



# HIGH LEVEL CONFERENCE ON PACIFIC ISLAND COUNTRIES

Lifting Potential Growth in the Pacific Islands – Role of Policies

## Strengthening Fiscal Frameworks & Governance

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**22 November 2013**

# OUTLINE



- **Introduction**
- **Fiscal Policy Framework**
- **Revenue/Tax Policy Reforms**
- **Public Expenditure Management**
- **Debt Management**
- **Summary/Conclusion**

# INTRODUCTION



- **Sound fiscal policy management is a precondition for macroeconomic stability and sustainable economic growth**
- **Post GFC, key challenge has been to restore growth and at the same time ensure fiscal sustainability**
- **Raising the efficiency and quality of expenditure by redirecting resources to priority areas is essential**
- **Strengthening fiscal frameworks & governance is therefore important to “Lifting Potential Growth in the Pacific”**



# FISCAL POLICY FRAMEWORK

# WHAT HAS BEEN OUR FOCUS SINCE 2007...



- **Raising economic growth through:**
  - supporting private sector investments
  - channel adequate budgetary resources to key sectors
  - ensuring fiscal sustainability
- **Target macroeconomic stability and develop policies to:**
  - achieve growth levels of 5% in the medium term
  - further diversify the economy and identify new sources of growth
  - achieve investment to GDP ratio target of 25%
  - promote export led growth and substitute imports
  - build infrastructure and access to education, health, water, electricity
  - reduce poverty, create employment opportunities, raise living standards through inclusive growth policies

# REVENUE POLICY AND ADMINISTRATION

# TAX POLICIES



- **Significant reduction in corporate and personal income taxes in 2012**
  - Income tax reduced from 31 to 20 percent
  - Corporate tax reduced from 28 to 20 percent
- **Targeted incentives to support private sector development**
  - Tax holidays for certain sectors
  - Tax Free Regions
  - Lower corporate tax rate for listed companies
  - Low customs duties and concessions
  - Investment allowances, tax deductions, loss carry forward

# TAX ADMINISTRATION



- Gold Card Initiative to reward compliant taxpayers
- Decentralizing tax offices to reach taxpayers
- Expediting VAT refunds
- Re-write of tax legislations – modernize laws for better compliance
- Price surveillance to ensure concessions are passed on to consumers
- Increased resources to Tax Authority to improve revenue collection



# REVENUE POLICY MOVING FORWARD



- Provide a conducive environment to stimulate investments and growth
- Support export development and value addition in resource based sectors
- Review tariff rates to ensure consistency with policy goals
- Reduce duties on essential items and conduct price surveillance
- Review fees, fines and charges on a cost recovery basis where feasible and appropriate based on the size of business operations
- Improve internal control mechanisms to better manage revenue collection and recovery of arrears and compliance

# EXPENDITURE POLICIES

# EXPENDITURE POLICIES



- **Increased funding towards capital expenditures – 36 percent in 2014**
  - This will raise the productive capacity of the economy
- **Funding to support infrastructure development, education, health, access to water and electricity & rural development**
  - Provides enabling environment to support private sector investment, poverty alleviation and lay foundation for higher potential growth
- **Project planning has been enhanced to expedite implementation**

# PUBLIC EXPENDITURE MANAGEMENT



- **Government recognizes that an effective public financial management (PFM) is essential to:**
  - Deliver macroeconomic stability (understand impact of budgetary decisions on macro variables such as growth, debt, inflation, BOP)
  - Ensure efficient service delivery
  - Facilitate strategic allocation of resources
  - Help achieve national development goals
- **Adopted the FMR program for better financial management**
  - Performance focus and strengthen accountability

# PUBLIC EXPENDITURE MANAGEMENT



- **Fiji has completed the PEFA Assessment (June 2012, last assessment in 2005)**
  - Snapshot of strengths and weaknesses of Fiji's PFM system
- **Focus areas during PEFA include:** budget credibility, transparency, comprehensiveness, policy based budgeting, controls in budget execution, accounting recording & reporting, and audit & external scrutiny
- **Initial steps taken towards accrual accounting**
- **Strengthening monitoring of budget spending**
- **Establishment of Fiji Procurement Office (FPO)**
  - Improve procurement services – more credible and transparent

