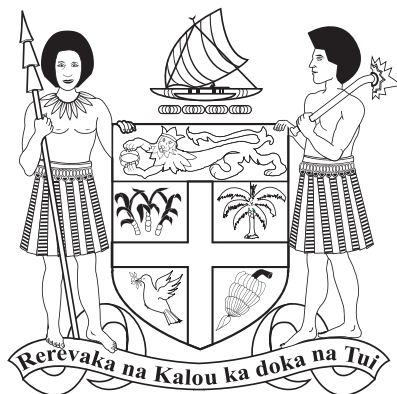


**REPUBLIC OF FIJI**

# **2007 BUDGET ADDRESS**

*“PARTNERSHIP FOR SUSTAINED GROWTH”*



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**Minister for Finance and National Planning**  
**November 3, 2006**

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## INTRODUCTION

Mr. Speaker Sir,

President of the Senate,

Honourable Prime Minister,

Chief Justice,

Honourable Leader of the Opposition,

Honourable Ministers and Members of Parliament,

Your Excellencies and Members of the Diplomatic Corps,

Distinguished Guests,

Ladies and Gentlemen

Mr Speaker Sir, it is my privilege to present to this august House and the people of Fiji the national Budget for 2007.

Sir, we have had two democratic elections in 2001 and 2006 which were both declared fair and free by all international observers. After the General Elections in May this year, we now have in place a multiparty Cabinet in accordance with the Constitution. It allows all communities in Fiji to be represented in national decision making.

Sir, I believe that this political platform will take us to our vision of a **“Peaceful and Prosperous Fiji.**

This participatory framework is the foundation for strong and workable partnerships in our system of Government. The 2007 Budget builds on this foundation.

## **2.0 THEME**

Sir, the theme of the 2007 Budget is therefore, “**Partnership for Sustained Growth**”. This embodies our belief that strengthening our partnerships at all levels – with the private sector, civil society, development partners, and all our communities – will enable our country to realise its true potential. The new multi-party Government has begun a new era of working in partnership.

When we closely examine the respective manifestos of the parties in Government, there are more common grounds than divergences. It is generally true Mr. Speaker Sir that in our diversity we have much more in common than differences. At the end of the day, it is the welfare of our people that concerns us all.

Mr. Speaker Sir, the 2007 Budget will set the platform for sustained growth in the future. Economic growth is the necessary means to raising the living standards of our people. It is the means of walking out of poverty. Economic growth is the vehicle for creating jobs and earning a living. However, this economic growth can only be sustained if the pillars of our economy are strong and if it is inclusive. The benefits of this growth must be equitably shared by all levels of our community.

Mr. Speaker Sir, too often we downplay many of our key strengths. We have strong and stable institutions in place and our system of government continues to function well. Our judiciary is independent. Fiji has achieved 6 consecutive years of economic growth since 2001. Our foreign debt is low. Inflation is low. Our tourism sector is robust and growing. Business and consumer confidence is high. Investment is rising. Foreign reserves are at

comfortable levels. Government finances remain strong. Our financial system is sound.

At the same time, Mr. Speaker Sir, we recognise that, like any other country, we face challenges. We need to grow faster. Our exports need to rise to their potential. Our preferential trade agreements are being eroded. We need to ensure that our debt level remains sustainable. Investment must continue to rise. We need to accelerate reforms. The land tenure issue must be resolved.

Sir, these challenges are not simple and their solutions are multifaceted. But we must face these challenges squarely and take the necessary decisions to address them. I will elaborate later on the measures that we are taking in the medium term and in this Budget to address these issues. We are confident that, with these measures, we can overcome these challenges.

Sir, this Budget is the first under our new 5 year Strategic Development Plan.

### **3.0 STRATEGIC DEVELOPMENT PLAN**

Sir, the strategies to achieve our vision of a “Peaceful and Prosperous Fiji” are clearly articulated in the new Strategic Development Plan. I will be presenting this Plan for the endorsement of the House later on in this sitting.

Mr. Speaker Sir, the new Strategic Development Plan will guide our national development agenda in the next five years from 2007. It is the culmination of extensive consultations amongst relevant stakeholders.

Sir, the Plan was presented and endorsed at the recent National Economic Summit. The views of the Summit have greatly added value and are now included in the Plan. I must express my appreciation to members of the

Working Groups for their hard work and contribution to the formulation of the Plan.

Mr. Speaker Sir, a central objective of the Plan is to reach a target of economic growth of at least five per cent per year. Investment is targeted to rise to 25 percent of GDP by the end of the plan period. Reforms will be accelerated in areas of the civil service, Government finances and public enterprises. The Plan puts priority on reducing poverty and rural and outer island development. It also calls for adequate resourcing of key sectors such as health, education, infrastructure and law and order.

#### **4.0 ECONOMIC PERFORMANCE**

Mr Speaker Sir, before I discuss the details of the Budget allow me to provide an overview of our recent macroeconomic performance.

The Fiji economy has been growing at an average of 2.4 percent over the last 5 years. In 2002 and 2003, the economy expanded by 3.2 percent and 1 percent respectively. 2004 was a good year with growth reaching 5.3 percent.

Sir, growth last year was 0.7 percent mainly due to the reduction in garment exports as a result of the loss of quota access to one of our major markets. There were also declines in the production of sugar and gold.

#### **4.1 Overview of 2006**

Mr Speaker Sir, we are looking at a better economic performance this year of 3.6 percent. Tourism continues its positive performance with favourable flow on effects to related industries such as transport and communication. Other sectors contributing to growth are community, social and personal services and building and construction.

