%
2018-2019	103,252,091	98,202.536	95.1%
2019-2020	89,612,341	89,060,373	99.4%
2020-2021	84,869,037	83,865,606	98.8%
2021-2022	86,358,308	86,168,179	99.8%
Total Expenditure (past 5 years)	***460,235,284***	***449,346,163***	***97.6%***
2022-2023	95,130,765	tbc	

Peacekeeping Operations (Head 49) Expenditure Trend					
Year	Budget Provision ($)	Actual Spending ($)	Average Annual Spending	Recovery from UN ($)	Recovery from UN (%)
2017-2018	79,207,702	75,824,535	95.7%	$10,328,112	13.6%
2018-2019	80,695,931	66,208,753	82.0%	$10,637,083	16.1%
2019-2020	64,622,351	61,296,206	94.9%	$6,444,327	10.5%
2020-2021	53,647,011	50,079,861	93.4%	$4,021,929	8.0%
2021-2022	46,063,028	45,523,927	98.8%	$15,709,189	34.6%
Total Expenditure (past 5 years)	***324,236,023***	***298,933,283***	***92.2%***	***$47,140,640***	***15.8%***
2022-2023	50,844,801	tbc			

(Source: Ministry of Finance and public media)

7.30 The amounts stated to be recovered from the United Nations are based on media reports of the then Home Affairs Minister's answers in Parliament (which appeared to focus on what was recovered from the UN, not what the Government spent and failed to recover). These amounts were expressed for calendar years, not fiscal years, so the mathematical amounts of the annual recoveries may not be completely accurate or aligned with other records. However the overall pattern – including significant under-recovery from peacekeeping operations – is clear. What may surprise many readers is the extent to which Fiji bears the cost of its peacekeeping operations itself. We are advised by the Ministry of Finance that the process of recovery is complex and dependent, to some extent, on the equipment and support services made available to the relevant national forces; Fiji lags behind in these and cost recovery is resultingly poor.

7.31 Fiji makes an outsize contribution to international peacekeeping. It is a source of national pride and also an opportunity for international exposure and training for many Fiji citizens who could otherwise never avail themselves of it. However the Government cannot continue to spend tens of millions of dollars on international peacekeeping without reimbursement. If this has occurred because of a lack of investment in equipment and support services then, once again, a critical cost-benefit eye must be cast over those operations to see if better investment would yield better economic returns. The Government has commissioned a Defence Review, with the stated aim of better defining Fiji's national interests and objectives to help it frame its foreign and security policies in the changing global landscape; and also to recommend a national security framework which will support the continued professionalism of the RFMF. The Committee assumes that ongoing cost will be a key element of the Review – and given the above information, it is necessary. The military, as with all arms of Government, needs to see its future activities as part of a more efficient and effective and fiscally responsible government delivering outcomes consistent with an agreed national vision and development plans built on that national vision.

Government debt management

7.32 The World Bank has warned that the external environment, at least, may drive global interest rates higher. This has the potential to raise interest costs on Fiji's variable-rate external debt or (just as risky) drive up the value of the currencies in which Fiji's external debt is denominated, which in turn increases the principal debt in Fiji dollars. While domestically there is high liquidity (effectively, unlent money) the Government can also borrow at low interest rates. If however it delivers significant economic growth that may push up demand for local funds and the interest rates that the Government pays.

7.33 We understand that the Ministry of Finance is actively managing its debt portfolio and continuously looking for ways to refinance riskier or more expensive debt with lower cost funds. At a time when the Ministry's own skill set is under threat from migration, it is important that the Ministry stay focused on debt management and lowering the cost of debt, given the significant interest savings that could be achieved.

Department of Lands

7.34 The Committee did not have the opportunity to hear from the Department of Lands. However we believe there is potential for a thorough review of the law, policies and procedures involving the best use of Government-owned land and built properties. Government has valuable agricultural, commercial and industrial land, as well as residential properties in various parts of Fiji. Effectively marketed and managed (ideally with private sector involvement), these, in the Committee's view, have the potential to raise significant revenue for Government and free up valuable land for commercial development.

