



“Empowered Fijians and a Modern Economy”

2012 National Budget Address

Cabinet Ministers,
Your Excellencies,
Members of the Diplomatic Corps,
Distinguished Ladies and Gentlemen,
And my fellow Fijians:

Bula Vinaka and good morning to you.

It is my pleasure to present to you the 2012 National Budget.

The 2012 Budget affirms the mandate given to the Bainimarama Government. Before I outline the financial details, I must highlight to you the principles behind the 2012 budget.

My Government believes that stemming from the “People’s Charter for Peace, Change & Progress”, it has three objectives:

- Empower Fijians
- Modernize our Nation
- Strengthen our Economy

These objectives form the foundation of Fiji’s future—one that breaks with that which weighed down our past, yet builds upon the strengths of the Fijian people.

By Empowering Fijians, we are ensuring all citizens are placed on a level playing field while possessing the tools to compete with their peers in the global community—to improve their livelihoods and fulfill their dreams.

By Modernizing Fiji, we are making our country, institutions and legal system strong, independent and world-class.

By Strengthening our Economy, we are lessening the dependence we have on others. We are spreading our risk—by diversifying our economy and by building ties with new partners and businesses around the world.

Empower Fijians, Modernize our Nation, and Strengthen our Economy. These pillars support and guide our policies as we work for the betterment of Fiji.

Much has so far been accomplished.

In the last few years, we have worked hard to dismantle the failed systems of governance that previously dominated Fiji’s way of life, economy, and business relationships.

Where once racial inequality reigned, we now have one nation whose citizens are all Fijians.

Where once cronyism and special interests dominated, we now have a transparent, modern and just system that supports a growing, sustainable and healthy business climate.

Where once our country did not even have basic safeguards for our citizens, we now have a system that protects all Fijians—whether they are receiving family assistance allowances, applying for legal aid, or buying medicine for their children.

In doing all of this, we are establishing a sound economic foundation upon which Fiji will grow and prosper.

Affirming Commitment to 2014 Elections

Fiji is also on a path to a new system of governance—as outlined in the “Strategic Framework for Change.”

No later than September 2012, our nation will commence work on a new Constitution that establishes a fully representative government that is founded on an electoral system that guarantees equal suffrage.

For the first time in Fiji’s history, we will have a truly democratic system: one person, one vote, one value.

As a demonstration of our commitment toward elections, we have allocated \$5.9 million in the 2012 Budget for electronic voter registration.

In the meantime, my Government is focused on empowering Fijians, modernizing Fiji, and growing our economy.

As you will see, the budget I will outline here today will exemplify this pursuit.

Responsible Caretakers: Deficit Reduction

Our net deficit position for 2012 is set to be 1.9 percent. This net deficit position is also below the IMF’s recommended target of 2 percent.

All told, we will continue to maintain prudent financial management of our economy. We will act as we have been, ensure revenue is collected, and keep our spending in check.

But we can do better.

To do so, I present to you today a budget for 2012 that will put Fiji in a stronger position—one that grows our economy and ensures fiscal sustainability.

It is a plan that will reduce taxes for individuals and corporations. It will make Fiji investor and business-friendly, while caring for those who live on the margins of society.

Please take note: these are not incompatible pursuits.

Previous governments have taken an “either/or” position on this matter. Help the rich or help the poor. The fact is, we can be business-friendly while looking after the less fortunate. It is necessary and it will be accomplished—as you will see.

Doing so is especially important now. The spreading sovereign debt crisis in Europe, weak demand in advanced economies, and inflationary pressures in key emerging economies have made for an extremely unpredictable global economy.

Consequently, the growth forecast for the global economy has been revised down to 4 percent, compared to an earlier forecast of 4.3 percent.

The Fijian economy is projected to grow by 2.1 percent this year—to be driven by the primary and service-oriented sectors.

So for 2012, growth is projected at 2.3 percent and will be supported by the manufacturing, construction, tourism, and hotels and restaurant sectors.

This growth does not take into account the new investments in mining, which will commence next year, and the rebasing of our GDP to reflect and capture the current denominators in the economy—such as the growth in telecommunications, ICT, audiovisual, and mahogany.

Major construction works will support growth in the construction sector. These include:

- The Housing Authority’s Waila City and Nepani projects;
- The Public Rental Board projects at Kalabu, Raiwaqa and Raiwai;
- The Lagilagi Housing project;
- The Trend West development; and
- The refurbishment of the Grand Pacific Hotel.

Despite these developments, and more promising ones to come, we are ever mindful of our place in the global economy—even our place among regional economies. A slowdown in major trading partners can have negative implications domestically.

Now is the time to be prudent. Now is the time to emphasize our strengths and plan ahead. The 2012 budget does a great deal to achieve this. There are more financial resources and incentives being directed to support growth and investment on a sustained basis.

At the same time, we recognize the need to reduce our debt levels to ensure fiscal sustainability. To achieve this, we will gradually reduce our deficit levels over the medium term.

In addition, we have increased the balance in our offshore sinking fund account to US\$67 million. This forward planning will mean that Fiji is poised to meet its external debt repayment obligations ahead of schedule.

Indeed, in this respect we in 2011 pre-paid three of our expensive loans which were due in 2030, and which totaled \$8.7 million.

To summarize: The 2012 budget estimates total revenue of \$1.9 billion and a total expenditure of \$2.1 billion. The estimated net deficit for 2012 is \$135 million or 1.9 percent of GDP. This compares with a net deficit target of 3.5 percent for 2011.

Our revenue projection is based on expected recovery in the domestic economy and key revenue policy measures to be introduced through the 2012 Budget.

The provision for operating expenditure is \$1.5 billion, while \$554 million is budgeted for capital expenditure. This capital expenditure is an increase of 7 percent over this year's level.

Our nominal GDP has increased from \$6.8 billion to \$7.2 billion, about \$400 million. This growth, together with the additional revenue measures, which I will outline, and prudent management of our operational costs, has enabled us to decrease our deficit.

As we strive to safeguard Fiji from an unpredictable global economy through deficit reduction and leading toward a balanced budget, my Government seeks to realign its investments to bridge the income gap, reduce tax rates, create jobs, and stimulate growth.