# DEBT POLICY MANAGEMENT

# DEBT MANAGEMENT



- **Reduction in fiscal deficits and reducing public debt**
- **All new borrowing channeled towards capital expenditures**
- **US\$ 128m in Sinking Fund - equivalent to 2.8 percent of GDP**
- **Utilizing callable options to reduce debt servicing costs**
- **Divestments in SOEs to reduce risks from contingent liabilities**

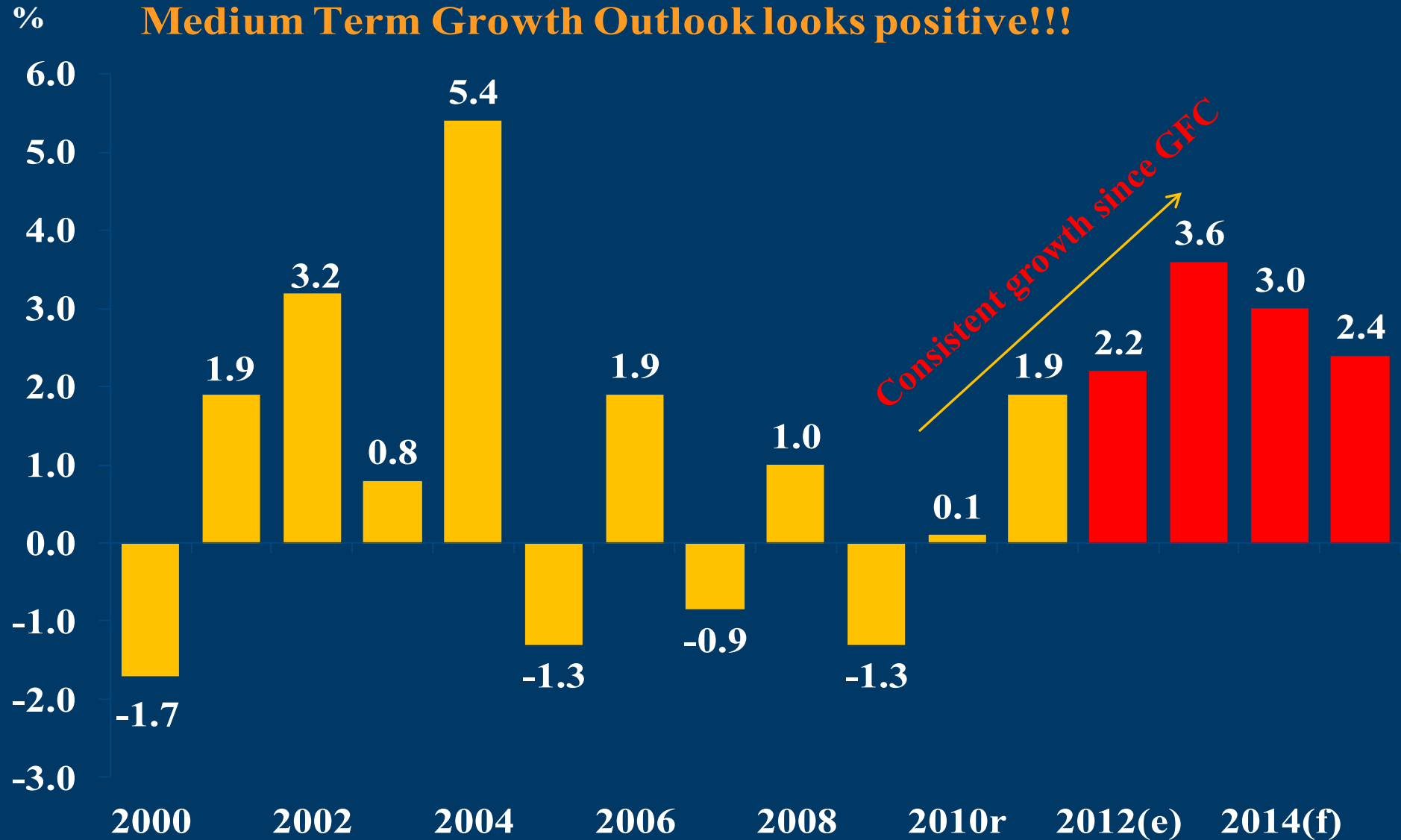
# HOW HAVE WE PERFORMED?



