

2005 Budget Address

Minister for Finance & National Planning

Hon. Ratu Jone Y. Kubuabola

5th November, 2005

INTRODUCTION

Mr. Speaker Sir,

President of the Senate,

Honourable Prime Minister,

Chief Justice,

Honourable Leader of the Opposition,

Honourable Members of Parliament,

Your Excellencies, Members of the Diplomatic Corps,

Distinguished Guests,

Ladies and Gentlemen:

It is an honour and privilege to present to Parliament, and the people of Fiji, the national Budget for 2005.

Mr Speaker Sir, we have come a long way as a nation in the last four years. I would like to express Government's appreciation to all sections of the community in moving our beloved nation forward. Our rebuilding has been successful in the face of adversity and the international community has applauded our achievements. This reflects our resilience as a nation, a resilience borne out of the multiracial and multicultural fabric of our country. We need to continue to build on this success. Sir, our people deserve nothing less.

Mr Speaker Sir, the reality is that we face differences despite our richness in diversity. We recently dedicated a week to National Reconciliation and Unity. There were different emotions expressed on these events. But I would like to stress that this was just the beginning of a long process of healing **relationships** and forging national unity as we face future challenges together. Sir, **unity** of purpose is best captured by our late former President and Turaga Tui Nayau Ratu Sir Kamisese Mara who said "**We must all find a common path towards unity, a unity that transcends race and religion and recognises that we are all sons and daughters of Fiji**".

Relationships are about people irrespective of creed, race, religion and incomes. It includes the poor as well as the rich; the educated and the non-educated; the rural villagers and the urban dwellers. Sir, relationships are about you and me. They are the building blocks of the nation. We will better face the future if we continue to foster our relationships and build national unity. Together we are stronger.

Mr Speaker Sir, the future is more challenging than ever. The globalisation train is steaming ahead. Trade liberalisation is everywhere. Terrorism is now a global threat. Sir, we as a small and vulnerable nation must face up to this changing environment. We cannot wish them away. We also cannot run away from them. We are part and parcel of the global village. We must therefore safeguard the future of our children and grandchildren. We can only do this well if we are **united**. We can only do this successfully if we take **responsible decisions**. We can only do this if we **grow the economy**. We can only achieve this if each of us **fully share the benefits** of this growth.

Sir, this budget lays the building blocks for our future.

2.0 STRATEGIC DEVELOPMENT PLAN 2003-2005

Mr Speaker Sir, Government together with private sector and civil societies adopted a vision of a “**Peaceful and Prosperous Fiji**” in the **Strategic Development Plan 2003-2005**. Government is firmly committed to achieving this vision.

Mr Speaker Sir, the Mid-term Review of the Plan has been completed. The findings of the Review have been endorsed by the **National Economic Development Council**, comprising representatives of Government, private sector and civil society. The Review confirmed that the Plan’s **Medium Term Strategy** is sound, relevant to national development goals and aligned to our vision.

Essentially, the review highlighted the need to accelerate the reform agenda to lift public sector productivity, which will in turn improve services, raise the quality of investments and lift our growth potential. The Review also emphasised the need for more funding to priority areas, such as education, health and poverty alleviation. Government in 2005 will implement 86, of the 105, recommendations within the priority areas identified in the Mid-term Review.

3.0 CURRENT ECONOMIC CONDITIONS

Mr Speaker Sir, let me briefly review our current economic conditions.

Sir, **global** economic and financial conditions have improved this year. The International Monetary Fund has projected global growth for 2004 at around 5 percent, the highest for nearly three decades. Growth prospects for Fiji's major trading partners are also positive.

Mr Speaker Sir, the recent surge in international oil prices is something that concerns everyone. This has necessitated an increase in our inflation estimate to 3.5 percent for the end of this year. International analysts predict a reduction in oil prices in 2005, but there is consensus that they will not return to their levels of previous years.

Mr Speaker Sir, the **domestic** economy has recovered well since the decline of 2000. It rebounded quickly in 2001 to 2.7 percent. In 2002, growth rose to 4.3 percent. Growth for 2003 has been revised downwards to 3 percent. This is due to lower than expected performances in the fishing sector, other crops excluding cane; non-food manufacturing, wholesale and retail and

delays in some construction projects. The 2003 performance contributed to an average growth rate of 3.3 percent in the last three years.

Mr Speaker Sir, we have also been able to achieve a better average growth rate under a stable economic environment. Inflation remains low. Foreign reserves are adequate. Investment has increased again after two decades of decline. Employment is increasing. Incomes are better. Confidence is growing.

Mr Speaker Sir, economic growth is now estimated at 3.8 percent in 2004 compared to the earlier forecast of 4.7 percent. The lower growth estimate is mainly due to reduced growth now projected for transport and the community and social services sectors.

The tourism sector is the main driver of growth this year. In addition, strong consumer demand will also contribute to growth in the wholesale and retail trade sector.

4.0 ECONOMIC PROSPECTS

Looking ahead, Mr. Speaker Sir, Fiji faces daunting challenges both on the domestic and external fronts. The economic forecast for the next two years are also lower than our earlier estimates. Economic growth in 2005 is now estimated at 1.5 percent down from 4.2 percent and 0.7 percent in 2006, down from 2.9 percent. These revisions are mainly due to the effects of the expiry of our quota access of garments to the United States. As a result, Fiji's exports of garments to this market may be reduced by 30 percent in

2005 and may completely disappear in 2006. At the same time, we now expect reduction in the production of sugar in 2005. A downward revision has also been made on the output of the non-sugar agriculture sectors.

Mr Speaker Sir, Government will do its best to minimise the adverse impact of some of these developments on the economy. We are confident that with better performances expected in tourist arrivals and perhaps in other industries, these growth estimates particularly for 2006 will be higher.

Mr Speaker Sir, to give some context to these revised economic projections I would like to point out the following. Firstly, we are growing by close to 4 percent this year, which is a commendable performance by our historical standards. Secondly, the contributing factor to these lower estimates in 2005 and 2006 are largely beyond our control. In a way, this underlines our vulnerability to external developments that we cannot avoid. Lastly, we are continuing with policy implementation that promotes growth, which lasts into the long term.

Mr. Speaker Sir, this Government is confident that we can still raise the growth rate. With our collective effort, Sir, we can aspire to higher growth. Unity of purpose is a powerful driver of prosperity.