I now present to you the particulars of the 2012 budget.

Part 1: Empower Fijians: Investing in Our People

My fellow Fijians: the greatest investment any government can make is in its own citizens. My Government recognizes that to fulfill the promise of our people, Fijians must be well educated and healthy. They must be given opportunities for success, as well as the tools to take advantage of them.

As such, we will continue to prioritize education to realize our vision of making Fiji a "Knowledge Based Society." Support to this sector will be all encompassing—from Early Childhood to Tertiary Education.

Education

In 2012, the Ministry of Education will receive an allocation of \$257 million, an increase of nine million dollars over 2011.

Our goals for education this year are to expand access to the less fortunate, decrease the drop-out rate, improve facilities for all—especially in the outer islands and rural areas—and increase access to technology.

Some of the new initiatives that will be funded include the construction of six infant schools in Cakaudrove, Lekutu, Wainunu, Vatubalavu and Yasawa.

An additional \$1 million is being set aside for Fee-Free Education for Classes 1 to 8. Through the "Differential Resourcing Formula" used by the Ministry, we will ensure that very remote and disadvantaged schools will benefit proportionally.

The increased grant will help them meet the cost of school operations and the provision of quality teaching and learning resources.

At the same time, our commitment to Early Childhood Education is moving forward through an increase in the salary grant for pre-school teachers.

This year, 17 schools were supported to commence Form 7 classes. Next year, 38 new schools will commence Form 7. These 38 schools will be primarily in the rural and maritime areas.

Three junior secondary schools will be upgraded to Form 6. These schools are Bemana, Nabala, Ratu Luke Junior Secondary Schooles.

Another two schools—Nuku and Beqa/Yanuca Secondary Schools—will be upgraded to Form 5. In addition, we will establish three new schools in the Cakaudrove.

This, ladies and gentlemen, is an enormous achievement.

To accommodate the above capacity, an additional 166 teaching posts have been created by the trading off of existing posts in the Ministry. Support towards Technical and Vocational Education will continue with \$400,000 set aside for the upgrading of TVET colleges around Fiji.

To address the issue of school drop outs and access to education, the government will continue its support towards existing initiatives such as the bus fare subsidy programme, free text books, upgrading of school infrastructure and equipping of schools.

These initiatives are already reaping dividends producing a marked improvement in daily school attendance.

At the same time, the Ministry of Education shall review of the existing criteria for assistance and how it is delivered to ensure that funds are effectively spent on those most deserving of this assistance.

To continue our commitment to tertiary education, \$28 million has been provided to Fiji National University to support its capital development and operations—an increase of \$3 million. The University of the South Pacific will receive \$36 million. University of Fiji will receive \$3 million.

In addition, we are taking education and training out to the maritime region and rural areas.

In 2012, \$2.3 million will be allocated to FNU to provide vocational and job training—for skill sets such as catering, eco-tourism, culinary pursuits, boat building, answering telephones, and computers—where people don't have access to practical training.

This is important. Every Fijian—whether you live in the islands or in remote rural areas—must have access to educational and vocational opportunities.

Only through education training will those in the rural and maritime areas, and those with less minimal access to finances, be able to compete effectively with their counterparts.

Health

As we strive to provide Fijians with sound minds, we also strive to ensure they maintain sound bodies. Employing preventative measures and adequate treatment is the foundation of a happy, productive life and healthy life.

Therefore, in 2012, the Ministry of Health will receive an increase of \$16 million to its budget. Our goal is to dramatically improve the delivery of health services, while encouraging prevention at all levels of society.

These increases will be channeled toward areas directly related to service delivery, such as the purchase of consumables, dental prosthetics, oxygen supplies, vaccines, as well as supportive operational expenses.

The increases also reflect the fact that grant support from our development partners has increased significantly to around \$6 million. This is now being correctly reflected under the Ministry's budget.

\$4.3 million is being provided for purchase of medical equipment. An additional \$2.8 million is allocated for upgrading of health institutions under the respective Divisional Commissioners.

Improvement of our medical infrastructure will continue with funds being provided for the construction and upgrading of health institutions in Bagasau, Tonia, Namuamua, Nayavu, Korovisilou and Cikobia—as it is imperative to reach all corners of our country.

What needs to be recognized is that the health of Fijians comes not only through investments in the healthcare system, but through the direct actions of Fijians.

One of the greatest threats to our society are non-communicable diseases, or NCDs. 80 percent of illness, disability and deaths are attributable to these diseases—diabetes, heart disease, high blood pressure.

The burden of NCDs threatens to overwhelm our already over-stretched health services as it absorbs substantial amounts of resources.

With our limited resources, we must work smarter in devising low-cost and high-impact interventions. Primary prevention is critical, and the responsibility of all.

In this regard, we have doubled the allocation for NCD awareness and prevention to \$800,000; comprising \$400,000 for the NCD best-buy initiative and \$400,000 for NCD prevention.

It can start right here. Please eat healthy and exercise regularly. Be cautious of the saturated fats and salt in your diet. Eat more fruit and vegetables.

In fact, to support this, we will also reduce the duty on fruits and vegetables that cannot be grown in Fiji. Every single one of us must work at this, including me. We want all Fijians to live long and healthy lives.

As a part of the overall strategy, we will increase the tariffs on the importation of palm oil and monosodium glutamate (MSG)—both of which negatively affect health. They will now have a duty rate of 32 percent.

The same will apply for cigarettes and alcohol, which will see an increased excise duty of 3 percent.

Sports and Youth Development

Complementing our emphasis on health are a series of investments and incentives in the area of sports.

The youth of Fiji learn a great deal about fitness, competition and social cohesion through athletic pursuits. We therefore are taking steps to ensure all Fijians have access to sport.

So from 2012, specialized sporting equipment will now attract zero-rated duty. The same will apply to specialized sports supplements.

One thing that is recognized within our nation and beyond our shores is that many Fijians are naturally gifted in athletics.

Many of our talented sportsmen and women have gone on to achieve great success in rugby and other sports.

In doing so, they have secured lucrative employment that have placed them in good stead for life. They contribute to the substantial remittances we receive from Fijians working overseas.