Domestic demand remains buoyant financed mainly by strong credit expansion and remittances. Investment is estimated to rise to 18 percent of GDP this year. More encouragingly, the rise is being driven by private sector investment.

## **5.0 ECONOMIC PROJECTIONS**

### **5.1 International Economy**

Sir, on the international front, prospects are for a stronger global economy. The International Monetary Fund recently increased its 2006 world growth forecast to 5.1 percent, from 4.9 percent projected earlier this year due to a pickup in global industrial activity and a resilient services sector. Growth in international trade continues to rise with increasing consumer and business confidence.

Encouraging performances are expected in the United States, Japan, the Euro-Zone and key emerging markets. The growth outlook for Fiji's trading partners remains encouraging. However, persistent high crude oil prices pose a risk to world economic growth.

### **5.2 Domestic Economy**

Mr Speaker Sir, in 2007, the Fiji economy is projected to grow by 2 percent largely driven by the transport and communication; finance, insurance, real estate and business services and manufacturing sectors.

Government's investment in support of resource based sectors such as forestry and sugar is expected to generate growth in the agriculture sector from 2007 onwards.

Sir, the electricity and water and the tourism related sectors are expected to perform better while the restructure program at the Vatukoula gold mine is expected to raise gold production in 2007.

Mr. Speaker Sir, the achievement of our development goals in the medium term requires a sound macroeconomic policy framework.

## **6.0 MONETARY POLICY**

Mr. Speaker Sir, let me start with our monetary policy.

One of our major challenges is to raise export performance to help finance our rising imports which has been exacerbated by higher oil prices. The Government is working on several fronts to address this situation.

I wish to discuss some of these measures.

### **6.1 Foreign Reserves**

The first initiative focuses on the National Export Strategy. The strategy was endorsed at the National Economic Summit and by Cabinet last week. The strategy is comprehensive and covers 13 export sectors. Government acknowledges the contribution of those who assisted in putting together the Export Strategy. This is another example of the partnership approach to policy formulation. It was agreed at the Summit that a new Working Group will be set up to monitor the implementation of the National Export Strategy.

Secondly, we anticipate additional proceeds from the hotel projects which are currently under construction. The boom in the building and construction sector has contributed to our higher import bill. Many of these construction activities are in the tourism industry and will take time for these projects to start earning

foreign exchange for the country. As they start to do this, tourism earnings are expected to rise further and help pay for our import bills.

Thirdly, Mr Speaker Sir, the government is working with the Fiji Electricity Authority and other stakeholders to accelerate the development of alternative sources of energy which, over time, will lessen our dependency on oil imports. At the same time, Government will examine incentives to promote the use of alternate energy such as solar hot water systems and the use of LPG vehicles. In 2007, 100 percent deduction is available for individual residential taxpayers on the installation of solar units and energy efficient customer premises equipment for renewable energy projects.

Government is confident that these measures will give sufficient support to our balance of payments. However, realistically the benefits from these multi-pronged strategies will take some time to achieve. In the meantime, we have taken two immediate steps to support our balance of payments.

The first step is that the Reserve Bank of Fiji has raised its official interest rate to dampen consumer demand. To help transmit these rises in interest rate through the financial sector, the Bank has tightened liquidity and reviewed its lending facilities to the commercial banks. The Bank has also reduced the local borrowing limits by non-residents.

Mr Speaker Sir, we know that interest rate does affect economic growth and investment. To help mitigate this effect, the Reserve Bank has issued credit guidelines to commercial banks to help support lending to priority areas of the economy. The Reserve Bank will extend its concessionary Export Finance Facility to include the financing of mahogany exports. The Reserve Bank continues to examine the possibility of providing export credit insurance/guarantee facilities to exporters in Fiji.

The second step that we have taken to help support the balance of payments is for Government to reduce its deficit. In addition, the revenue measures I will be announcing later in this Address will help dampen demand for imports.

Mr Speaker Sir, I am confident that the combination of monetary and fiscal policy that I have just referred to will protect our balance of payments position while we work at implementing the medium term solutions that I had mentioned earlier.

The level of our foreign reserves remains adequate at 3.3 months of imports in 2006 and is expected to continue to do so during 2007.

## 6.2 **Inflation**

Mr. Speaker Sir, let me move to inflation. We continue to manage inflation very prudently despite the rise in international oil prices. At the end of October, inflation was 3.6 percent and is expected to remain at around this level until the end of the year.

## 6.3 **Remittances**

Mr. Speaker Sir, personal remittances have helped finance our trade deficit. In 2005, remittances totalled \$311 million compared with \$43 million ten years ago. It is now the second largest foreign exchange earner for Fiji. While remittances have contributed to higher consumer demand, we earn foreign exchange in the process. The Reserve Bank of Fiji is commissioning a study on remittances. The study will examine the sources and recipients of these funds, how these funds are used, and the sustainability of a higher level of remittances.

#### 6.4 **New Currency Note**

Mr. Speaker Sir, I wish to announce that the Reserve Bank will be introducing our new currency notes within a month which include a new \$100 bill. I am told that the new series will continue the tradition of the nation's currency reflecting our cultures and the economy and with the very latest security features. For the first time, Fiji's banknotes will vary in length as a recognition feature for the visually impaired.

#### 7.0 **FISCAL POLICY**

Mr Speaker Sir, Government will ensure that we have the capacity to service our debt. While our debt has risen to over 50 percent of GDP, let me clarify that it remains moderate by international standards. Moreover, the rise in debt level is a result of the government's deliberate policy to promote economic growth after 2000. Clearly, without this strategy, economic growth would have been difficult to achieve under the circumstances that we faced with serious flow-on implications on our people.