Mr Speaker Sir, clearly we need to protect growth going forward. We must grow sensibly. We must operate in a stable economic climate at all times. We must at the same time expand our economic potential through reforms. This budget sets the foundation for future economic stability.

5.0 BUDGET THEME

Mr. Speaker Sir, our vision of a **“Peaceful and Prosperous Fiji”** remains clear and intact in our minds. We will not deviate from carrying this flag. May I mention again that national unity is important to achieving this vision.

The roadmap for taking the nation forward towards peace and prosperity is the Strategic Development Plan. Sir, as I have said, we have completed the review of the Plan, learnt from lessons of the past and we are committed to forge ahead with its implementation.

Mr Speaker Sir, we have seen how situations that are beyond our control have significant impact on our economic fortunes. We also note the importance of advancing reforms to protect the stability of our economy and build a strong platform for growth.

Mr Speaker Sir, the theme for this budget is **“Growing a Sustainable Economy for our Future.”**

We believe that it is time to stress sustainability. On this front, we will coordinate the two pillars of public policy. Both fiscal and monetary policies will share the burden of securing economic stability. On the fiscal side, we are reducing Government deficit. This will slow down the build up of debt and also help reduce domestic demand. In support, monetary policy will continue to focus on maintaining a healthy level of reserves and low inflation. Sir, this package will provide the platform for future growth and investment.

Mr Speaker Sir, only growth can enhance our ability to create more jobs, provide better healthcare and improve access to education and housing. Only through growth will we be able to progress on poverty. Sir, pursuing sustainable growth will provide a sound footing to better tackle the challenges ahead of us.

6.0 MONETARY and FISCAL POLICY FRAMEWORK

Mr. Speaker Sir, let me explain the broad policy framework that will deliver the theme of this budget.

On the monetary policy front, the Reserve Bank will continue to execute appropriate **monetary** policy to suit prevailing economic conditions and also to ensure the sustainability of growth in Fiji. The Bank has maintained an accommodative monetary policy stance since late 2000 to support economic growth. Our recent economic performance has been supported by strong consumer spending and this is being reflected in the rise of commercial bank credit and a higher import bill. Unfortunately, domestic exports have been declining leading to the widening of the current account in the balance of payments, despite the rise in tourist receipts and remittances from abroad. Under these conditions, the Bank gave a clear signal earlier this year that it will tighten monetary policy to dampen domestic demand.

This policy action is in line with the theme of this Budget. I however wish to stress that interest rates remain at historically **low levels** and they compare

favourably with interest rates in New Zealand and Australia. This low interest rate environment will continue to support Government's efforts to promote growth and investment.

Sir, at the same time, **inflation** is anticipated to remain low. The higher oil prices in 2005 may push inflation up but this should track down again when oil prices fall. **Foreign exchange reserves** are forecast to remain at adequate levels.

Mr. Speaker, our **fiscal** policy will support the sustainability theme of the budget, but at the same time continue to promote growth in the medium term.

Mr Speaker Sir, Government sought additional **expenditure** early in the year to meet the cost of unforeseen events, which include relief and rehabilitation costs of the flash floods in April and the increase in provisions to the Legislature. In addition, Sir, a supplementary appropriation was required for the priority areas of Health and Education to provide for additional staffing establishment and related costs for 231 new teachers and 421 health personnel. Lastly, there were additional appropriations to the Fiji Military Forces to cater for 302 additional staff.

Sir, these additional expenditures will result in a **deficit** of 4.8 percent of GDP for 2004.

The deficit in this budget is being reduced to **3.5 percent** of GDP in line with the theme of sustainability. This policy will assist monetary policy in

dampening domestic demand and more importantly, slow down the pace of debt accumulation. However, it is important to keep this fiscal policy in proper perspective. We have recovered well since 2000. The fiscal policy stance that we have adopted since 2000 has produced the right results. The economy has grown. Incomes have increased. Investment is growing. It is therefore time to consolidate our fiscal position.

Mr Speaker Sir, in 2005, **revenue** is projected at \$1,257 million and total **expenditure** at \$1,424 million.

Mr Speaker Sir, this Budget fully provides for the effect of the supplementary appropriations made this year. Therefore, we will be more vigilant in driving fiscal discipline. To this end, greater weight will be accorded to the financial performance component in the performance agreements of Chief Executive Officers.

Mr. Speaker Sir, let me stress here that our fiscal policy since 2000 has led to improvements in the livelihoods of our communities. Many of our people are now able to transport their produce to the urban markets through better roads and bridges. New jetties have provided our island communities with a safer and more convenient way to travel and transport cargoes. Many families have built their first homes through the Rural Housing Scheme. People are enjoying the provision of clean and reliable water in their homes. Many of our rural students are now able to study under an electric light for the first time thus increasing their chances of passing their examinations and finding gainful employment. Some have even started small businesses with targeted assistance.

Mr Speaker Sir, our track record for delivering services to all communities is clear for everyone to see. It has touched the lives of many.

7.0 RAISING ECONOMIC POTENTIAL

Mr. Speaker Sir, one of the key avenues that we would like to pursue to help us grow are **structural reforms**. These reforms will allow us to reduce wastage of taxpayers funds; improve service delivery in areas such health, education, housing, water, sanitation and electricity; and further develop infrastructure such as roads, bridges, jetties and airports.

Mr Speaker Sir, bringing about changes in organisations, and particularly in the way people do things in these organisations, is tougher than most people realise. Many sensitive issues are involved and we need to deal with these in a practical sense. We have made some progress but enormous efforts are still required.

Sir, I want to emphasise that while these reforms are difficult to implement, their importance to the future of our nation is absolutely critical.

Mr. Speaker Sir, reforms are the key that will open the door to higher growth. These reforms will allow us to raise productivity and get the most benefits from the use of our very limited resources. They will free up resources to be channelled to productive investments. These reforms will provide incomes to our rural communities. They will also provide our grandchildren with more employment opportunities when they leave school.

These reforms will improve the standards of living of all our people. Importantly, Mr Speaker Sir, these reforms will provide the basis for “**Growing a Sustainable Economy for our Future**”.

Mr Speaker Sir, let me now turn to the **Public Sector Reform** programmes.

On **Civil Service Reforms**, Government’s efforts will focus on improving productivity and the quality of service delivery. To achieve this, we will work in partnership with the public sector unions to bring about the necessary changes.