My Government will provide Fiji Sports Council with \$3 million for upgrade of existing sports infrastructure. And \$150,000 will be given to the Department of Youth and Sports for the upgrading of at least five rural sports facilities.

In addition to athletics, we also seek to encourage musical talents, in particular among youth. All musical instruments will now attract a zero-rated duty.

Women in Development

My Government is committed to the empowerment of women, the promotion of gender equality, and the eradication of gender discrimination.

As women make up almost half the population, it is appropriate that they be treated as equal partners in our development process.

In 2012, the Department of Women will receive an increased allocation of \$550,000 for the implementation of the Women's Plan of Action.

This will enable the Department to increase its activities in the five areas of intervention under the Plan and work towards honouring our international obligations.

In addition, \$96,000 has been set-aside for the setting up of four Women's Resource Centres in each of the four divisions.

This will bring to 12 the total number of centres where women can showcase their activities and talents and earn income in return.

Poverty Alleviation and Social Protection

As I will outline shortly, you will see many of the ways my Government is promoting business interests and growing our economy. But we intend to leave no one behind.

In recent years, we have seen some improvement in the statistics regarding the poor.

The 2008-2009 Household Income and Expenditure Survey revealed that the incidence of poverty has reduced from 35 percent to 31 percent.

While this is a positive development, my Government is focused to reduce this rate even further.

To achieve this, we will reach the most vulnerable and marginalized in society through targeted social assistance.

We are dedicated to this approach. But we are also mindful that a long-term dependence on such assistance can undermine self-reliance, personal motivation and productivity.

It has been proven through history that in instances where governments undertake primary responsibility for individuals or a family, the personal drive in people becomes weakened as they rely on handouts.

This mindset and philosophy is something all Fijians must be conscious of. We must all work together to eliminate it.

However, it has been well documented that social transfers contribute to tackling income poverty, improving family health and education outcomes, and providing effective support for broader development and economic objectives.

The challenge therefore is to strike the right balance between providing social assistance and avoiding the creation of a dependency syndrome. We seek to give a hand-up, not a hand-out.

A recent review of Fiji's social assistance program concluded that the Family Assistance Programme is very well targeted with about 70 percent of this funds going to the poor. This is considered to be one of the best targeting globally.

In 2012, all existing social assistance programmes will continue with an additional \$1.6 million to be provided to extend the Food Voucher Program to the balance of the recipients of the Family Assistance, Care and Protection Program.

The current Food Voucher Programme for disadvantaged school students, rural pregnant mothers, and the elderly will continue.

Aside from food, we recognize that housing is a basic human right—as all Fijians need a roof over their head and property upon which to live legally.

Between 2007-2011, we provided a total of \$11 million to improve the living conditions of squatters. These included areas in:

- Dilio Street;
- Lakena Hill;
- Vatoa;
- Lakena Hill No. 2;
- Badrau;
- Omkar; and,
- Caubati Central.

Next year, we are doing more. For 2012, \$1 million will go toward improving squatter conditions in Caubati, Omkar, Jittu, Cuvu, Ledrusasa and Sasawira.

Again, though, our job is to empower Fijians. We have to make certain that assistance by Government is lasting.

Therefore, a half-million dollars is allocated for the Sustainable Rural Housing/Income Generating Project to assist resettled squatters through sustainable farming.

We have already begun this project with 15 squatter settlers selected from various settlements and trained and relocated to Lomaivuna for the farming project.

For 2012, the targeted areas will be Nalotawa and Dobuilevu, Maumi and Toga, as well as Valelawa.

The Department of Social Welfare will continue to monitor all social assistance programmes to eliminate wastage, minimise fraud and abuse, so that such assistance only supports deserving clients.

Those found to be committing fraud will be prosecuted.

Encouraging Fijian Home Ownership and Construction

In addition to assisting welfare recipients, Government believes that other Fijians should be encouraged and provided incentives to build and own homes.

Accordingly any person building a house for the purposes of living in it will be allowed to claim VAT refund up to the value of \$120,000 for the construction of the home.

Part 2: Modernize our Nation: Reform and Development

As we invest in Fiji today, we must do so with an eye toward tomorrow.

Through education, healthcare and home ownership, the fate of all Fijians will be lifted to a higher level. Through poverty assistance and the empowerment of those less fortunate or marginalized, we are helping others to help themselves.

However, as we invest in the people of Fiji, we must also invest in and improve the institutions and infrastructure of our country.

This means new roads and bridges, expanded Internet access, modernizing the conduct of business and how Government functions.

It also means reforming and improving certain sectors so they remain viable for generations to come—from land use to our pension system.

Infrastructure Development

In line with our overall 2012 budget strategy, funding for infrastructure development will increase substantially by \$63 million, covering external- and government-funded projects.

Major road projects that will continue in 2012 include the Buca Bay, Moto, Serea and Sigatoka Valley—with \$46 million provided by the Ex-Im Bank of China. \$45 million in funds provided by the Ex-Im Bank of Malaysia is also allocated for the Queens Highway upgrade.

Ongoing projects such as periodic maintenance and capacity-building for the Suva-Nausori corridor will continue in 2012. \$8 million is specifically budgeted for the upgrading of rural roads.

To further boost economic activities in the Northern Division, a sum of \$5 million is allocated for the commencement of an international seaport at Middle Point, Labasa. The upgrading of outer island jetties will continue next year to complete the Rabi and Qarani Jetties.

Improvements to airport facilities and runways are critical for improving commerce and transportation. In this regard, a sum of \$1.8 million is provided for the upgrading of Labasa Airport. One million dollars is also allocated for the upgrading of rural airstrips.

Nausori Airport will be upgraded to facilitate increased direct international flights. But it will be funded through AFL through a domestic levy fee of five dollars.

There are also more basic amenities that require continued attention.

Many of our citizens have experienced first-hand the improvements made in water services.

Given that water is a basic necessity, Government will continue to resource the Water Authority of Fiji to improve the supply of consistent and safe piped water supplies to all areas. A sum of \$86 million is allocated for WAF in 2012.