Now that the country has enjoyed 6 years of consecutive growth it is prudent that we shift the stance of fiscal policy in the next five years to reducing the budget deficit. This will lead to two things. First, it will reduce debt as a proportion of GDP towards where we were five years ago. Secondly, it will help address our balance of payments position by dampening import demand and this will be further supported by the revenue measures I will announce later.

Mr Speaker Sir, with growing business confidence and rising investment, the private sector is now in a strong position to take over as the engine of growth in the economy.

Mr Speaker Sir, the Strategic Development Plan aims to maintain the net deficit at not more than 2 percent of GDP over the next five years. This will progressively reduce debt to 45 percent of GDP or below by 2011. With debt to GDP ratio falling to 45 percent in the next five years, we will consolidate our ability to service our debt while, at the same time, allowing adequate resources to deliver essential services to our people.

Mr Speaker Sir, the 2006 deficit is estimated to be 3.2 percent of GDP compared to the budgeted level of 4 percent. We should achieve this by keeping expenditure at the budgeted level despite additional demands during the year. At the same time, tax collections have been buoyant reflecting the improvement in compliance and economic activity.

Mr Speaker Sir, the 2007 budget deficit will be 2 percent of GDP. The reduction in the net deficit next year will be achieved mainly through increased revenue collections supplemented by improved budget management.

Sir, this reflects Government's resolve towards achieving the budget deficit target under the Strategic Development Plan, and should generate confidence that the debt target of 45 percent of GDP will be achieved.

Mr Speaker Sir, total Government expenditure for 2007 is budgeted at \$1,710 million. Mr Speaker Sir, as a percentage of total expenditure salaries and wages comprises 43.2 percent, capital expenditure accounts for 19.2 percent, and debt servicing at 9.7 percent.

On the revenue, front, our emphasis will be on achieving greater compliance and protecting the integrity of the revenue base.

Mr Speaker Sir, in 2007, revenue is projected at \$1,605 million. This comprises indirect taxes of 59 percent, direct taxes of 30 percent and other Government revenue at 11 percent. Our total tax collections are expected to increase by 15.4 percent from revised 2006 revenue levels.

## **8.0 RAISING ECONOMIC POTENTIAL**

Mr Speaker Sir, the major challenge before us as a nation is to lift economic growth to the 5 percent target endorsed by the National Economic Summit. There is now a stronger national consensus that we can and we must work together to achieve this target. This higher growth performance will bring jobs to our children and better livelihood to all our communities. It will strengthen our fight against poverty.

Sir, one of the key factors that will strengthen our ability to grow faster is to at least achieve our existing potential. We are working at this through our sectoral reforms and policies. But we can achieve more by raising our economic potential. To do this, reforms are not only necessary they are essential.

### **8.1 Policy Support Program**

In response to the challenge of raising economic growth, the Government is developing an economic policy program to be implemented next year with the assistance of our development partners. There are two key components of this program. The first is implementing key reforms and the second is improving our net export position.

Let me elaborate on the two components of the program.

#### **8.1.1 Undertaking Key Reforms**

##### ***Civil Service Reforms***

Mr. Speaker Sir, over a very long period of time there has been a lot of discussion on civil service reform. But unfortunately there has been little progress on the ground. In many ways this is understandable given the complexity and the sensitivity of this issue. The benefits of such reforms

include less burden on taxpayers, more allocation of funds towards development, greater efficiencies and better delivery of services.

Government has now agreed to implement the civil service reform. The Strategic Development Plan aims to reduce the cost of the civil service from the current level of 14 percent of GDP to 7 percent. A roadmap is being prepared which will give us a clear and practical direction on how we are going to proceed on civil service reforms. We will consult all stakeholders in this reform process.

### ***Public Enterprise Reforms***

Mr. Speaker Sir, the public enterprise reform is progressing well with reorganisation completed at the Fiji Ports Corporation Ltd and the Fiji Public Trustees Corporation. Several areas have been designated as priorities for reform. These include water and sewerage services, quarantine, and immigration. Government is also developing a roadmap for the future of public enterprise reforms.

Government has tabled the Telecommunications Bill in Parliament which establishes the Telecommunications Authority of Fiji and provides the framework for opening up the telecommunication industry.

### ***Public Financial Management Reform***

Mr. Speaker Sir, the public financial management reforms are fully underway in the implementation of its components. The reform places emphasis on imposing more accountability on Chief Executive Officers, in view of the gradual delegation of financial authorities to them. In 2007, CEOs will be required to produce monthly, quarterly and annual financial reports to relevant authorities as specified in the Financial Management Act (2004). This will ensure more accountability through timely feedback on the progress of their expenditures against outputs in the Annual Corporate Plans.

To support more financial delegation to CEOs, the Internal Audit division within the Ministry of Finance will be strengthened to monitor the compliance by ministries and departments to financial procedures and regulations. This is aimed at proactively addressing weaknesses in the system as identified by the work of Internal Audit, rather than deal with discrepancies and irregularities after it has been committed and reported.

Sir, by the end of this year, 32 ministries and departments will be on the new Financial Management Information System (FMIS). We will cover all ministries and departments by the end of 2007. The FMIS will ensure informed decisions are taken through the provision of timely and accurate financial information to CEOs and Ministry of Finance.

Mr. Speaker Sir, another important component of the financial management reforms is performance budgeting. This basically involves ministries justifying their budgetary requests on the basis of what outputs they propose to deliver. Sir, this will allow Government to effectively monitor their budgetary performance. This is expected to be fully adopted by 2008.

### **8.1.2 Strengthening Net Exports**

The second component of the policy support program is improving our net export position. As a small open economy, exports must be the backbone of our future growth. I referred to earlier about the work that we are doing on the **National Export Strategy**. Many initiatives in the Export Strategy will therefore be included in this policy program.