Mr Speaker Sir, reforms are even more pressing given that salaries and wages of the Public Service now stands at around 11 percent of GDP, compared with around 6 to 8 percent of GDP in other countries. Sir, this level is reducing Government’s ability to fund programmes in priority areas. Already, it is difficult for Government to meet its expenditure mix target of 30 percent capital and 70 percent operating. For 2005, Government’s capital expenditure will be 18 percent of total spending. Government is therefore committed to reducing its operating expenditure. In particular, reducing the salaries and wages bill to 9 percent of GDP in the medium term.

However, we understand the sensitivities and complexities surrounding wages and salaries because we are dealing with people. We will proceed sensibly in this area. In this regard, we will pursue selective corporatisation of Government agencies.

Mr Speaker Sir, Government confirms that any annual salary increase will be strictly based on performance and productivity, in accordance with the principles of the **Performance Management System**. As a start, 23 Chief Executive Officers entered into performance contracts with the Commission at the beginning of this year. We will build on this platform. Government will also establish a formal mechanism through which CEOs are accountable to their Ministers for the delivery of their core responsibilities.

Mr Speaker Sir, on **Public Enterprises Reform**, Water and Sewerage Department and the Department of Roads, are currently undergoing internal reorganisation to improve efficiency. In addition, a single port management company has been incorporated and is expected to be fully operational in 2005.

Mr Speaker Sir, the Financial Management Bill which was recently passed in Parliament will introduce measures to reform the **Financial Management** system of Government. The implementation will take into account institutional limitations and focus on streamlining internal controls of expenditure and improving service delivery. A new Financial Management Information System in early 2005 will provide better control of public spending and facilitate the recording of assets in the move towards accrual accounting.

Mr Speaker Sir, changes in the international trade environment require reform of our domestic industries to minimise the impact of external shocks, such as the expiry of the Agreement on Textile and Clothing with the United

States. On a positive note, the SPARTECA-TCF Scheme has been extended for another seven years.

Mr Speaker Sir, preferential sugar prices are being eroded more quickly and significantly than we earlier thought. Notwithstanding these adverse developments, the survival of the sugar industry still remains within our control.

Mr Speaker Sir, swift delivery of reforms is necessary to prepare our sugar industry for challenges in a more liberalised market. Government is determined to ensure the viability of the sugar industry, which sustains the livelihoods of many of our rural people.

Mr Speaker Sir, a three year reform programme for the sugar industry, based largely on the recommendations of the Indian Government sponsored **Technical and Finance Mission** study, has been collectively endorsed by Parliament and key industry stakeholders. To fund the agreed recommendations, Government has guaranteed a concessionary loan from the Government of India and has also secured technical assistance to oversee the implementation of the reform process.

Mr Speaker Sir, whilst Government is committed to making the sugar industry viable, we are equally cognisant of the need to diversify into other agricultural commodities where niche markets exist. Government, with the assistance of the Asian Development Bank, has been exploring options for other rural livelihoods and will next year put in place measures for implementation.

Mr Speaker Sir, an effective, competitive and stable financial system is essential to support a sustainable economy for our future. I will now turn to policy measures intended to further strengthen our **financial sector**.

Mr Speaker Sir, Government will develop a special legislation for the supervision of superannuation in 2005. The International Labour Organisation has recently completed an actuarial study of the **Fiji National Provident Fund**. Based on the findings of this study, I wish to take this opportunity to assure Parliament and the people of Fiji that the FPNF is financially strong and that their funds are safe and secure. We are also amending the FPNF Act to give the Fund more flexibility in its investment choices and as a result increase its return to members.

Mr Speaker, Sir, Government is currently evaluating the deregulation of the superannuation industry with the assistance of the Asian Development Bank.

Sir, the **Fiji Development Bank** will continue with reorganising its operations with a view to improving its core functions and to diversify its portfolio into commercial lending. The Bank has applied for a banking licence to enable it to accept deposits from the public which will improve its ability to further fund its development agenda.

Mr Speaker Sir, the Reserve Bank is examining several ways to help promote exports. First, the Export Finance Facility that is offered through the commercial banks is being assessed to enhance its attractiveness to small

exporters. Second, the need for an Export Guarantee Scheme is currently being explored.

Mr Speaker Sir, to further support **capital market** development, Government will sell its shares in Fiji Television Limited and Colonial National Bank, and will partially divest its shares in Amalgamated Telecom Holdings Limited. The Capital Markets Development Authority Act will be amended to take into account some of the experiences that we have had in the last ten years. The Unit Trust Act will also be amended in 2005. Government is increasing its funding to the Capital Markets Development Authority and the South Pacific Stock Exchange. We will continue to explore additional measures to help the development of the capital market.

8.0 LIFTING INVESTMENT LEVELS

Mr Speaker Sir, raising investment levels is vital to growing a sustainable economy. Total investment in Fiji has been declining since 1981. I am happy to say that this Government has turned the declining investment trend around. Total investment is now growing again to reach 16 percent of GDP, a level we last achieved in 1986. More encouragingly, private investment has started to grow strongly in the last two years. This achievement has been made possible by the confidence that investors have in Government's policies and where we are heading as a country. This augurs well for the future of our economy.

There is still some way to go before we reach the level of investment that is necessary to sustain future growth. But, Government is confident that we will reach that level with the help of the private sector.

Sir, the private sector will remain the engine for growth. They have responded very well to the stable economic conditions that we have enjoyed in the last few years. There is optimism in what we can achieve. In consultation with private sector, we will progressively develop industry specific incentives as we have done for the Audio Visual industry.

Mr Speaker Sir, Government will improve the quality of its major capital projects through the **Public Sector Investment Programme**. One of the major constraints to the implementation of public sector projects has been the lack of adequate skills. In an attempt to address this concern, Government is reintroducing the apprenticeship program in the Public Works Department.

Sir, Government understands the lack of skilled personnel in industries like building and construction and will continue to facilitate the issuance of work permits in these areas.

Mr Speaker Sir, the recent amendments to the **Foreign Investment Act** aim to improve the transparency of regulations required for investing in Fiji. In addition, the existing Reserved and Restricted Lists are currently under review to better define the sectors open to foreign investors. Sir, to facilitate foreign investment, Government has introduced a new approval process for all aspects of investment applications. This new system will ensure that all

relevant agencies in the **approval process** swiftly carry out their necessary functions required to register potential foreign investors. Government regularly reviews the performance of all approval agencies, including the Immigration Department and the Companies Office.