7.35 Where land was originally compulsorily acquired by the State from landowners and is to be put to non-government uses the Government may be best able to build relationships with landowning and other communities to fairly share the net proceeds of better commercial use of this land. This would seem to be the best outcome (given that Government has invested substantially in sub-dividing and in some cases building on the land). So there is potential for improved returns to the Government (and indigenous landowners in case of leasehold land) to make better use of their resources for the benefit of everyone, including commercial lessees. This, however, would be a project on which the Government needs significant private sector advice on valuation, renovation or development, marketing and property management.

Recommendations

7.36 The Committee's recommendations are summarized below:

Operational expenditure

a) **Government should commission a comprehensive, Whole of Government operational expenditure review.** We see this as a significant exercise which will take some months. It should be run by experts from outside Government but with local oversight involving (as we generally recommend) strong local non-government (private sector and CSO) input. Key elements would review and make recommendations on:

i) the current structure of the executive branch of Government, beginning with the civil service, its financial accountability mechanisms, how they work in theory and how they work in practice

ii) how to improve public accountability mechanisms, including public engagement with the Government financial process (transparency) and specific investigative and disciplinary processes for poor outcomes (accountability)

iii) to what extent Government functions can or should be centralised in order to improve financial and operational control and "bulk buying" savings (but avoiding efficiency losses from excessive centralization)

iv) a "micro" review of Government work practices, their origins (some of which appear to be a matter of "doing what we've always done" for decades) and their continuing relevance.

v) how comfortable public servants are with information technology, their current competence with it and adaptability to simple office technology fixes (virtual meetings, electronic documents and use of electronic templates)

vi) existing incentives to departmental heads, middle management and other staff and how to ensure they reward the saving of money, improved productivity, financial accountability and service delivery and how these can be effectively measured.

b) **The Minister of Finance should immediately set up a private sector led "Public Sector Costs Committee", comprised of no more than eight people and including former and current public servants, to engage with Government departments and other agencies to identify spending cuts or re-prioritisations to gain "quick wins" on better quality spending and oversee the operational spending improvements required by the Medium Term Fiscal Framework.** We envisage the Committee meeting weekly or fortnightly to receive views, both from within and outside Government on possible short-term efficiency gains; to discuss these with the relevant Government departments and how they are to be implemented (and whether and how these can be done before the next Budget); and to report annually on the specific steps taken and value recovered.

c) **Government should completely review and overhaul the current civil service pay and seniority structure to support retention of highly qualified professional staff in the practice of their professions.** The current (outdated) civil service structure means that the Permanent Secretary is always the highest paid individual in the Ministry. This means that highly qualified and experienced doctors, veterinarians, engineers, accountants and other highly-qualified professionals must aspire to an administration job to progress to higher pay. The result is that the work of skilled and experienced professionals is continuously lost to administration – and administration is rarely work that they are qualified or experienced to perform well. This challenge can be addressed by ensuring that there is a separate pay structure for professional staff, shadowing private sector progression, that enables them to remain well rewarded as practising professionals in the public service while a separate stream of administrators progresses up the administrative ladder. There is no reason why an experienced surgeon should not be earning as much as, or more than, the Permanent Secretary for Health.