The first platform of this net export component is to set a conducive environment for the private sector to thrive in the export business. This will involve strengthening the legal and regulatory framework for doing business, improving private sector access to finance, developing a highly skilled and mobile labour force, and modernising the Registrar of Companies Office.

The second platform is to examine specific assistance to key sectors like agriculture and other resource based industries to lift their performance both for exports and import substitution. In this regard, we will take the opportunity to review the effectiveness and the costs of existing incentives in these key areas of the economy. In this review we will seriously examine putting criteria on incentives that are made available to the private sector to ensure that national considerations like local value added are also promoted to maximize the benefits of these incentives to the country.

Mr. Speaker Sir, this policy support program will be the leading wedge for raising growth and at the same time support our balance of payments. The delivery of this package will involve technical assistance and financing from development partners.

## 8.2 **Other Reforms**

Mr. Speaker Sir, let me briefly explain other areas of reforms that the government is undertaking.

### 8.2.1 **Sugar Reforms**

Mr. Speaker Sir, Government is pressing ahead with the reform of the sugar industry with the valuable assistance of our development partners. A roadmap is in place:

- to improve farm yields and promote crop diversification;
- to upgrade sugar mills and improve cane transportation; and
- to develop an alternative livelihood program to cater for sugar cane farmers that will be affected by the reforms.

Another component of the sugar industry reform is the repeal of the Fiji Sugar Corporation (FSC) Limited Act which has allowed the FSC to now operate as a commercial company under the Companies Act. In addition, the Sugar

Industry Act will be repealed to clarify the roles and functions of the various institutions in the industry.

### **8.2.2 Land Reforms**

Mr. Speaker Sir, the issue of land reform has remained unresolved for many years. Yet it affects the lives of many of our people. In addition, it is one of the very important factors that affects agricultural production, investment and ultimately economic growth.

Sir, with the establishment of this partnership approach through the multiparty government, I believe that we are in a good position to resolve the land lease issue for the betterment of our people and the entire nation.

Mr. Speaker Sir, the cooperation and goodwill of all stakeholders is important in implementing and resolving these reforms. Clearly, without reforms, higher economic growth will be difficult to achieve.

## **9.0 FINANCIAL SECTOR**

Mr. Speaker Sir, I would now like to turn to the financial sector. Fiji voluntarily agreed to the *Financial Sector Assessment Program* by the International Monetary Fund and the World Bank. This comprehensive review has been completed. I am happy to report that the review concluded that Fiji's financial system is sound and stable. It has also suggested areas of improvement and the Reserve Bank is implementing the recommendations of the Report.

The *Deregulation of the Superannuation Industry* is very much on the agenda of Government. The main objectives of such a process are to promote competition, widen the choices available to contributors, improve members' returns and help in the development of the capital market. It is anticipated that a technical assistance mission from an international organisation will conduct this detailed study soon.

Mr. Speaker Sir, the drafting of the new legislation on the *Supervision of the Superannuation industry* is in progress. Consultation with stakeholders on the draft legislation is expected to commence in 2007.

The Reserve Bank continues to make progress on the supervision of the Fiji National Provident Fund. The first on site supervision of the Fund was undertaken this year and the implementation of the findings will further strengthen the soundness of the Fund.

Mr. Speaker Sir, the Reserve Bank will be implementing a Real Time Gross Settlement System for high value transactions. This *electronic payment system* will be more efficient and bring banking services on par with international standards. The system will now be implemented in 2007.

Mr. Speaker Sir, the *provision of basic banking services to the rural sector* continues to grow. The ANZ Bank has its six mobile banking units on the main islands of Viti Levu and Vanua Levu and fly-in operations to Kadavu and the Mamanucas. Since the inception of these services from October 2004, ANZ has opened 46,000 accounts while accepting \$3.6 million in deposits and extending \$310,000 in small loans. The Reserve Bank will continue to work closely with the stakeholders in facilitating banking services to our rural communities.

Mr. Speaker Sir, a vibrant *capital market* is a necessary ingredient to attract investment. The development of the capital market has been on Government's agenda for some time. The Reserve Bank will continue to work on the development of the secondary bond market in Fiji.

## **10.0 PRIVATE SECTOR DEVELOPMENT AND INVESTMENT**

Mr. Speaker Sir, Government appreciates that the most effective locomotive of sustained growth is the private sector. Businesses have a better incentive

system, the resources, the productivity and the entrepreneurship to invest and create jobs. Government will continue to provide an environment that is attractive and conducive for private sector growth and investment.

Sir, it has been most encouraging to see total domestic investment growing steadily over the past six years. Even more encouraging is the fact that private sector investment is rising. This is reflected in the strong upward trend in imports of investment goods, investment lending by commercial banks and the value of work put in place. The building and construction sector has been very active, driven by the thriving tourism industry. For example the redevelopment of the former Grand Pacific Hotel, to be rebranded Grand Pacific Crowne Plaza Suva, to begin in 2007, will be completed in late 2008. Other brand name resorts that are expected to open business in the next two years include the Hilton Hotel, the Raddisson, the Marriott Fiji and the Intercontinental Hotel.

This is a clear indication of the growing investor confidence in the future of our economy.

Mr Speaker Sir, as a sign of confidence in Fiji by the international community, our first international bond issue of US\$150 million was oversubscribed by nearly ten times with the interest rate less than what we would have received in the local market by over 2 percent. This bond issue has placed Fiji strongly in the international capital market and increased awareness by potential investors of our country. It has diversified our sources of financing and avoided the government crowding out the private sector and other public entities in the local market at a time when liquidity has tightened.