Mr Speaker Sir, the **Fiji Investment Corporation** in partnership with the private sector, will seek opportunities to invest in industries, such as manufacturing and tourism. I am pleased to report that through this initiative, the re-development of the Grand Pacific Hotel will commence in 2005.

Sir, Government incentives to the **Audio Visual** industry has led to the success of Anaconda 2, and there are firm plans for further film production in the near future. Government supports the speedy development of the Studio City in Yaqara which will further boost production capabilities.

9.0 KEY SECTORS

Mr Speaker Sir, let me outline the key sectors that this Budget will address.

9.1 Small and Micro-Enterprises Development

Mr Speaker Sir, I believe that the key to expanding job opportunities in Fiji lies in small and micro enterprises. There is enormous untapped potential in this area particularly in rural areas where natural resources are under-utilised. In addition, the participation of women in these enterprises is

growing. These schemes provide the opportunity to walk out of poverty. Government fully supports the development of this sector.

As I travel around the country, I have seen small canteens and tailors operating from homes in villages and suburbs of urban centres with a loan of a few hundred dollars. Barbeque stalls are also popular. Incomes from these micro enterprises help pay for school lunches and bus fares. Some graduate to small and perhaps to medium enterprises.

The National Centre for Small and Micro-Enterprises Development since its establishment in 2001 has provided 6,000 loans under its scheme and has helped create jobs for many who would otherwise be unemployed.

To this end, an allocation of \$1.4 million has been provided to the National Centre for Small and Micro-Enterprises Development, to support SME business ventures, including training, and extend micro-finance outreach. \$200,000 has also been provided to the Departments of Cooperatives and Youth in support of small enterprises development.

In addition, \$200,000 has been set aside for the establishment of a **Small Business Incubator** facility targeted to provide space and technical support at affordable terms for developing new enterprises. An allocation of \$1.5 million is also provided for the continued operation of the **Integrated Human Resources Development Programme for Employment Promotion**, which on average has created around 900 jobs a year mainly in tourism, catering and small-scale farming.

Mr Speaker Sir, Government intends to put in place specific incentives for the development of SMEs in Fiji. More so, Government will continue to streamline business registration processes to facilitate the growth of small enterprises.

9.2 Information Communication Technology

Mr Speaker Sir, Government recognises the potential of the **Information Communication Technology** (ICT) sector to contribute to growth, investment and employment. We already have a number of prerequisites to our advantage, which include the huge capacity of the Southern Cross Cable, a literate workforce, and a favourable time zone.

To this end, Government, through the IT Advisory Council, has designed a focussed policy framework to encourage, facilitate and support the development of the ICT industry. To spearhead this initiative, Government has set aside \$400,000 to establish a dedicated agency, **e-Fiji**, aimed at implementing targeted policies to accelerate growth of the ICT industry.

Mr Speaker, Government will support our private sector partners in establishing a Telebusiness Park. Competitive telecommunication rates and skills development are essential for the growth of the ICT industry. It is encouraging to note that two new back-office operations have already created over 500 new jobs.

Mr Speaker Sir, I am pleased to announce a provision of \$4 million for an **E-Government** programme to enhance efficiency within the public service.

Our efforts in this area will be complemented by a loan from the Peoples Republic of China.

9.3 Rural and Outer Island Development

Mr Speaker Sir most of our people live in the rural areas. Government understands the difficulties that our rural communities face in their daily lives. Many lack basic necessities of shelter, electricity and water and their welfare is a priority of Government. At the same time, we fully appreciate the huge challenge that any Government faces in delivering services to rural people. But we are committed to improve the livelihood of these communities and have increased the provisions that will improve their welfare.

Our rural communities also benefit from key export and service industries such as tourism, agriculture, forests, fisheries and mining, which are concentrated in these areas. Government's support to these industries will therefore also improve the welfare of our rural people.

Water is another necessity of life. In the last three years we have provided reticulation to over 130 villages and settlements. Another 40 to 50 villages will be able to have piped water in 2005 with the allocation of \$2.5 million for **Rural Water Supply Projects**. Moreover Mr Speaker Sir, a sum of \$230,000 has been set aside to **develop reliable water supply** in outer islands, and will be complemented by an allocation of \$500,000 for drilling equipment. In addition, \$430,000 has been set aside to provide for water tanks in outlying islands.

Sir, proper housing is a critical need in rural communities. Through Government assistance introduced in 2002, around 500 rural families have the dignity of owning homes. A further \$2 million is allocated for the **Rural Housing Scheme**, which will provide houses to another 330 rural families.

Many of our rural communities do not have electricity. Government's **Rural Electrification Scheme** has made 400 new connections in the last three years. An additional \$6 million will be allocated to this Scheme in 2005.

Mr Speaker Sir, \$1.5 million has been set aside for **Shipping Franchise Scheme** to provide shipping services to outer islands. In addition, I am pleased to announce that Government has allocated \$2.5 million for a new vessel to enhance the delivery of services to our **maritime communities**. \$1.5 million will also be provided for the construction of a new jetty in Kadavu. \$1 million has been allocated for the upgrading of Labasa airport, and airstrips at Bureta, Matei and Rotuma.

Government has opened supplies outlets in Keiyasi, Nabouwalu, Rakiraki, Savusavu, Seaqaqa, and Waiyevo to enable rural dwellers to have easy access to stationery, hardware materials, farming equipment and basic food items. In 2005, Government has allocated \$120,000 to establish supplies outlets in Levuka and Naitasiri.

Mr. Speaker Sir, I witnessed the opening of the satellite rural telephone system in Yaqara and saw the Prime Minister talk to the Tui Namosi in his

village. This function was telecast live in Komo, Moala and Vanuavatu, in the Lau Group. I felt the awe and the pride of the people of Ra in hosting a site that will deliver telephone services to the rural communities in Fiji for the first time. The scheme will cover 300 villages all over Fiji next year. The possibilities that this scheme brings are endless. Imagine the joy of a mother as she talks to her son in the United Kingdom who she has not seen for many years. Imagine the thrill of the children as they access the wonderful world of the internet. Imagine also the scope that telecommunications will bring to businesses in these areas. In 2005, Government will provide a subsidy of \$600,000 for the provision of telecommunication and postal services to rural areas.