d) **Government should promote a culture of encouraging complaints and feedback, actively promoting them to the public, measuring Government departments accordingly and requiring them to account and report on changes in those measures.** While there are reportedly some avenues for receiving complaints about Government services, these are not well known and, to the Committee's knowledge, complaint counts are not publicly reported or measured. There should be a dedicated team (perhaps driven from a private sector call centre) that receives, categorises and refers complaints onwards for action on a well-promoted complaints line; and which also monitors action taken and reports regularly to the public on the process. It should be a departmental KPI that complaints are reduced (although qualified appropriately for the fact that public expectations can sometimes be unrealistic having regard to the resources available to the government)

e) **The Office of the Auditor-General should receive additional funding for:**

i) **public communications and engagement** with the aim of improving media and public awareness of its role and obtaining additional ongoing publicity for its work and its findings

ii) **performance reviews on selected projects and activities.** It is important that any Government activity involving the spending of public money be open to scrutiny by the Office of the Auditor-General, which should be resourced to deploy qualified and experienced public sector auditors to carefully examine those activities and to deliver robust and independent views, to be made public, on the cost-effectiveness of those activities.

f) **Urgent priority needs to be given to getting Government entities' accounts on track.** There seems to be little point in the Auditor-General being left to audit annual accounts which in some cases are more than 10 years out of date and being unable to audit current year accounts as a result. At some point a "line must be drawn" and past period accounts referred to a separate OAG team to manage while current accounts are prepared (appropriately disclaimed for opening balances, etc to ensure that the relevant agencies are delivering useful and up to date accounting information.

g) **The National Planning Office needs to be re-established on an independent footing.** This is for two reasons:

i) **co-ordination.** While "co-ordination" between Government departments is much talked about as a concept, putting it into practice is more complex. It requires oversight and a body with authority to demand information and attention from busy officials in Government departments. A strong and well-resourced National Planning Office could serve this role, particularly if those departments understood that "making their case" with the National Planning Office might give them more resources. This would ensure that there was a dedicated team in Government with an overview of the resource demands of its different departments and possible cost savings and synergies.

ii) **independent and contestable views.** The earlier decision to merge the National Planning Office with the Budget section of the Ministry of Finance appears superficially attractive, but deprived the Ministry of alternative views based on data and information independently obtained from Government departments which could be brought to the budgeting process.

There might even be a case for the National Planning Office to sit in a separate Ministry of Government to ensure stronger independence (although that may ultimately be impractical).

h) **Looking for opportunities to share services, and to re-deploy poorly used people and resources, should be a central focus of Government operations.** Individual departments and their heads do not have incentives to look critically at their staff and assets and consider whether they could be better used elsewhere. This should change, with department heads incentivized to achieve productivity gains (more outputs at lower cost). Re-deployment could be part of the role of a reinvigorated National Planning Office or a separate agency. Specifically:

i) on the resources side a focused approach should drive the search for economies in reducing overhead costs including rented properties, transport (including motor vehicle pooling), energy costs, stationery and paperless strategies. Cost-driven private sector management could offer significant advice, if asked and mobilised

ii) on the personnel side the Public Service Commission could assume responsibility for redeployment (and to regain oversight, if not control, of all civil service personnel).

i) **Social support assistance needs to be critically reviewed for value for money.**

There are numerous programmes, spread across different Government functions, aimed at assisting the poor and most vulnerable. Targeted assistance to them makes sense at every level. However the Committee has heard repeatedly that a lack of good data means that many people who originally qualified for support (Social Welfare, "Lifeline" electricity tariff support and free water supply) may no longer qualify but remain supported. Because there is little or no useful data, or requirements that beneficiaries update personal information, it is difficult to "graduate" beneficiaries from social support when they no longer need it. We emphasise that this is not about cost-saving. It is about value for money. The same (limited) social expenditure needs to be targeted at those who need it now, not those who historically qualified for it but no longer need it.