Mr. Speaker Sir, raising investment is one of our major challenges. The ease of doing business is critical to achieving our investment target of 25 percent of GDP. A lot of progress has been achieved in streamlining the investment approvals process. But we obviously need to do more. Further reforms will be undertaken to improve the investment approvals process within the Office of

the Registrar of Companies, Department of Immigration, the Department of Town and Country Planning, and the Rural Local Authorities to name a few.

Mr. Speaker Sir, Public Private Partnerships offer many benefits to the development of infrastructure and other public services. This can reduce the burden of financing these projects by Government and allow more public funds for development projects that benefit the public as a whole, more so the poor and underprivileged. With the passage of the Public Private Partnership Act in April, 2006, a list of potential projects that can be implemented under this partnership is being compiled. Public sector reforms will create the enabling conditions for such a partnership to flourish.

## **11.0 PRIORITY SECTORS**

Mr Speaker Sir, let me outline expenditure allocations in the key sectors of the 2007 Budget.

### **11.1 Poverty Alleviation and Social Welfare**

Mr Speaker Sir, the alleviation of poverty is high on Government's development agenda. This a key issue of national interest. The lives of people are involved. It should be the concern of everyone that we do all we can to eradicate poverty.

The 2002/2003 Household Income and Expenditure Survey estimates that 34 percent of the population are living below the basic needs poverty line. Sustained economic growth is our best means of alleviating poverty. At the same time, Government will implement policies and programmes through the Budget to better distribute the benefits of economic growth to the poor. Mr Speaker Sir, one of the major thrusts of this policy is to provide income earning opportunities through the support of small and micro-enterprises and other related programmes.

Mr Speaker Sir, the survey shows that the incidence of poverty is higher in the rural than in the urban areas. In recognition of this poverty distribution, Government is putting priority on the development of rural and outer islands.

### 11.2 **Social Welfare**

Mr Speaker Sir, Government recognises the need to support those that are under privileged and disadvantaged in society.

Sir, \$18 million is allocated to the Family Assistance Scheme which is expected to assist around 23,000 households. \$3 million is provided for Poverty Alleviation Projects which will benefit 400 families through improved housing.

A sum of \$3 million allocated for Squatter Upgrading and Resettlement Programme is expected to provide 322 new lots in 2007. This is in addition to the 340 lots made available this year.

### 11.3 **Small and Micro Enterprise Development**

Sir, the support of small and micro-enterprises is an integral part of Government's strategy to reduce poverty by providing income earning opportunities to our people.

Sir, a sum of \$1.6 million has been allocated to the National Centre for Small and Micro-Enterprises Development for ongoing programmes and small business training. Furthermore, a sum of \$300,000 has been allocated for small business entrepreneurs to establish eco-tourism projects and a sum of \$200,000 to establish Business Incubation Centres.

#### 11.4 Rural and Outer Island Development

Mr Speaker Sir, our rural areas continue to be the home for more than half of Fiji's population. Raising the livelihoods of rural and outer islands is a high Government priority. Government's assistance to our rural population comprises the provision of health, education, water, housing, infrastructure and business opportunities.

Mr Speaker Sir, a Rural and Outer Island Development Project is being developed to improve infrastructure, livelihood and business opportunities in tourism, agriculture, forestry and fisheries in our rural areas. \$2 million is allocated for this project in 2007.

Sir, \$2 million is allocated to the Agriculture Marketing Authority to provide market access for our rural producers not serviced by the private sector.

Sir, next year a sum of \$6 million for rural electrification programmes will assist more than 100 villages and communities. Further, \$2.5 million under the rural housing assistance scheme will provide homes for around 300 rural families, and \$2 million for rural water supply scheme to more than 30 villages. As well, under the Divisional Development Projects, \$2.5 million is allocated to cover the provision of seawalls, village drainage, and roads. \$4 million has been allocated for Self-Help projects in rural areas. \$1.6 million is provided for Community Development Projects.

Mr. Speaker Sir, \$1.5 million has been provided for the Shipping Franchise Scheme, \$2.9 million has been allocated for the purchase of a Landing Barge, and a subsidy of \$370,000 for Domestic Air Services to enable access to outer islands. \$1 million is provided for the Vunisea jetty and \$800,000 is allocated for the Upgrading of Rural Airstrips.

## 11.5 Information Communication Technology and Audio Visual Industries

Mr. Speaker Sir, Government acknowledges the potential of the ICT sector to generate growth, investment and employment in the economy. The Fiji Islands Trade and Investment Board will continue its trade missions to the Australian, American and Asian markets promoting investment in Fiji's IT and audio-visual industry.

The Fiji Investment Corporation in partnership with the private sector will pursue investment opportunities in the tourism, natural resources sector, and ICT. An allocation of \$2 million is provided to the Fiji Investment Corporation to support its work programme.

Mr. Speaker Sir, in 2007 the Fiji Audio Visual Commission has been allocated \$2.5 million in 2007 to support its work. Next year 9 audio visual productions are expected to generate around \$63.8 million of foreign exchange.

Mr. Speaker Sir, \$8.5 million has been allocated for the e-Government project to start in 2007, which will provide online access to and improve service delivery for many Government services. This project will be completed by 2009.

## 11.6 Resource Based Sectors

Mr Speaker Sir, \$66.7 million is provided in support of our resource based sector, of which \$46.7 million is for the Ministry of Agriculture and \$20 million for Fisheries and Forest. This sector presents great opportunities for generating employment, export revenues, and rural development.