Mr Speaker Sir, \$3 million is provided for the **Self Help Scheme** and \$1.6 million is allocated for the **Village Improvement Scheme**, which will benefit 21 villages next year through the construction of multi-purpose halls and village beautification projects. In addition, \$3 million has been set aside for **Divisional Development Projects** and \$1.5 million for **Community Development Projects**.

Sir, in support of agriculture, a sum of \$1.5 million is provided to upgrade **Farm Access Roads** and \$1.2 million to upgrade **Cane Access Roads**.

Mr Speaker Sir, a sum of \$2 million is allocated to the **Agriculture Marketing Authority** in 2005 to facilitate market access for produce from rural areas and outer islands. In addition, Government has set aside \$1.6 million for **coastal fisheries development**, which will include the

construction of rural fish centres in Kadavu and Levuka. This is in addition to centres established in Vanuabalavu and Wainikoro this year.

Mr Speaker Sir, Government is committed to the provision of banking services to our rural communities. A recent study has shown that a total of 300,000 people do not have a bank account. This represents about one third of the population. In some cases, it takes hours of travel across rough terrain and waters to reach urban centres simply to withdraw and deposit funds.

Mr Speaker Sir, I thank ANZ bank for its '*mo tubu*' **mobile banking project**, which has taken the lead in providing banking services to the people in the rural areas. An excellent component of this initiative is the partnership with the United Nations Development Program to educate our rural people on banking and financial matters. In its first month of operations, the scheme has opened 1400 new accounts with a value of close to \$40,000. When fully operational, the programme will cover the whole of Fiji.

Mr Speaker Sir, Government will continue to provide subsidy and incentives for the development of financial services in rural areas. A **tax deduction of 150%** for each dollar of direct expenditure by commercial banks in their respective rural banking programmes has been provided. In addition, vehicles acquired for the programmes will be **exempt** from fiscal duty. Sir, I call on the banking community to continue to establish ways that they can increase their presence in the rural areas.

Mr Speaker Sir, to boost economic activity in the **Northern Division**, \$1 million has been allocated to the FDB to administer a loan facility on concessionary terms. Additional measures contained in this budget for further development in Vanua Levu, include: a new port in Wairiki, Bua, extension of the Labasa Hospital, water and sewerage works in Labasa and Savusavu and establishment of a police station in Tukavesi.

Mr Speaker Sir, a recent review of the Fijian Administration recommended, amongst other things, the merger of the Ministries of Fijian Affairs and Regional Development, with the province designated as the focal planning unit. This is aimed at improving the delivery of Government services to the rural areas. Government has allocated \$1 million in 2005 to commence implementation of the findings of the review.

9.4 Poverty Alleviation and Social Welfare

Mr Speaker Sir, poverty alleviation is a priority of Government. The most sustainable way of bringing people out of poverty is by providing them access to income generating opportunities. Providing access to education is one of the keys that will break the poverty trap. In this regard, Government is providing free tuition up to form six from next year. Small and Micro enterprises is another key area and the measures that I have already announced indicate what Government is doing in this area.

Sir, in the past four years Government has assisted 1,760 families under the **Poverty Alleviation Projects** scheme. In 2005, the allocation to this

scheme will increase by \$500,000 to \$3 million, which is expected to benefit over 600 families in total.

Mr Speaker Sir, the lack of access to affordable housing remains a concern of the needy and poor. With the assistance of the Asian Development Bank, an **Urban Policy Action Plan** has been developed to put in place measures toward alleviating poverty in urban and peri-urban areas and address the shortage of low cost urban housing. In 2005, Government has set aside a total of \$4 million to provide capital grant and subsidy to **Housing Authority, HART, Public Rental Board** and upgrading of **Squatter Settlements**. Government also acknowledges the contribution by NGOs such as Rotary Club and Habitat for Humanity for providing housing to the poor.

In addition Sir, funding for the **Family Assistance Scheme** in 2005 has been increased by \$3 million to \$15 million and is expected to benefit an additional 4000 recipients from the current 20,333 recipients.

Mr Speaker Sir, we also cannot forget those that have served our country valiantly in past wars. We will be remembering and celebrating their efforts next week. An allocation of \$5.6 million has been set aside for the **Fiji Servicemen's After Care Fund**, which will benefit over 5700 ex-servicemen; and \$20,000 to assist **Christmas Island Veterans**. A sum of \$150,000 is also set aside for the **Fiji National Council of Disabled Persons**.

Mr Speaker Sir, revenue measures contained in this Budget will further assist the low income earners. To this end, in 2005 the re-introduction of dependent allowances will be provided for elderly dependents over 70 years of age. In addition, 3800 taxpayers will be exempt from paying income tax due to an increase in the tax threshold.

9.5 Affirmative Action

Mr Speaker Sir, Government firmly believes that **affirmative action programmes** are necessary to improve the standards of living of all disadvantaged groups.

Sir, the **Social Justice Act** as required under the Constitution identifies specific programmes that are to be implemented by Government to assist disadvantaged groups.

The twenty-nine affirmative action programmes are in the areas of education and training, land and housing, participation in business, welfare assistance, poverty alleviation, and assistance to disabled persons.

Mr Speaker Sir, I wish to stress that these affirmative action programmes are not just for Fijians and Rotumans. On the ethnic breakdown of the targeted beneficiaries, seventeen are for the disadvantaged in all communities, ten are for Fijians and Rotumans, and two are for the Indian and minority communities.

Mr Speaker Sir, a recent review of the Social Justice Act indicates that Government has progressed well with implementation of these programmes. Government will continue to improve the monitoring of these programmes.

Sir, the Social Justice Act regulations also incorporate components of the **20-year Development Plan**, which target the effective participation of Indigenous Fijians and Rotumans in all areas of our economic development. In support of these programmes, Government will maintain the following provisions in 2005:

- ❖ \$4 million for FDB **Interest Subsidy Scheme** for Fijians and Rotumans;
- ❖ \$1.4 million for the **Development Assistance Scheme** for Fijians;
- ❖ \$1 million for the FDB **Subsidy Scheme for Fisheries and Forestry**;
and
- ❖ \$1 million capital grant to Native Land Trust Board.

Mr Speaker Sir, I am particularly pleased to announce the allocation of \$8 million for the **Fijian Affairs Board Scholarships**, compared to the \$6.3 million for this year, which will provide for 865 new awards. Sir, \$4 million has been provided for Multi-ethnic scholarships, an increase of \$850,000, which will provide around 900 new scholarship awards.