Low-income and rural households which cannot afford the upfront fee for the connection of water meter, will now be able to access the \$300,000 allocated to WAF to get connected. The cost of the water meters will be recouped over a period of two years at no interest.

The modernization policy will reach many areas. The rural electrification programme will receive a boost of \$10 million next year, an increase of \$7 million compared with this year.

This will help to clear the backlog of projects for communities that have paid their contributions.

Furthermore, the provision of electricity to the rural areas is important for opening up opportunities for investment and income generation for rural Fijians.

The extension of the grid from Seaqqa to Dreketi will continue next year with an allocation of \$3.7 million. Grid extension work is also planned for Naikasakasa, Waidewara and Wainadoi in the Central Division.

As part of the general incentive to spur infrastructure development, development in general, and the participation in the private sector in such projects, the fiscal duty on new vehicles of gross weight exceeding three tons will be reduced from 32 to 5 percent.

Import excise duty will also be reduced to 5 percent. Other specialized vehicles will in 2012 attract a duty of only 5 percent also.

Government will work together with the Reserve Bank of Fiji and the financial institutions and other private investors to issue bonds to create specific funding on a sustained basis for infrastructure development.

Information & Communications Technology

Everything I have mentioned so far are traditionally considered basic services—roads, water, electricity. In the 21st century, however, there is now a new basic resource: the Internet.

Beginning in 2008, my Government moved aggressively to liberalize the telecommunications industry to give Fijians expanded access to the Internet.

We removed exclusivities and monopolies; we put in place a transparent regulatory system; and we significantly reduced tariffs on telecommunications accessories and equipment.

Recently, we launched Fiji's national broadband policy—the first ever for a South Pacific island country.

This is a definitive plan for the implementation and prioritization of broadband accessibility. In addition, we recently launched the first three tele-centres around Fiji, which will ensure improved access to information, education and will contribute to creating sustained livelihoods.

Fiji is positioned to be fully digitized within the next two-to-three years. Earlier this year, we also launched Fiji's Spectrum Plan, which has meant the adjustment and reallocation of radio-frequencies.

It has meant, for example, that more frequencies can now be available for the introduction of 4G—or higher wireless speeds.

Funding for the continuation of these initiatives has been provided in the budget.

Without a doubt, Fiji is the hub of the South Pacific in respect of information and communications technology. A number of countries in the Pacific are seeking to link up with the Southern Cross submarine cable that lands in Fiji.

We will offer assistance to other Pacific Island countries that may want to access the improvements that we have achieved, such as the broadband policy I spoke of a moment earlier.

In 2012, and for the following two year, we will also host a Regional ICT meeting for which funding has been provided in the budget.

This is the type of leadership role Fijians can take across the region. Through education and opportunity, our ability to lead will grow.

To fund many of the growth and capacity building in the ICT sector, a 1 percent levy on all voice bills, including pre-pay cards, will be imposed.

The full revenue from the levy will be used to build capacity to increase Internet penetration and access at affordable prices.

Government will also continue to provide a 60 percent investment allowance to Telecomm Fiji to facilitate new line installation.

Public Sector

Our reform and modernisation does not end with physical infrastructure. In 2012 my Government will continue to reform and modernize the delivery of government services to Fijians.

For more efficient financial accountability and reporting, all Government departments are now linked to the Financial Management Information System.

This includes the Department of National Roads and the Ministry of Health which were previously excluded.

The Ministry of Finance has also commenced with Electronic Funds Transfer payments, which will enable Government to electronically settle its debts with creditors. This is more efficient and saves money in the processing of payment across Government.

Private sector participation is being considered for a number of state-owned enterprises.

A sum of \$1 million is in the budget to facilitate public enterprise reforms. Such reform has already seen returns. The re-organisation of Government quarters, for example, has seen an exponential increase in revenue generated through rental.

Reform of various other Ministries and departments will take place in the next two years, commencing with the Department of National Roads in 2012. The outsourcing of government activities will also continue next year.

We are also making investments in institutions to bring them up to speed as modern government institutions.

We have, for example, brought in an American consultant, Qorvis Communications, to assist with training and support for our Ministry of Information—to ensure its operations take into account advances in social media, the Internet and best practices regarding the media.

They will also help coordinate external communications, including promotion and packaging of various investment incentives.

Public Sector Pay Raises

As a part of the reforms in 2012, we will address the public sector salary issue. Government employees should not take a back seat to workers in the private sector.

And pay is an important incentive for keeping highly skilled and talented Fijians from leaving the government for jobs in the private sector.

We need to make government work more competitive. Beginning January 1, all civil servants—including the disciplined forces—will receive a 3 percent pay raise.

This is not a cost-of-living adjustment. This is an adjustment to make the public sector comparable with the private sector.

Bringing the Fiji Police Force in line with the other two disciplined forces—the RFMF and Fiji Correction Services—the last phase of the job evaluation exercise for members of the Fiji Police Force will be implemented.

This means a 6 percent pay raise. Therefore, members of the Fiji Police Force will receive in total a pay raise of 9 percent.

Recognizing the need to build a strong and specialized cadre of doctors and nurses, they will receive on top of the 3 percent pay raise for civil servants an additional 3 percent raise.

Given this positive comprehensive adjustment, a performance-based management system will be introduced for the civil service.

Individual civil servants will be assessed and beginning in 2013, they will be paid based on individual performance.

At present, this is confined only to Permanent Secretaries but will now be extended to other categories of employees.

This is just another way we are ensuring Government recruits and retains talented people, while ensuring responsibility and service delivery.

Sugar Industry Reforms

Ladies and gentlemen, Government took over full control of Fijian Sugar Company last year with the ultimate objective of returning it to commercial viability and long-term sustainability. This step became necessary as more than 20 percent of our population depends on the sugar industry for their livelihoods.

A reform programme was initiated last year which has begun to bear fruit. Sugar production is expected to reach 200,000 tons this year with a lower Total Cane to Sugar Ratio. This is a significant improvement over last year's levels.

Financial injection from Government has enabled much needed capital investment and maintenance at the four sugar mills to provide improved performance.

High yielding new variety of cane is also being planted by farmers. Work is also being carried out with the assistance of American Sugar to finalise a cane quality payment structure that will be implemented from the 2012 crushing season.