Capital expenditure

a) **Government needs a strategic overview of all its assets** including its land and property holdings, plant and equipment, limited life assets (including perishable goods such as pharmaceutical supplies), equity interests, receivables and intangible assets. This is the first step in setting a strategy on how the Government's capital can be best managed including:

i) disposal if of no specific value to Government (or incurring unprofitable carrying costs)
ii) best use of specific assets, eg land and buildings
iii) a maintenance plan to ensure full value and optimal use over the useful life of all assets
iv) developing data on asset use to assist in better asset management planning.

b) **Government needs a strong, long-term perspective on infrastructure planning, possibly led by an independent agency.** Its functions would include:

i) setting up a credible, consistent, long-term infrastructure planning process that avoids ad *hoc* or unaffordable investments and considers thematic priorities such as climate change and resilience. The National Infrastructure Investment Plan **(NIIP)** appears to be a step in this direction. An independent agency, bound to Government policy but to publicly value for money opportunities in its execution, may give the plan "teeth" and insulate it (as far as possible) from unnecessary political interference

ii) developing a structured and objective approach to choosing infrastructure opportunities and assessing their strategic fit, economic, environmental and social values, including benefits to geographically or economically marginalized communities

iii) formulating a **priority infrastructure list** (objective and data-driven) including funding options (some of which may be suited to PPP options).

The executing body/agency would engage in these activities transparently and report regularly to Parliament and the public (through an accessible website, annual report and direct public communication process) on its activities, with the aim of giving confidence to the public that infrastructure decisions are merit-based and justified.

c) **Better co-ordination is needed between Government departments on asset and infrastructure use, cost allocation and cost-sharing (including motor vehicles).** This could be achieved by an independent agency (or a dedicated unit of the National Planning Office) assessing needs of individual departments and looking for opportunities to combine functions – eg health, education, agriculture, welfare, etc. This is equally important in urban and peri-urban areas where land is more scarce and costly.

d) **Resource and regulatory agencies (TLTB, Department of Lands, DTCP, Department of Environment) must join the Government infrastructure planning process early** to ensure that issues with potentially long timelines (land acquisition, environmental impact assessments, etc) are begun first.

e) **The Government should finalise and publish the proposed National Infrastructure Investment Plan** to help the public understand the demand for infrastructure, how priorities must be set and how infrastructure must be planned and financed.

f) **Government must develop a "Whole of Government" approach to operations and maintenance (O&M)** with a disciplined approach to asset maintenance contracts and respect for operations and maintenance disciplines. This means a multi-year budgeting to give certainty to O&M obligations and optimizing the useful life of assets. A central agency (or possibly more than one) should be responsible for quality control, contracting out to qualified contractors, handling payments and allocating costs across government agencies. Assets may become less useful over time (insufficient capacity for growing demand, technological redundancy) and need to be subject to the strategic overview process (refer above), including possible re-deployment to other locations.

g) **Government must critically review its poor recovery from peacekeeping operations and what steps must be taken to improve it.** As with other aspects of Government's operations, cost recovery cannot be seen as merely incidental; it must be at top of mind. The Government must carefully review its recovery options against its spending and how to most cost-effectively narrow the gap. This should be an important element of the ongoing Defence Review.

The private sector and PPPs

7.37 **The private sector must be involved in the work to improve Government's expenditure and asset management performance.** Private sector asset management disciplines can offer useful guidance. This means that private sector participants must play key roles (board, steering committee, working group members) alongside public officials in the governance of capital expenditure and asset management operations. Large private contractors and professional services providers can be expensive but they generally compete transparently (within their peer groups) on price. Government needs a deeper understanding of the costs borne by contractors and professional providers (eg continuing training, use of specialized software, costs of collaboration and teamwork, maintaining depth and breadth of skills through multiple personnel) which lead to higher pricing but add value for money, including by lowering risk.

7.38 **Dealings with the private sector providers must be professional – and they must be paid on time.** For many private sector operators, dealing with public sector agencies is regarded as a necessary evil with complex procurement processes and delayed responses, poor contract management and slow payment; professional relationships are poorly understood. This means that private sector providers avoid public sector clients as low-margin customers; the public sector is deprived of quality skills and service.

7.39 **Building confidence in potential PPP partners.** Government should carefully examine (perhaps through discussions with bid partners on past unsuccessful PPP attempts) the reasons for poor take up of PPP opportunities in the past. These factors may include political risk and unpredictability of Government decision-making, a poor regulatory environment, slow responses and unrealistic bargaining positions.