Sir, \$4 million has been provided for farm improvement and land resettlement. \$4 million is allocated for the Alternative Livelihood Programme, and \$3 million for drainage and flood protection. \$2.5 million is provided for

quarantine. \$3 million for Research programmes. \$1 million is provided for the Coconut Industry Development Authority. Additionally \$300,000 is allocated for the Dairy Diversification programme.

Sir, the role of the Fiji Development Bank in facilitating growth in our resource based industries will be encouraged, particularly in the development of small and medium enterprises. Government has increased its level of guarantee for the Development Bank's lending. This will facilitate the Bank's lending to agricultural projects such as the dairy, beef and coconut industries.

Sir, to support domestic production, revenue measures are being introduced to protect agricultural, beef, dairy and poultry industries.

Mr Speaker Sir, to support our Fisheries sector the following allocations have been made:

- \$750,000 for the development of coastal fisheries;
- \$150,000 for upgrading of the Makogai Research Station;
- \$160,000 for the upgrading of the Wainibokasi and Lautoka Fisheries jetties; and
- \$800,000 for aquaculture, brackishwater and seaweed projects.

Sir to support our Forestry sector in 2007:

- \$570,000 is allocated for the National Forestry Inventory;
- \$200,000 for the Monitoring and Surveillance of Logging Operations;
- \$300,000 for the Fiji Pine Trust Extension; and
- \$200,000 for the Fiji Mahogany Trust.

## 11.7 **Environment**

Mr. Speaker Sir, the protection of the **environment** is an area of increasing concern not only in Fiji, but the world over. The issue that confronts us is better management and protection of our natural resources. The new Environment Management Act will be enforced in 2007 to protect our

environment with an emphasis on monitoring commercial and industrial facilities. Government will continue to examine strategies for the reduction of non-biodegradable products and materials which harm our environment.

Mr Speaker Sir, in 2007 the Ministry of Environment will develop a National Waste Management Strategy to protect the environment and the people of Fiji from exposure to effluent and discharge.

Sir, Government will make the following allocations in 2007:

- \$1.6 million subsidy for the operation of the Naboro landfill;
- \$400,000 to purchase an additional land area for the Naboro landfill;  
and
- \$700,000 for the construction of leachate pond aerators.

#### 11.8 **Disaster Management**

Mr Speaker Sir, natural disasters are unavoidable. Tropical cyclones and flash flooding are unfortunately, a persistent threat in our country. Government will remain proactive in ensuring that adequate measures are observed and resources are in place in the event of natural disasters.

To this effect, Government has allocated \$2 million for the Disaster Rehabilitation Fund and a further \$150,000 for disaster management services, awareness programs and communication equipment.

#### 11.9 **Affirmative Action**

Mr. Speaker Sir, Government continues its attention to providing equal opportunities for disadvantaged groups in our society through affirmative action, as prescribed under the Social Justice Act, 2001.

Mr Speaker Sir, in 2007 a sum of \$72 million has been allocated for the continuation of affirmative action programmes in education, land and housing,

poverty alleviation, social welfare, assistance to the disabled, and participation in business and industry.

#### 11.10 **Good Governance**

Mr Speaker Sir, good governance is a central aspect of nation building. An independent legislature, judiciary and the monitoring institutions of Government are vital to this.

My Speaker Sir, in support of good governance, \$11.5 million has been allocated for the Legislature, \$1.6 million for the Office of the Ombudsman and the Fiji Human Rights Commission, \$12.5 million for the Judiciary, and \$2.8 million for the Elections Office.

### **12.0 SECTORAL ALLOCATIONS**

Mr Speaker Sir, I now wish to briefly outline the sectoral allocations for 2007.

#### 12.1 **Education**

Mr Speaker Sir, education is a focal area for our development agenda. By investing in our people and our children today, we are certain to reap the benefits in both the short term, and the years to come.

As such, funds allocated to the Education Ministry next year have increased by \$29 million to \$333 million.

For tertiary education, a total sum of \$52 million is provided for grants to the University of the South Pacific, the Fiji Institute of Technology and the Fiji School of Medicine. A further \$16.6 million has been set aside as scholarship funds to the Public Service Commission, Fijian Affairs Board and Multi Ethnic Affairs for a total of 5,572 awards, of which 3,342 are new.

Mr. Speaker Sir, in support of Compulsory Education \$475,000 has been allocated and \$600,000 has also been set aside for Centers of Excellence. A further \$11.8 million is provided for the remission of secondary school fees.

Sir, \$21 million is provided for all Grant in Aid teachers who will be reclassified as Established staff in 2007.

## 12.2 **Health**

Mr Speaker Sir, in 2007, the Ministry of Health will receive a total allocation of \$155 million.

Of this, \$3 million is to complete construction of the new wing at the Labasa Hospital, and \$1 million for the new Ba Hospital. Additionally, \$1.5 million will be used to upgrade more than 30 health centers and nursing stations around the country in 2007. Sir, Government will increase the provision for drugs and pharmaceuticals by \$1.5 million to \$9.5 million.

Sir, a total of \$260,000 has been set aside to fight non-communicable diseases such as diabetes and cardiovascular conditions, and a sum of \$500,000 is provided for HIV-Aids prevention and control.

## 12.3 **Infrastructure**

Mr Speaker Sir, the provision and maintenance of infrastructure is an important commitment since it enables and facilitates development in many other sectors of our economy.

Sir, in 2007 a total of \$232 million compared to \$184 in 2006 has been allocated to the Ministry of Public Utilities and Infrastructure Development. Of this, \$12 million is for maintenance of the national road network, and \$21 million is set aside for the continuation of the third Fiji Road Upgrading

Programme. Additionally, \$50 million will be provided for the continuation and maintenance of regional water supply schemes, and \$19 million for the upgrade and maintenance of sewerage treatment systems.