9.6 Environment

Mr Speaker Sir, Fiji's environment is vulnerable due to our relative smallness. We must safeguard our environment to ensure sustainable

development. The **Environment Management Bill** is a comprehensive framework for this purpose and will be tabled in Parliament in 2005. In addition, through the United Nations sponsored Global Environment Fund, \$200,000 has been set aside for the **International Waters Programme** aimed at managing our coastal and marine ecosystems.

Mr Speaker Sir, Government is allocating \$200,000 in 2005 for the closure and rehabilitation of the Lami rubbish dump. The new **Naboro Landfill** facility, which will be in operation from 2005, will cater for the Nausori to Navua region.

10.0 SECTORAL ALLOCATIONS

Mr Speaker Sir, let me now turn to sector specific allocations for 2005. Government has increased funding for those sectors, which will assist in “**growing a sustainable economy for our future**”. These sectors include Education, Health, Infrastructure Natural Resources, Tourism and Law and Order.

10.1 Education

Mr Speaker Sir, education remains a major priority for Government with a total of **\$260.4 million** allocated to the Ministry of Education in 2005, an increase of \$8.9 million compared to this year.

Sir, in support of tertiary education, \$35 million has been allocated to the University of the South Pacific; \$8 million to the Fiji Institute of Technology; and \$4.9 million to the Fiji School of Medicine.

Mr Speaker Sir, Government will continue to support **Fee Free Education** for classes 1 to 8 and **Tuition Fee Assistance** for Forms 1 to 6 with a provision of \$10 million. This is the first time Sixth Form students will get tuition fee assistance for which \$2.3 million has been provided. In further support of secondary education, Government has allocated a total of \$2.2 million for **Compulsory Education, Remission** of fees and **Seventh Form Scholarship and Grants** Scheme. For tertiary education, a sum of \$1.6 million has been allocated to the Public Service Commission for scholarships. This will be complemented by training and scholarships offered by AusAID worth \$3.6 million and NZAID worth \$400,000.

Mr Speaker Sir, I am pleased to announce that \$1.1 million has been provided for the construction of a **Form 7 College** in Nasinu. In addition, a sum of \$150,000 will go towards a new school in Delainamasi for **Special Education**.

Sir, \$1.6 million has been set aside for upgrade of facilities in Government owned schools. In addition, \$600,000 has been provided for the continuation of the **Centres of Excellence** Programme. Government assistance to **rural schools** will improve infrastructure, staffing and provide tuition support. This effort will be supplemented by European Union aid of \$5.4 million in 2005.

Mr Speaker Sir, the total staff establishment of the Ministry of Education, including Grant-in-Aid teachers, has been fully provided for in 2005.

10.2 Health

Mr Speaker Sir, Government will continue to improve the delivery of health services to our people. A total of **\$136.8 million** has been allocated in 2005, an increase of \$2.2 million over the year.

Sir, a total of \$2.3 million has been set aside in 2005 for the extension of the **Labasa Hospital** and the maintenance of the three major urban hospitals. Government is also seeking to upgrade Navua Hospital, St Giles Hospital and other sub-divisional hospitals and Health Centres and for this \$2.4 million has been provided. In the last three years, Government has opened six nursing stations and will complete two new Health Centres this year. Sir, the new Fiji School of Medicine campus will be completed next year.

Mr Speaker Sir, funding to tackle the **HIV/AIDS** has been increased to \$500,000. In addition, Government has provided \$1.8 million in support of other preventative health programmes, which include **non-communicable diseases** and **suicide prevention**.

Mr Speaker Sir, we have also fully provided for the medical staff establishment in the Ministry of Health.

10.3 Infrastructure

Mr Speaker Sir, Government will continue to invest in infrastructure development to support sustained growth and improve the quality of life of our people.

In 2005, \$42.3 million has been set aside for **Regional Water Supply** projects and **Sewerages Schemes** including Suva-Nausori and Nadi-Lautoka. In addition, \$18 million has been allocated for the continuation of the **Third Fiji Road Upgrading Programme**, to upgrade roads from **Korovou to Matavatuou** and **Korovou to Nayavu**; \$10 million for periodic **Road Maintenance**, which is an increase of \$2 million and \$5.5 million will go towards the construction of the new **Rewa Bridge**.

Mr Speaker Sir, to improve meteorological services, \$2 million has been allocated for the installation of a **Weather Surveillance Radar** in Vanua Levu.

10.4 Law and Order

Mr Speaker Sir, maintaining law and order is fundamental to achieving sustained growth.

Sir, I am pleased to announce that the budget for the **Fiji Police Force** has been increased by \$1.5 million to a total of \$59.3 million in 2005. Government will continue to increase the presence of Police beyond urban areas to curb the rate of reported crime. To this end, \$145,000 is provided

for the construction of a new police station at **Tukavesi** and \$120,000 for the extension of the **Sigatoka police station**. In addition, \$1.37 million is allocated for the purchase of special equipment. Sir, Government is grateful for the generous donation of 33 vehicles by the private sector to the Police Force this year.

Mr Speaker Sir, full provisions have been made in 2005 for salaries and wages of all 3257 military personnel. In addition, \$300,000 is allocated for preparatory works for the relocation of 4FIR to Votualevu in Nadi.

Mr Speaker Sir, to improve prison facilities in 2005, Government will provide \$400,000 towards the upgrading of **Prison** quarters and institutions; \$100,000 for the relocation of Suva Prison to Naboro; and \$150,000 to upgrade cellblocks in Labasa, Levuka, Taveuni and Ba.

Sir, a National Security and Defence Review has been completed with some of the findings of the review to be implemented in 2005.

Mr Speaker Sir, \$150,000 is set aside for the **National Prosecution Service** to consolidate functions of the Director of Public Prosecutions office and the Police Force. \$350,000 is also provided for the upgrading of existing courts around the country and a new courthouse in Nasinu.

Mr Speaker Sir, \$400,000 has been allocated for the establishment of the **Family Law Courts** as required under the Family Law Act.

Mr Speaker Sir, we are doing our part to combat money laundering and terrorist financing. The **Financial Transactions Reporting Bill** recently tabled in Parliament will compel financial institutions to disclose suspicious transactions to the relevant authorities. The Financial Intelligence Unit, which has been operating since last year, will be formalised through this Bill.