7.40 **Government should set up a working group to examine the potential for making better use of Government's extensive holdings of agricultural, commercial, industrial and residential land for the benefit of both Government revenue and better economic use.** The working group should have strong private sector involvement and advice and, where appropriate, involve indigenous landowners.

Annexure 1 – 2023 Fiscal Review Committee's Terms of Reference

2023 Fiscal Review Committee

Terms of Reference (ToR)

1.0 Introduction

1.1 The Deputy Prime Minister and Minister for Finance, Strategic Planning, National Development & Statistics (MoF) has announced the formation of a Fiscal Review Committee to examine the overall setting of Government fiscal policy and to advise on formulation of a credible and transparent revenue reform program, strategies to better control and realign Government spending and public finance reforms to deliver greater Government fiscal sustainability.

2.0 Background

2.1 The last decade has seen unsustainable growth in public expenditure, premature reductions in tax rates and an overall slowdown in economic growth. This has led to significant increases in Government indebtedness. The COVID-19 pandemic compounded these problems with two years of low Government revenues and the need to spend for additional social support. Government's debt-to-GDP ratio now exceeds 90%. This means it has limited capacity to borrow to address health, transport, housing and utilities infrastructure needs, climate change adaptation and disaster preparedness.

2.2 Government currently spends more than it raises in revenue, even on its operating account. It must now reduce its annual operating deficits to return to an operating surplus and bring the debt-to-GDP ratio to more manageable levels. It must also focus on growing the economy by encouraging private sector growth and foreign direct investment (FDI). Only then can it raise the necessary loans it needs for capital expenditure. The challenge is to balance appropriate levels of Government spending matched with appropriate revenue raising, always bearing in mind the needs of the most vulnerable in our society.

2.3 The intended strategy is clear. Government needs expert opinion on the right mix of policies to execute it.

3.0 Terms of Reference (ToR)

3.1 The Committee is tasked to undertake a comprehensive review of Fiji's taxation system, public expenditures and investment policies, including consultations with the public and key economic stakeholders and to report back with its views on policies that will help to inform the Government's National Budget process for 2023-2024 and beyond. Specifically the Committee will review:

(a) the existing tax and Customs system as a whole (including current tax concessions) and its ability to generate the revenue Government needs within acceptable parameters to avoid over-taxation;
(b) Government policies which have positive and negative impacts on economic growth;
(c) current non-tax revenue policies, including their effectiveness in cost-recovery terms;
(d) the level and composition of public sector expenditure, the fiscal deficit, and public debt; and
(e) Government's medium-term strategies as espoused in the Medium-Term Fiscal Framework (MTFF).

3.2 The Committee is tasked to report on:

(a) optimizing the tax and Customs revenue base and simplifying the tax regime to improve compliance and collection of tax arrears;
(b) removing regulatory impediments to economic growth, including distortions in the tax system and policies to promote investment and economic growth;
(c) ensuring non-tax revenues properly recover Government costs;
(d) reducing public sector wage costs and better managing and ensuring value for money on all operational expenditures;
(e) ensuring better investment appraisal and project selection for new capital projects, and ensuring value for money on all capital expenditures; and
(f) ensuring that recommended policies minimize economic and social impacts on Fiji's most economically vulnerable and disadvantaged citizens.

4.0 Committee

4.1 Committee members will consist of relevant experts from the public sector, private sector and civil society. Expertise may also be drawn from regional and international development organisations, where necessary.

5.0 Support

5.1 The Committee will be assisted by a secretariat comprising officials from the Ministry of Finance and Fiji Revenue and Customs Service (FRCS).