A provision of \$9.5 million has been allocated for the Natadola water scheme to support tourism development in the area.

#### 12.4 **Law and Order**

Mr Speaker Sir, law and order is vital for stability and economic growth. In 2007, Government has allocated a total of \$77.5 million to the Police Force, \$86 million to the Fiji Military Forces, and \$14 million for the Prisons Department. \$4 million has been allocated to the Department of Public Prosecutions.

#### 12.5 **Tourism**

Mr. Speaker Sir, our tourism sector is a key source for economic growth, foreign exchange earnings and employment.

To harness the sector's economic contribution, \$15 million is allocated for the Fiji Visitors Bureau marketing grant, and \$2 million for its operations.

Mr Speaker Sir, Government will review its incentives to the tourism industry to incorporate the following issues:

- Minimum requirements by developers and operators in the purchase of locally manufactured items;
- Maximise the use of local produce especially food; and
- Developers contribution towards infrastructure costs.

Mr Speaker Sir, a sum of \$3.8 million is allocated for Meteorological Services, \$4.5 million for Civil Aviation, \$2.1 million for Fiji Islands Maritime Safety Administration, and \$415,000 for the Transport Planning Unit.

## 12.6 **Women and Development**

Mr. Speaker Sir, women play a vital role in our society. In recognition of this important role \$1 million has been allocated for the Women's Plan of Action. Other assistance to women is also available through various allocations in ministries and departments which they could access.

## 12.7 **Care for the Elderly**

Mr Speaker Sir, senior citizens and the elderly have contributed significantly to nation building. Much of the progress achieved to date is attributed to their hard work and sacrifice.

In 2007, \$37.6 million is provided for the payment of pensions to retired civil servants, widows, orphans and war veterans.

Furthermore, the peace and stability that we enjoy today was through the sacrifice and hard work of our war veterans. In recognition of this, \$6 million has been allocated to the Fiji Servicemen's Aftercare Fund. Importantly, 2007 has been declared as the Year of the Veterans to celebrate and commemorate their contribution to nation building. A sum of \$420,000 has been allocated in 2007 for this event.

## 12.8 **Culture and Heritage**

Mr Speaker Sir, it is vital that our identity, encompassed in our culture and heritage is preserved. Recently we were proud hosts of the Melanesian Arts Festival, which gave us a greater appreciation of our heritage and that of our Pacific neighbours.

Sir, in 2007 Government will continue to provide grants amounting to \$260,000 to the Fiji Museum, \$308,000 to the National Trust of Fiji and \$71,000 to the Fiji Arts Council.

## 12.9 **Sports**

Mr. Speaker Sir, Fiji is a sporting nation. It provides us with a number benefits well known to all; enhancing physical well being, opening doors to income earning opportunities; and promotes our nation to the rest of the world.

Mr. Speaker Sir, Fiji will be proud hosts of the 2007 World Netball Championships and a total of \$500,000 has been allocated in support of this. In addition, \$500,000 will be provided to the Fiji Rugby Football Union as they prepare for the 2007 Rugby World Cup. A sum of \$700,000 has been allocated for the Pacific Games, \$200,000 for the Hobbie Cat Championship, and \$200,000 for the Women's World Bowling Championship.

Mr Speaker Sir, to promote sports in rural areas an allocation of \$200,000 is provided for rural sports facilities.

## 12.10 **Employment Opportunities & Productivity**

Mr Speaker Sir, the National Youth Enterprise Development Programme and the Upgrading of the National Youth Training Center provide an opportunity for our youth to be engaged in self sustaining income earning activities. A sum of \$100,000 and \$150,000 has been allocated for these programmes, respectively.

Sir, a sum of \$600,000 is provided for the National Service Scheme to be established in 2007 which will assist in the promotion of employment opportunities especially for the school leavers and the unemployed.

In addition, a sum of \$1.5 million has been set aside for the Integrated Human Resources Development Programme for Employment Promotion and its 4 sub-programmes.

Mr Speaker Sir, \$1.9 million is provided for the apprenticeship scheme under the Ministry of Public Utilities and Infrastructure in 2007.

Additionally, \$1 million has been allocated to the Ministry of Employment Opportunities and Productivity for the upgrading of skills through the Training and Productivity Authority of Fiji.

## **13.0 REVENUE**

### **13.1 Revenue Administration**

Mr Speaker Sir, the Fiji Islands Revenue and Customs Authority is currently working on harmonising and simplifying administrative provisions of its various legislations. The exercise is expected to be completed in mid 2007. The Authority is also updating all double tax agreements with 7 countries to take into account the current business environment we are operating in.

Government in 2007 will be examining the establishment of a tourism refund scheme. This is in recognition of the contribution of the tourism industry to the economy and its expected growth in the future.

Mr Speaker Sir, Government has been progressively implementing the recommendations of the 2004 Fiscal Review Committee, more of which will be implemented in 2007.

Mr Speaker Sir, Government will review various incentives in 2007 to ensure that the associated legislations are achieving their objectives in relation to development and investment.

Sir, to improve compliance and strengthen revenue collection the Fiji Islands Revenue and Customs Authority will vigorously pursue areas of tax avoidance and leakages. In 2007, the Authority's budget will be increased to \$53 million.

Mr Speaker Sir, there are real opportunities for the Authority to significantly increase revenue collections. I have no doubts that the Authority will achieve its full potential with the resources provided to it.

### 13.2 **Revenue Measures**

Mr Speaker Sir, Government's revenue policy will continue to be focused on improving revenue collections, broadening the tax base and strengthening compliance. There will also be an added emphasis on raising exports and investment.