10.5 Tourism

Mr Speaker Sir, Government will continue to support the tourism sector. Currently the sector is the largest contributor to economic growth, investment and foreign exchange earnings. A total allocation of **\$17 million** has been set aside for the sector in 2005, which includes the \$13 million marketing grant to the Fiji Visitors Bureau and \$500,000 for eco-tourism development.

Mr Speaker Sir, investment in additional up-market hotel rooms, the entry of new carriers and the recent approved destination status granted by the People's Republic of China indicate bright prospects for this sector.

Sir, major projects in the sector include the **Sofitel Resort** to be completed by the end of 2005, the **Marriott Hotel** in Momi Bay to be completed in early 2006, and the **Intercontinental Hotel** at Natadola to commence in the second quarter of 2005. These projects upon completion will have a combined total of around 835 rooms to cater for the upmarket tourist segment. In support of the private sector, \$3 million has been provided for

water supply to Natadola next year. Government is also supporting road works in Momi Bay under a Build, Operate and Transfer arrangement.

Mr Speaker Sir, appropriate incentives are also necessary to further develop capacity to accommodate the increasing number of tourist arrivals. In this regard, I am pleased to announce that the **Short Life Investment Package** under the Hotels Aid Act will be extended to 2008 and will now include villa developers.

10.6 Resource Based Sectors

In the 2005 Budget, a sum of \$117.2 million has been earmarked for the development of the country's natural resources, compared to \$98.3 million in 2004. Mr Speaker Sir, Government recognises the need to broaden the export base in view of the decline in the sugar and garment industries. Developing our natural resources will generate income for people in the rural areas.

10.6.1 Agriculture

Mr Speaker Sir, Government assistance to exiting ALTA tenants and incoming sugar cane farmers will continue in 2005. A sum of \$3.75 million has been provided for the **Farm Improvement and Land Resettlement** programmes, of which \$750,000 is to assist new sugar cane farmers.

Sir, \$2.5 million is provided for **Land Drainage and Flood Protection** and \$500,000 is allocated for **Watershed Management** programmes.

Mr Speaker Sir, Government will continue to support the development of smallholder farms for agriculture **livestock** production. In support of this, \$300,000 is provided for beef production, \$400,000 for dairy development and \$120,000 for sheep breeding programmes. The **dairy industry** is currently undergoing a review intended to improve its viability and self-sufficiency. Government will continue to provide supportive tariff measures for the beef, dairy and poultry industry.

10.6.2 Marine Resources

Mr Speaker Sir, a sum of \$500,000 has been allocated for the further development of aquaculture, and \$200,000 in support of mariculture.

Sir, Government has provided \$500,000 to commence upgrading of the fisheries **jetty** in Lami, with the balance to be funded from external sources.

10.6.3 Forestry

Mr Speaker Sir, Government is aware of the potential in the forestry sector to contribute to exports and rural development through the participation of resource owners. To further develop the sector, budget allocations in 2005 will focus on training and infrastructure. Sir, a sum of \$600,000 is provided for the completion of the **Timber Industry Training Centre** in Nasinu.

In addition, I am pleased to announce that Government has set aside \$10 million for construction of the **Bua Integrated Port** facility, which will facilitate the processing of mature forest resources in the Northern Division

Mr Speaker Sir, \$600,000 has been allocated to the **Fiji Pine Trust** and \$200,000 to the **Fiji Mahogany Trust** to promote and assist landowner participation in the forestry sector.

11.0 WOMEN

Mr Speaker Sir, Government recognises the valued contribution made by women to the social and economic development of Fiji.

Sir, I am pleased to announce the allocation of \$300,000 in support of the **Women's Plan of Action**, covering gender mainstreaming, micro-enterprise development, balancing gender in decision making and the elimination of violence against women and children.

12.0 YOUTH and SPORTS

Mr Speaker Sir, youths of Fiji represent our future. Government has formulated a **National Youth Policy** and a Strategic Action Plan for the medium term. The aim is to empower youths to acquire employable skills required in the formal and informal sectors through necessary education and training.

In 2005, a provision of \$350,000 will be allocated for the National Youth Service to encourage participation in income earning initiatives through training in agriculture and apiculture. In addition, \$150,000 will be allocated to upgrade the National Youth Training Centre in Sigatoka, and \$50,000 for the Small Enterprise Development Programme.

Mr Speaker Sir, **sport** promotes nation building and healthy lifestyles for people of all ages. Apart from leisure, the sporting prowess of Fiji's young people can open further opportunities to earn a living. Government is fully committed to developing sports at all levels, particularly in rural areas. A sum \$350,000 has been provided for playing fields and facilities in rural areas. In addition, the 200 percent tax deduction available for corporate donations to sports will continue in 2005.

13.0 CULTURE and HERITAGE

Mr Speaker Sir, for the benefit of our future generations, it is essential that we protect and conserve national heritage, which include our history, culture and unique flora and fauna. I am therefore pleased to announce the allocation of \$1 million to establish the **Fiji Heritage Foundation**. A tax rebate of 150% is available for donation to the Foundation.

Sir, \$120,000 has been provided to the **National Trust of Fiji** for the upgrade of national sites in Momi and Levuka. In addition, Government will provide \$1 million to relocate the **National Archives**, and \$100,000 to upgrade the **Fiji Museum**.

14.0 REVENUE MEASURES and TAX ADMINISTRATION

Mr Speaker Sir, in 2005 Government's revenue policies will focus on strengthening compliance and simplifying tax administration.

Mr Speaker Sir, to safeguard Government revenue, an independent **Fiscal Review Committee** was established this year to examine how best to adjust our fiscal regime in view of increasing trade liberalisation. The Report suggests specific incentives to further develop key sectors and encourage emerging industries in Fiji. Sir, I am pleased to report that some recommendations put forward by the Committee will be implemented in 2005, and the rest will be considered over the medium term.

Mr Speaker Sir, to increase revenue collections and improve compliance, Government has provided the Fiji Islands Revenue and Customs Authority with \$26 million in 2005.

14.1 Direct Tax

Mr Speaker Sir, there will be no change to income tax rates in 2005 and no new taxes will be introduced. Changes to the Income Tax Act however, will assist revenue collection and facilitate Government's objectives of achieving sustained growth.

Sir, I will now announce some of the changes to the Income Tax Act in 2005:

14.1.1 Income Tax Threshold

Sir, I am pleased to announce that the income tax threshold will be raised from \$7,500 to \$8,840 next year.