6.0 Timeframe

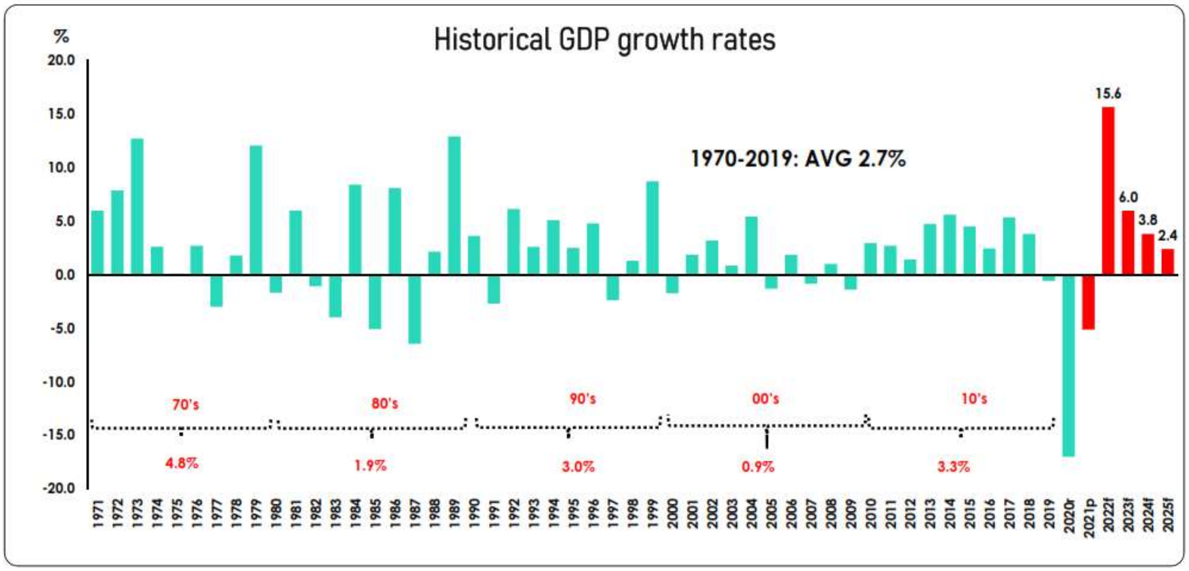
6.1 It is expected that the Committee will convene from 7 March 2023. The Committee will present its report by 15 May 2023 so that its recommendations can be considered in time for the 2023-2024 National Budget.

7.0 Venue

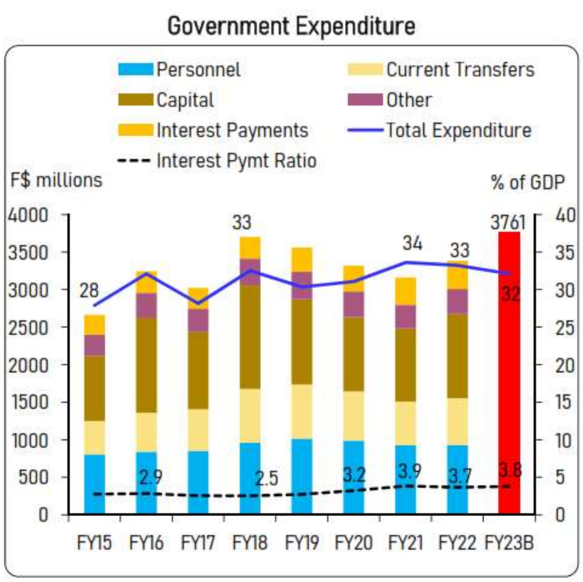
7.1 The Committee will be accommodated in the MoF Ministerial Conference Room at Level 10 (West Wing) Ro Lalabalavu House, Victoria Parade, Suva. A hybrid meeting format (both in-person and virtual) can also be accommodated when necessary.