Through prudent financial management, FSC is expected to make a positive turnaround in its financial performance by the end of financial year 2012.

This compares to earlier predictions that this will only happen from 2014 onward. As a result, financial assistance to FSC for 2012 will be adjusted to \$40 million.

In addition, to continue its support to the sugar industry the Government will in 2012 provide \$700,000 for the purchase of farming equipment and machinery, which will be provided to farmers to assist in cultivation and production.

Renewable Energy

The existing incentives provided for the setting up of renewable energy companies will continue. The tariff incentives provided for the importation of energy equipment will continue.

The concession on duty on diesel for the production of biodiesel will be extended for the next five years, as opposed to on an annual basis.

\$2.7 million is allocated for the Biodiesel Implementation Project.

Through Japanese aid, \$4 million will be provided for the installation of solar home systems in rural homes and schools.

\$300,000 will be allocated for the Renewable Energy Development Project.

Agriculture, Fisheries and Forests

As a resource-based economy, our greatest comparative advantage lies in the development of our resource-based sectors.

As such, the agriculture, fisheries and forestry sectors will continue to play an integral role in Fiji's overall development.

For 2012, the allocation for the Ministry of Primary Industries will increase by approximately \$15 million.

This is in line with our overall strategy of channeling more funds to sectors that will drive growth and investment.

Funding will be directed toward accelerating agricultural diversification; promoting food security; enhancing linkages with other industries; and facilitating private sector participation.

In addition to existing programmes, new programmes to be funded in 2012 will target the development of ginger, apiculture and cocoa.

The rice development programme will receive an increased allocation of \$600,000 with the aim of increasing rice cultivation.

The Bio Security Authority of Fiji will also receive increased funding to support its role in negotiating market access for our export products.

Fiji has successfully re-enlisted as a fish exporting country to the European Union market.

Through funding provided under the National Export Strategy programme, Government was able to assist two local companies to comply with EU standards. The National Export Strategy, under a transparent criteria system, will receive \$1 million in 2012.

Fiji will host the 3rd ACP Ministerial Meeting on Fisheries in April for which a funding provision of \$200,000 has been allocated. This will provide an opportunity to showcase Fiji's fisheries industry including potential investment prospects in the aquaculture sector.

For forestry, the outlook is positive given the issuance of mahogany licenses and the branding of "Fijian Mahogany", which will lead to the establishment of value-adding plants in Fiji.

With the entrance of Future Forest Fiji Limited into commercial teak planting and the recommencement and commencement of wood chips exports from Lautoka and Bua, respectively, the sector is poised to significantly increase its contribution to GDP.

Furthermore, the Department will commence implementation of the "Reducing Emissions From Deforestation and Forest Degradation Plus Policy"—or REDD—to ensure that Fiji starts participating in the appropriate Carbon Financing mechanism under REDD+ before December 2015.

\$300,000 is provided for this purpose.

The 2012 Budget also provides specific incentives to encourage and promote private sector investment in these three sectors.

All agricultural machineries, equipment and inputs—such as but not limited to fertilizers, seeds and breeding animals—will attract zero-rated fiscal duty.

The ten-years tax holiday currently available for commercial agriculture will be maintained.

All specialized equipment and machinery for forestry and fisheries will attract zero-rated fiscal duty.

Law, Justice and Transparency

Agencies dealing with law and order will receive increases in their allocations in 2012. The Fiji Police Force's forensic pathology and equipment capacities will be enhanced through an allocation of \$1.6 million.

\$1 million is allocated for upgrading of Police stations and housing. An additional \$900,000 is allocated for the operational costs of the Fiji Police Force.

A sum of \$4 million has also been allocated to Fiji Prison and Corrections Services for the completion of the new Suva Remand Centre—which will feature separate provisions for the detention of illegal immigrants.

\$294,000 has also been allocated to provide for a cadet program with the Prisons and Corrections Services.

To enhance the operations of the Judiciary, \$2 million has been set aside for the extension of the Lautoka High Court.

An additional \$150,000 has been allocated for the establishment of a separate division within the High Court to handle commercial and taxation matters. \$50,000 has also been allocated to expedite the resolution of outstanding matters before the tax tribunal.

FICAC will be allocated \$8 million in 2012 to continue to assist Government in its policy to eradicate systemic corruption.

The Office of the Director of Public Prosecutions is allocated \$650,000 to engage the services of specialist prosecutors to assist with complex cases.

The Office of Accountability & Transparency will be allocated an additional \$390,000 to implement the media development industry decree, the freedom of information decree, and the code of conduct for public office holders.

All relevant laws in this respect are scheduled to be implemented by the end of the first quarter 2012.

Tourism

Our tourism industry remains the country's largest foreign exchange earner. Recent visitor numbers indicate that we will surpass last year's arrivals thereby positioning the industry to hit the billion-dollar mark in foreign exchange earnings.

In recognition of its strategic importance, Tourism Fiji will again receive an annual marketing grant of \$23.5 million in 2012.

Part 3: Strengthen our Economy: Lower Taxes, Create Jobs

My fellow Fijians, in times of economic uncertainty, it is prudent for governments to take certain steps to protect the livelihoods of their citizens.

As I have stated, our job is to right this ship. For decades, Fiji was steered off course by greed, poor management, and selfishness.

I hope you can see by the actions of my Government in recent years that we have been working to set things right for all Fijians. This budget is a culmination and manifestation of that objective.

When it comes to the Fijian economy, we are at a critical point—particularly in the context of the global economic situation.

In some areas, we will need to make smart choices today, so as to ensure our children and grandchildren can benefit like we have. This is also the case with the Fiji National Provident Fund.

In other areas, it will be necessary to transform our system in a highly progressive manner to stimulate growth, encourage investment, sustain and create jobs, and promote greater and more diversified participation in our economy. This, as I will explain, will result in large tax cuts for Fijians.

It is our job to look at the long-term—not today, not just tomorrow, but at the years and decades ahead of us. Sustainability is our watchword.

For businesses to grow, for investors to invest, for jobs to be sustained, for jobs to be created, for Fiji to thrive, we need stability, we need vision, we need transparency, and we need accountability.