14.1.2 Dependent Allowances

Sir, to help care for our elderly, dependent allowances will be reintroduced next year for up to two elderly dependents of any one taxpayer.

14.1.3 Hotels Aid Act

Sir, to support current investments in our Tourism industry, the Short Life Investment Package will also be extended to Villa developers. In addition, the 55 percent Investment allowance will be made available for International Retiree Resort facilities.

14.1.4 Reporting System for Real Estate Agents

Sir, a mandatory annual reporting system will be introduced for Real Estate agents to improve compliance through disclosure of incomes earned from rent and property sales.

14.1.5 Donations to Charitable Organisations

Mr Speaker Sir, I am pleased to announce that the threshold for donation to charitable organisations will be increased to \$100,000. Such donations will

qualify for a 100 percent tax deduction and this will include donations to the Kidney Foundation of Fiji.

14.1.6 Employment Taxation Scheme

Sir, the 150 percent deduction for first time employees under the Employment Taxation Scheme will be extended to 2008.

14.1.7 Provisional Tax Threshold

Sir, the Provisional tax threshold will be raised from \$200 to \$300. To further simplify tax administration, due dates for Provisional tax will be aligned to PAYE and VAT.

14.1.8 Investment Allowance

Sir, to encourage investment in rural areas, the 40 percent investment allowance in respect of investments in agriculture, forestry, marine, rural manufacturing and information technology businesses will be extended to 2008.

In addition, interest on loans for projects implemented under the Cotonou Agreement will be exempt from tax.

14.1.9 Fringe Benefit Tax

Sir, section 11(z) of the Income Tax Act, which relates to benefits or allowances received by taxpayers will be amended to allow taxing of “fringe benefits” in line with other taxable income.

Mr Speaker Sir, details of further amendments to the Income Tax Act and VAT Decree are provided in the 2005 Budget Supplement.

14.2 Indirect Taxes

Mr Speaker Sir, I will now outline some of the changes to fiscal and excise duty:

- ❖ Excise rates on cigarettes and spirits will be increased by 4 percent;
- ❖ Oil, air and fuel filters will be exempt from fiscal duty;
- ❖ Duty free concession on machinery will be extended for a further twelve months; and
- ❖ Specific rates for second-hand motor vehicles will be increased by \$500.

Mr Speaker Sir, Government will introduce a **service fee** of 2 cents per litre on fuel loaded on board in ship bunkers effective from 1st January 2005.

Sir, to assist **first homeowners**, the threshold of VAT refunds on a dwelling house will be increased from \$50,000 to \$90,000.

Mr Speaker Sir, the complete list of specific fiscal and excise duty measures, contained in the 2005 Budget Supplement, will become **effective immediately**.

15.0 GOOD GOVERNANCE

Mr Speaker Sir, Government will continue to place high priority on the basic elements of good governance, which include: accountability to the public; participation of all sections of the community in policy formulation; and predictability and transparency in policy implementation. In this regard, the independence and integrity of our institutions such as the Legislature, Judiciary, Public Service and the Auditor General's office are essential for growing a sustainable economy. Strengthening these institutions, Sir, will help us promote good governance, which in turn will discourage corruption. Government, in 2005 will put in place legislation to further strengthen anti-corruption measures.

Mr Speaker Sir, achieving good governance means that Government will adequately resource the **Office of the Auditor General** to independently evaluate and report on the performance of the public service. In line with the new Finance Management legislation, the Auditor General's powers will be enhanced to audit whole of Government. In 2005, \$3.2 million has been allocated to the Office of the Auditor General and \$1.5 million to the Office of the Ombudsman.

Mr Speaker Sir, we have also increased provisions for the Legislature by \$2.2 million, which will include hosting of the **51st Commonwealth Parliamentary Association** conference in 2005.

16.0 OVERSEAS DEVELOPMENT ASSISTANCE

Mr Speaker Sir, most of our aid programmes for 2005 will support provision of infrastructure, rural education, health delivery services, good governance, law and order, human resource development and sustainable development. In 2005, the total amount of aid projects is valued at \$69.3 million.

Mr Speaker Sir, Government wishes to express its appreciation to all donor Governments and agencies for their continued assistance and support towards our development efforts.

CONCLUSION

Mr Speaker Sir, I conclude by revisiting the key issues that I raised at the beginning of my address. We carry the enormous responsibility of safeguarding the future of our children and grandchildren. To help us do this we must unite as a nation, harness our relationships amongst everyone, grow the economy and share the benefits of growth as widely as possible amongst all communities. We can only do this successfully if we make responsible decisions. Sir, I believe that this budget is a responsible one. It

lays the foundation for “**Growing a Sustainable Economy for Our Future**”.

Mr Speaker Sir, we have done well in the last four years. The economy has recovered. Jobs have risen. Investment has increased. Our rural communities have better accesses to water, roads, electricity and banking services. These achievements are not because of Government’s efforts alone. Government acknowledges that these have been made possible through the contributions of everyone.

Sir, we of course have our challenges and hurdles to overcome. In particular, we should not be content with the status quo. We must continue to lift our performances and aspire for higher growth. I firmly believe that this Budget will help us raise our performance in the future.

Mr Speaker Sir, regardless of our smallness we have set international benchmarks and forged new frontiers. The recent award for corporate excellence presented to Natural Waters of Fiji by the United States Government is testament to our ability and potential. As individuals we can also draw inspiration from the outstanding and unprecedented achievements of Vijay Singh in reaching the pinnacle of world sport. Our international peacekeepers who work under very difficult and dangerous conditions are considered to be the best in the world. Mr Speaker Sir, these remarkable achievements give us confidence that we can raise the bar of our performance and still succeed. They give us hope that we can overcome the obstacles that we face nationally and internationally. They give us the

courage to challenge new horizons. They provide role models that our children can aspire to emulate.

Therefore Mr Speaker Sir, let us be united in facing the challenges that confront us. Let us be courageous in seeking new opportunities. Let us collectively work towards building a **“Peaceful and Prosperous Fiji”**.

To conclude Mr Speaker Sir, I wish to refer once again to the words of the late Ratu Sir Kamisese Mara, who, in opening Parliament in 1997, said and I quote, **“There is nothing that can stand in the way of realising our dream of a Fiji enriched by its ethnic and cultural diversity but united as a people and country”**.

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

Thank you and May God bless Fiji.