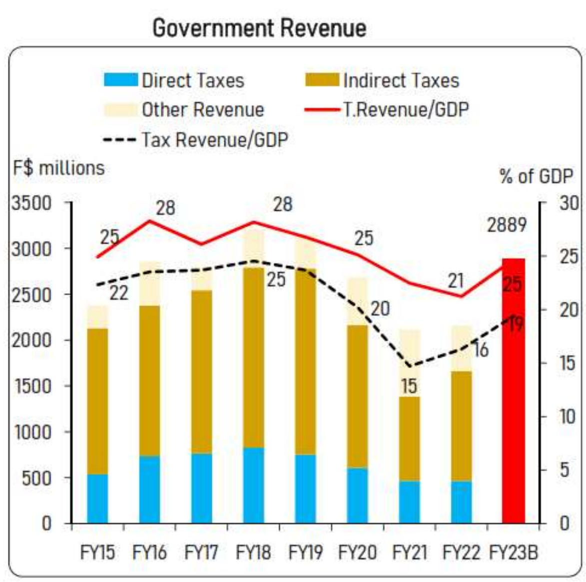
Annexure 2 - Graphs

Useful graphs are provided below, which depict important historical information and trends.

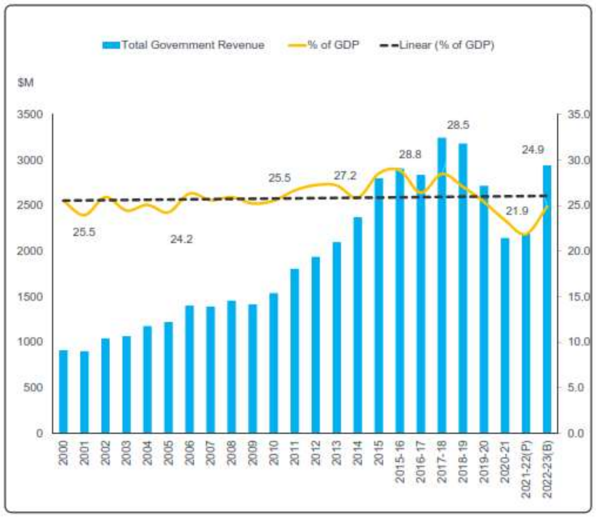


Source: FBOS

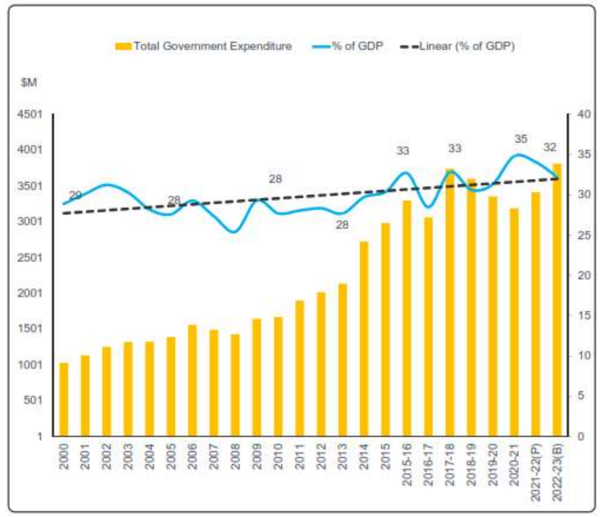




Government Revenue*



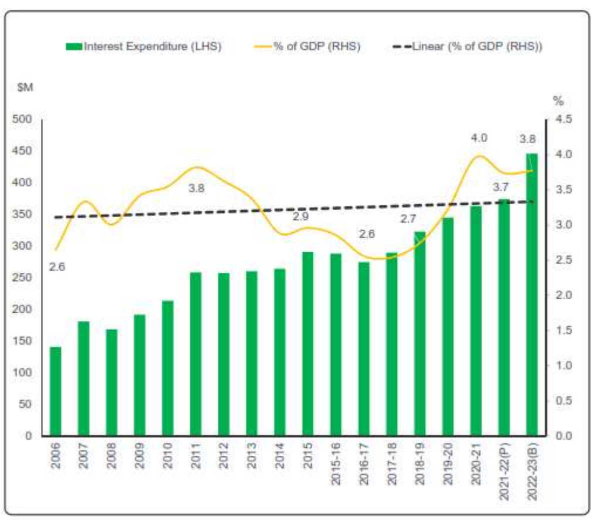
Government Expenditure*



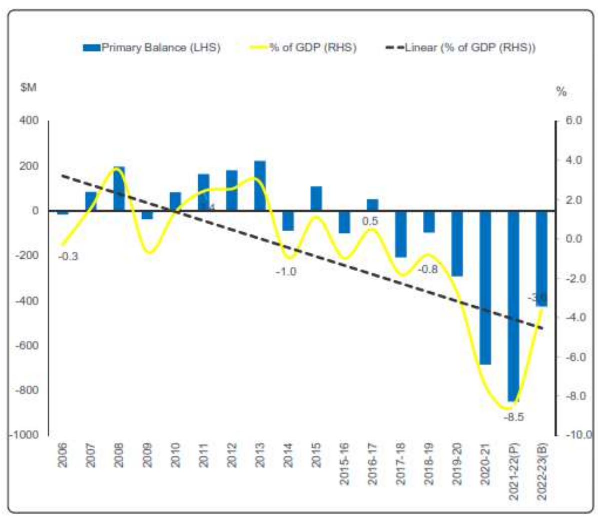
* Data including Government VAT

Source: Ministry of Finance, Strategic Planning, National Development & Statistics

Interest Expenditure



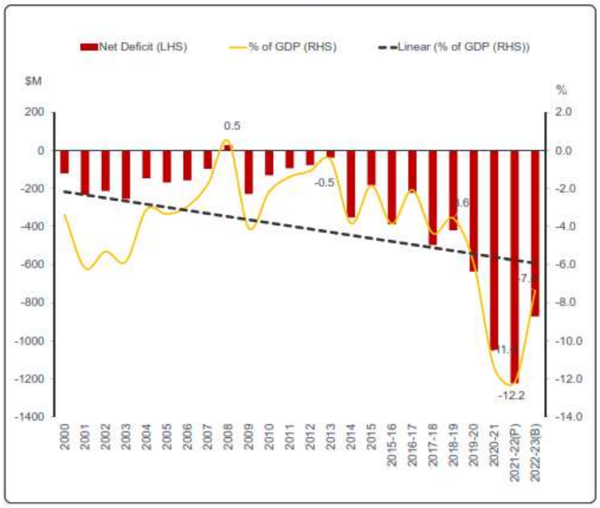