To strengthen our economy, this is what I present to you today.

Fiji National Provident Fund

The need to review the current FNPF pension scheme has been identified for some time. The challenge of looking after old-age is a worldwide issue—not confined to Fiji.

Even developed countries like France have recently increased their retirement age to ensure that their pension scheme is sustainable.

When it comes to Fiji, FNPF has been providing pension on an unsustainable basis, which has now become unaffordable.

The only way forward to place the Fund's business in a sound actuarial footing is to introduce new pension rates.

If we do nothing now, the funds available to pay FNPF pensioners would only last until 2050, and threaten the stability of the national economy.

A number of superannuation or provident fund schemes have collapsed in many countries because of their inability to adapt to changing demographics and adopt international best practice.

In my budget address in 2009, I announced the need for urgent reforms of the Fiji National Provident Fund.

Since then, the FNPF Board has consulted actuarial and legal experts and the public to design a pension scheme that will empower our pensioners and create a better life for Fijians when they retire.

The Board has proposed and the Government accepted a solution to address this issue that is bold but equitable. It balances all interests based on the principles of good corporate governance, transparency and financial best practices.

As a result, I would like to announce the following key changes:

- A new FNPF Decree will become effective from today, with a transitional decree to facilitate the transition from the current Act to the new decree.
- A new age-based, actuarially-sound pension rate will be implemented on March 1st 2012.
- Current pensioners will be given the option to be refunded the initial amount they had set aside for pension, irrespective of their hitherto withdrawals.
- Pensioners will then be able to choose from a number of new annuity options.

The above changes will enable FNPF to meet solvency requirement for its current members and set aside an allocation, or top-up, to cushion the impact for current pensioners who may choose to come back into the new pension scheme.

The top-up is designed to offer relief to the current 11,465 pensioners, protecting the most vulnerable and maintaining sound financial status for the Fund.

The top ups will be applied as follows:

- Pensioners who currently receive a monthly pension of below \$100 will be brought up to receive \$100 a month under the new rates. Some of these pensioners currently receive as low as \$5 a month.
- Those pensioners with income between \$100 and \$300 per month will have their pension income protected and will continue to receive the same amount as they do currently.
- The remaining pensioners, who receive over \$300 per month, will be offered the best of two options—which is to bring their new pension level to \$300 per month or a

top-up of 25 percent of their refund capped at \$10,000, to be applied on the purchase new life pension.

These changes take into account the interest of all—existing pensioners, current and future members, FNPF and the nation.

The fact that FNPF can offer these options, these top-ups, and these pension withdrawals demonstrates that FNPF is in a strong financial position. The reforms will make it even stronger.

The new law for FNPF will also make it incumbent upon the FNPF Board to hold consultations with all its members on an annual basis—an annual general meeting, if you like. A new code of conduct for the FNPF has also been established.

Pensioners

Regarding civil pensioners or those who fall outside the FNPF scheme, they will receive an increase on their existing entitlements. The last time these civil pensioners received an adjustment it was for 1 percent, back in 2005.

This time, former civil servants, their spouses, former members of the disciplined forces, war veterans, retired judges, former prime ministers, ministers and former members of parliament will all receive a 20 percent increase on their existing entitlements.

Personal Income Tax Changes

I will now move on to address changes to the personal income tax system.

There is no greater single perceived burden to citizens than the taxes they pay. Despite being an inevitable part of life, taxes ensure we can provide everyone with education, healthcare, infrastructure and more. They allow us to look after the poor and marginalized, and plan ahead for the future.

Nevertheless, it is also smart to put money in the hands of the people, to empower them, and to give them more choices. And that is exactly what we intend to do.

Effective January 1, 2012, my Government will reduce or eliminate taxes for 99 percent of current taxpayers. To be exact, we will reduce or eliminate taxes for 99.4 percent of taxpayers. We will be doing so in a big way.

What we have been calling a progressive tax structure up unto now is not in fact truly progressive. In 2012, our PAYE tax structure will become truly progressive. In order to do so, 11 brackets will be created.

The tax threshold will increase from \$15,000 to \$15,600. Only three years ago we had moved the tax threshold from \$9,000 to \$15,000. Now it is going up again so low-income earners won't be taxed at all.

To summarize the new system:

Anyone earning zero to \$15,600, will pay nothing in taxes.

If you earn between \$15,601 and \$22,000, your tax rate will be 7 percent. Currently, it is 25 percent. We will also eliminate the fixed component in this bracket.

If you earn \$20,000 a year, right now, you are paying about one thousand five hundred dollars in taxes. In the new system, you will pay about three hundred dollars. That means we're putting twelve hundred dollars back into your pocket. Twelve hundred dollars—you will now keep.

The next bracket will be between \$22,001 and \$50,000. In this bracket, your tax rate will be 18 percent. Currently, it is 31 percent. The fixed component will also be decreased.

What does this mean for you? Let's say you are earning \$30,000 a year. Right now, you're paying about four thousand six hundred dollars in taxes. In the new system, you will pay about nineteen hundred dollars. That means we are putting roughly two thousand, seven hundred dollars back in your pocket. Two thousand seven hundred dollars—you keep.

If you earn between \$50,001 and \$100,000, your tax rate will be 20 percent. Currently, you pay 31 percent. The fixed component will also decrease.

This means if you are earning \$70,000 a year, currently you're paying about seventeen thousand dollars in taxes. In the new system, you will pay about nine thousand five hundred dollars. The new system puts more than seven thousand, five hundred dollars back into your pocket.

The bottom line is that for the vast majority taxes will decrease or be eliminated altogether.

But here's where we go farther—for the good of the less fortunate.

As I mentioned, for too long the "99 percent" have been shouldering most of the tax burden. They have the lowest incomes, but contribute the most towards our PAYE collection. This just isn't fair. The new system, as a result, is vastly more equitable to everyone.

We recognize, however, that there are members of our society who still need a hand up. This is why we have the Food Voucher Program and Family Assistance Programs—among other initiatives. As I have outlined, we will expand and maintain these programs.

What will change now is how we pay for them.

As of January 1, 2012, we are instituting the "Social Responsibility Levy." This will be applied to anyone earning over \$270,000 a year.