Mr Speaker Sir, let me highlight some of the new revenue measures contained in this Budget, the details of which are in the Budget Supplement.

#### 13.2.1 **Value Added Tax**

Mr. Speaker Sir, Government is fully aware of the need to protect our financial position and bring down the deficit and reduce debt. It is an important national issue. Everyone is urging Government to do so. The National Economic Summit strongly emphasised this point. Economists and the Opposition have regularly preached this issue to us. Multilateral institutions have also stressed the importance of economic stability. At the same time, we are currently facing imbalances particularly on our widening trade deficit as a result of higher spending.

An appropriate remedy for reducing the deficit and at the same time slow consumption is of course taxation. Increasing income tax reduces the take home pay across the board with no choice afforded to income earners. The better option is to look at indirect taxes which afford the income earner the choice on how they use their income between spending and saving. We have therefore decided to use indirect taxes to help reduce the deficit and dampen spending.

Mr. Speaker Sir, Value Added Tax will be increased to 15 percent effective from 1<sup>st</sup> January 2007.

We are aware that increasing VAT will affect spending by everyone. Therefore to alleviate the impact of the increase in VAT on the poor and the low income earners we are putting in place the following measures:

- The zero rating of VAT on the essential food items and kerosene introduced last year will be maintained;
- The threshold for paying income tax will be lifted to \$10,000 from \$8,840. This means that an additional 9,980 income earners will now not be required to pay income tax at all;
- Family Assistance Scheme will be increased from \$16 million to \$18 million;
- Poverty Alleviation Programme will be increased to \$3 million;
- Housing Relief to the poor (HART) will be increased to \$2 million; and
- VAT exemption on surcharge imposed on electricity bill for residential dwellings.

### 13.2.2 **Direct Tax**

Mr Speaker Sir, on direct taxes the following measures will be introduced:

- the income tax threshold has been raised from \$8,840 to \$10,000. A total of about 26,000 income earners will now be exempted from paying income tax since the raising of the income tax threshold from \$6,500 in 2003;
- Health care benefits provided by employers to employees earning not more than \$30,000 annually will be exempt from paying tax on such benefits;
- A 150 percent tax deduction will be available for donations of more than \$10,000 to assist in the refurbishments and repair of hospitals and health facilities; and

- To help facilitate export development, Government will maintain the export income deduction at 50 percent in 2007.

### 13.2.3 **Exports and Investment**

Sir, in support of investment, Government will establish an ICT Economic Free Zone at Kalabu with the following incentives:

- 10 years tax holiday;
- Zero rating of VAT for sales on the local market; and
- Free fiscal duty on importation of plants and machinery.

These incentives will be made available to investors under the following criteria:

- The ICT business must be located in the Kalabu ICT Economic Free Zone;
- Business employs more than 100 employees; and
- 60 percent of its sales is exported.

### 13.2.4 **Promoting Domestic Production**

Mr Speaker Sir, Government will encourage the production of agricultural produce through increasing fiscal duty on imported vegetables and meats that are locally produced to a rate of 27 percent. This will include prawns, tomatoes, cabbages, lettuce, carrots, goat meat, pork, eggs and dairy products.

Government will also investigate further options to ensure the integrity of “Brand Fiji” and how it is used in respect of products that are marketed overseas to ensure consistent high standards.

Mr Speaker Sir, the following measures are being introduced to dampen import demand:

- Import excise duty on luxury goods (such as fans, microwaves) will be increased from 5 percent to 10 percent;
- Import excise duty on non-luxury goods (such as cement, aluminium pots) will be increased from 5 percent to 10 percent;
- Import excise duty on motor vehicles will be increased from 10 percent to 15 percent;
- Import excise duty on cigarettes and liquor will be increased from 10 percent to 15 percent; and
- Fiscal duty on plant, machinery and equipment will be increased from 0 percent to 3 percent.

Sir, excise tax on alcohol and cigarettes will be increased by 3 percent in line with the increase in inflation.

Sir, the differential between import duties and excise rates is being maintained in this Budget.

Mr. Speaker Sir, the changes in import duties and excise tax I have announced above will become effective immediately.

Mr Speaker Sir, Government will develop a marketing campaign to promote the benefits of consumers buying locally produced products.

#### **14.0 DEVELOPMENT PARTNERSHIP**

Mr. Speaker Sir, I would like to take this opportunity to thank our development partners for their support towards our development efforts. I wish to express our special appreciation to donor Governments and multilateral agencies for their assistance in many different areas.

Sir, with increased donor support, Government pledges to engage the donor community in regular dialogue and consultations, to better align donor programmes to national priorities. A donor consultation forum will be convened next year.

## **CONCLUSION**

Mr. Speaker Sir, like any country, we face short term challenges. The good thing is that we have identified these challenges and are beginning to address them. There is national commitment to work hand in hand and resolve these challenges. We should not dwell in the past. It is time to look ahead.

Mr. Speaker Sir, the multiparty Government is spearheading the spirit of national unity and common purpose. This collaborative and participatory approach has the wide support of our people. We are committed to make this inclusive approach work for the betterment of our nation. We have collective enthusiasm and resolve to serving and advancing our beloved nation.

Sir, let us not be mistaken that the task ahead will be simple and easy. It will need all our resolve and cooperation if we are to achieve our goal. It is our collective goal. We need the support of everyone. Government cannot do it alone. Together we are stronger. Together we will overcome. Together we will prevail.

Sir, I commend this Bill to the House and I do so with the concurrence of Cabinet.

Thank you. May God bless us all. May God bless Fiji.