Primary Balance



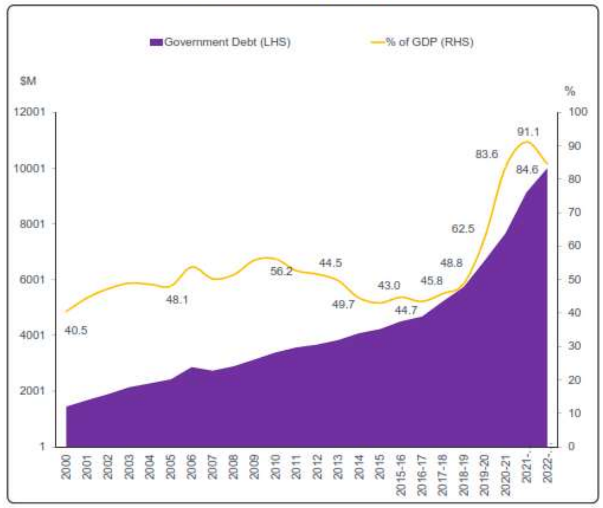
* Primary balance = Revenue – Non-interest expenditure

Source: Ministry of Finance, Strategic Planning, National Development & Statistics

Net Deficit



Government Debt



Source: Ministry of Finance, Strategic Planning, National Development & Statistics

Annexure 3 – Key references

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2. The World Bank - Pacific Economic Update, February 2023.

3. IMF Staff Report - 2023 Article IV Mission to Fiji, 2023.

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