It will be applied progressively, as income increases over two hundred seventy thousand dollars. Our reasoning is simple. We believe that people at the top end should help those at the bottom.

So those who earn over \$270,000 in 2012 will pay more tax than what they will pay in 2011.

However, the “Social Responsibility Levy” is not permanent. It will be reduced and eventually eliminated as people progress off of welfare program and/or as Fiji’s GDP grows.

We have to accept the fact that there are certain members of our society who need help. In this way the top 1 percent of taxpayers will now be contributing more fully to the social good.

What does all of this mean?

It means we have eliminated or reduced taxes for 99 percent of the tax-paying population. As a result, we have put \$53.1 million back in the pockets of Fijians.

And now, the top 1 percent will contribute—through the Social Responsibility Levy—\$9.8 million to social welfare programs.

I am proud of this announcement.

Cutting Corporate Taxes

With this new tax code, we have helped individual citizens. But what are we doing for businesses—which drive our economy, create and sustain jobs, and form the foundation of future growth of our country’s GDP?

We’re cutting taxes for businesses as well.

Beginning January 1, we are lowering the corporate tax rate from 28 percent to 20 percent.

Corresponding to this significant reduction in corporate tax, companies by law will pay 90 percent of their advance payment within the fiscal year. This will be effective from 2012.

This means 30 percent of taxes will be paid in June. 30 percent in September. 30 percent in December. And the remaining 10 percent will be paid in the following February.

Overall, the new corporate tax rate should free up money for businesses to invest in new opportunities, new infrastructure, and to reward increased productivity.

To give added support to companies, all VAT refunds will now be paid within three months of being filed. To achieve this objective, FRCA will be given a revolving fund of \$20 million commencing in January to meet all of its VAT refund claims that are due.

Lower Taxes Require Greater Compliance

There is one key element to our plan that needs to be taken into account. We will lower your tax rates, but no longer will Government look the other way with regard to people and businesses not complying with tax and customs laws.

Tax evasion and customs fraud are crimes—not just against the Government but against your fellow citizens. We are not a wealthy nation. The majority of us do not drive fancy cars or live in extravagant homes. We are modest people living on modest means.

This is not to say we do not strive for more, nor for that matter want these things. If you take anything away from today's budget address it is that my Government wants to see all Fijians live up to their potential and have happy, productive, successful lives.

But for all of us to benefit from what Government can offer—assistance for the poor, education for our children, new roads, electricity and clean drinking water—every taxpayer must comply.

My Government is doing its part to lower your taxes and reduce the burden on you. But you must do your part too—whether you're an individual, a business, or a financial institution.

The simple fact is: no country can endure a culture of tax evasion. In recent months, we have seen what has happened to countries like Greece and Italy. They have fallen apart. Others are on the brink. Our economy is not nearly as large as theirs, but we are not immune from such self-inflicted wounds.

In reality, if everyone in Fiji paid their taxes and complied with customs laws, we could easily have a surplus budget with prudent financial management. We would provide more services. We as a nation could do more.

If you're not complying with the rules, you know who you are. And soon, through FRCA, we will know who you are.

To enhance compliance, my Government will put in place a number of new measures:

- First, we will decentralize FRCA's office, with new offices in Rakiraki and Sigatoka that will open within the first quarter.
- Second, we will upgrade the tax portal to make payment easier for people.
- Third, penalties will be increased significantly and their scope will be extended. Garnishees will also be allowed on joint bank accounts, whether accounts are held with a spouse or with children.
- Fourth, a foreign company which owns land or assets in Fiji cannot transfer ownership of the lands or assets unless approved by FRCA.

Aside from these reforms, we will establish benefits for those companies that have a good track record for tax compliance. These benefits will include individualized services, through a "Gold Card" system.

So from here out, those who comply will benefit. Those who don't will suffer the consequences without favour.

New Taxes

While I would be happy to keep cutting taxes, there are a few areas in which new taxes do need to be applied.

These will be small, but aimed at displacing certain income losses, at promoting positive investments, and creating a level playing field.

We will introduce a 2 percent levy on outstanding balances on credit cards on a monthly basis. Similar to the voice call tax, this will be collected by financial institutions and remitted to FRCA on a monthly basis.

The Reserve Bank of Fiji will draw up guidelines for financial institutions for smooth administration of the tax.

We will introduce a new fringe benefit tax regime from 2012. Employers will be responsible for paying and remitting to FRCA the relevant amount at a rate of 20 percent.

The current employer contribution to FNPF, which is allowed as a deductible expenditure, will continue but at 50 percent.

We will impose a levy of \$7,500 upon point of sale on luxury cars of a cylinder capacity exceeding 2500cc, but not exceeding 3000cc. This levy will not be imposed on single and twin cabs utility vehicles.

For luxury cars of a cylinder capacity exceeding 3000cc, upon point of sale we will impose a levy of \$20,000.

Given the low claim payout, all insurance companies that charge premiums for the Government-mandated, third-party insurance will contribute 20 percent of all the premiums collected.

This new levy must not result in increased premium payments for the insured. This levy is to be remitted to FRCA on a monthly basis.

And the Hotel Turnover Tax, commonly known as HTT, will be renamed the Service Turnover Tax, or STT. The tax rate will remain the same, but will now be extended to:

- Rental car operators
- In-bound tour operators
- Events management operators
- Recreation, entertainment and cinema operators
- Bars and night clubs
- Bistros or coffee shops with an annual gross turnover of \$1.5 million and above
- Restaurants with annual gross turnover of \$1.5 million and above
- All water sports, underwater activities, skydiving, hot-air balloon rides, river safaris, aircraft charter or hire including helicopters, with an annual gross turnover in excess of \$300,000
- And home stay operators

We will also increase the Departure Tax from \$100 to \$150.

In each case, we have taken account of the implications these measures will have on businesses and individuals.

In conjunction with the large tax cuts we've laid out, these new measures will only serve to incentivize certain behavior, such as saving money, living within your means and the user-pay system.

Supporting Fiji's Small Businesses

In addition to the restructuring of the tax code for businesses and corporations, my Government has found other opportunities to promote growth in our country.

Small- and medium-sized companies play a vital role in any economy—particularly in terms of generating employment, income and raising growth rates.

In many countries throughout Asia, these sized businesses contribute roughly 60 percent to GDP.

In our case, small businesses make up less than 10 percent of our economy. Therefore, a concerted effort is needed to raise participation in this area to take advantage of this opportunity for growth.

One of the biggest factors inhibiting the expansion of small businesses is the lack of access to affordable financing, and the lack of willingness of mainstream commercial banks to venture into their area.

Given the new incentives that we have provided, I would assume that commercial banks will now participate and engage more meaningfully in the targeted areas for growth in the Fijian economy.

To address the constraints small- and medium-sized enterprises face, my Government, through the Reserve Bank of Fiji, will put in place a new financing mechanism.

With an allocation of \$3 million, financial institutions, following proper assessments of loan applications, can deem these funds as partial contribution by the small business operator.

Needless to say, should the borrower be unable to repay the loan then that guarantee by government can be called upon.

So, if a hairdresser in Namaka wishes to expand her business by adding two chairs to her salon, she would in all likelihood need to take out a loan to do so. If this young entrepreneur cannot get a loan, she cannot grow. Now she can.

This is a win for Fiji's small businesses.

Financial support for small businesses provided through the interest subsidy scheme with the Fiji Development Bank will continue. All in all, FDB will be granted \$5 million to extend its service to businesses.

Similarly, the income tax exemption for small businesses with a maximum turnover of \$300,000 in the Agriculture, Fishing, Tourism, Community & Social Services and supportive projects to the Tourism Industry will also continue.

Recently Government also agreed to brand the Micro, Small, Medium Enterprise products without charging a fee for the first two years through its “Industry Emblem Decree 2011”, in which eligible companies will be able to promote their products as “Fijian Made”.

New, next year will be that the VAT threshold for registration purposes will be increased from \$50,000 to \$100,000. This means that businesses earning less than \$100,000 will no longer file VAT returns.

To ease the cost of doing business and to improve efficiencies for small businesses, those businesses that have a gross turnover of \$300,000 and less will now only have to lodge an annual VAT return together with their income tax return.

This is expected to reduce compliance costs for these operators and will also free up FRCA’s resources to focus on the bigger taxpayers.

When combined with the continuation and expansion of other programmes, we are significantly increasing our support for small businesses.

Manufacturing

From 2012, any equipment and machinery purchased for the purposes of manufacturing will attract a zero-percent fiscal duty. This zero-percent duty will be only for 2012. Accelerated depreciation will be extended to 2014.

To further assist local manufacture and production, and to incentivize Fijians to buy Fijian products, the following tariff changes will apply:

- Imported canned fish will see an increase in fiscal duty from 15 percent to 32 percent.
- Imported mounting blocks for electrical units will see an increase from 5 percent to 15 percent. This will encourage and support new Fijian manufacturers of this hardware.
- Imported exercise books will also see an increased duty from 15 percent to 32 percent, given that local manufacturers now have this capacity.
- We will also impose excise tariffs on imported nails and nylon rope, of 10 and 15 percent, respectively.

Importation of raw materials by manufacturers based outside Viti Levu will attract zero-rated fiscal duty. A 40 percent investment allowance will be given to all existing businesses in the tax-free region for any capital investment \$50,000 and above.

\$500,000 has also been allocated to promote the “Buy Fijian” and “Fijian Made” campaigns in 2012.

In total, these adjustments, incentives and tax cuts are aimed at spurring growth and investment.

Increase Foreign Investment

What we are doing for small businesses is complemented by activities designed to promote increased external investment in Fiji as well.

My Government has been creating a platform to promote investment that consists of transparent processes for approvals and improved turnaround times.

We have also facilitated trade delegations—including from the United States and Canada, which we've never had before. We have seen delegations from China, Korea, and in the year ahead from India.

There is a lot more to do, but so far we have received very positive feedback.

There are now tax free zones, certain areas previously restricted to local businesses are now opened, and we are encouraging collaboration between foreign corporate and local entities.

We are also now removing the 40 percent local equity requirement for foreign incorporated companies listed on the South Pacific Stock Exchange. This requirement, which restricted listing by overseas companies, is now gone.

Our across-the-board tax cuts, transparent systems, stable environment, and educated and skilled workforce makes Fiji an attractive destination for investment.

As evidence, I am proud to announce that RBF has granted a commercial banking license to a large European bank, which is to commence operations next year.

My Government has worked hard to promote confidence in the stability and transparency of Fiji's institutions, and we will continue to do so.

Conclusion

My fellow Fijians, this is the Republic of Fiji's Budget for Fiscal Year 2012.

What I have presented here is a fundamental change—not just to our tax structure, but to the relationship between the government and its citizens.

Our goal has been to Empower Fijians, Modernize our Nation, and Strengthen our Economy. We have sought to do so by:

- Lowering personal and corporate taxes to put more money back in your hands.
- Investing in Fiji's infrastructure—it's roads, waterways, bridges, and more.
- Improving personal wellness by encouraging athletics, healthy diets and preventative care.

- Supporting Fiji's businesses by making it easier for them to grow and compete. This is especially true for Fiji's small business community, manufacturers and the resource sector.
- Investing in the outer Islands and rural areas by extending education programmes, providing access to the Internet and free telecentres, and easing their ability to conduct business.
- And most importantly, looking after the less fortunate by maintaining food, housing and education programmes—while adding the Social Responsibility Levy to the top 1 percent of taxpayers.

In total, my Government has put more choice and more money back into the hands of Fijians. We have increased confidence in our business community.

But we've also created an environment that supports the collective while demanding responsibility and honesty.

We have been able to do this because my Government creates its policy with a vision for the betterment of our country, not on the basis of self-serving politics. Not to serve the interests of only a few. Not to be short-sighted.

And so, we as a Government—but also we as a nation, meaning each and every Fijian, each and every business house, whether foreign or local—must take responsibility for doing our part to bring the vision of a progressive and more prosperous Fiji to life.

Through continued cooperation, collaboration and responsibility, we will.

Vinaka Vakalevu.