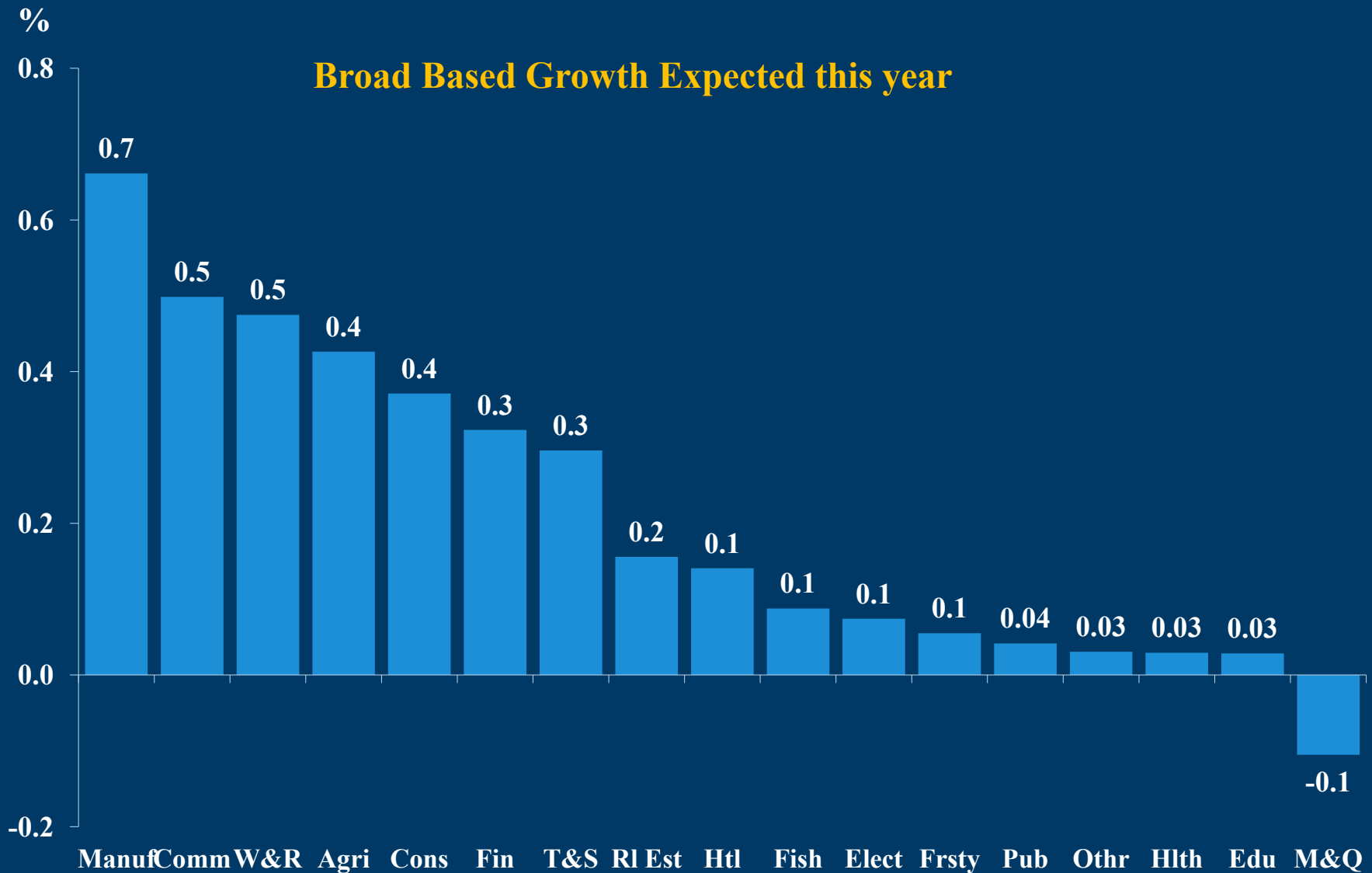
# GDP GROWTH



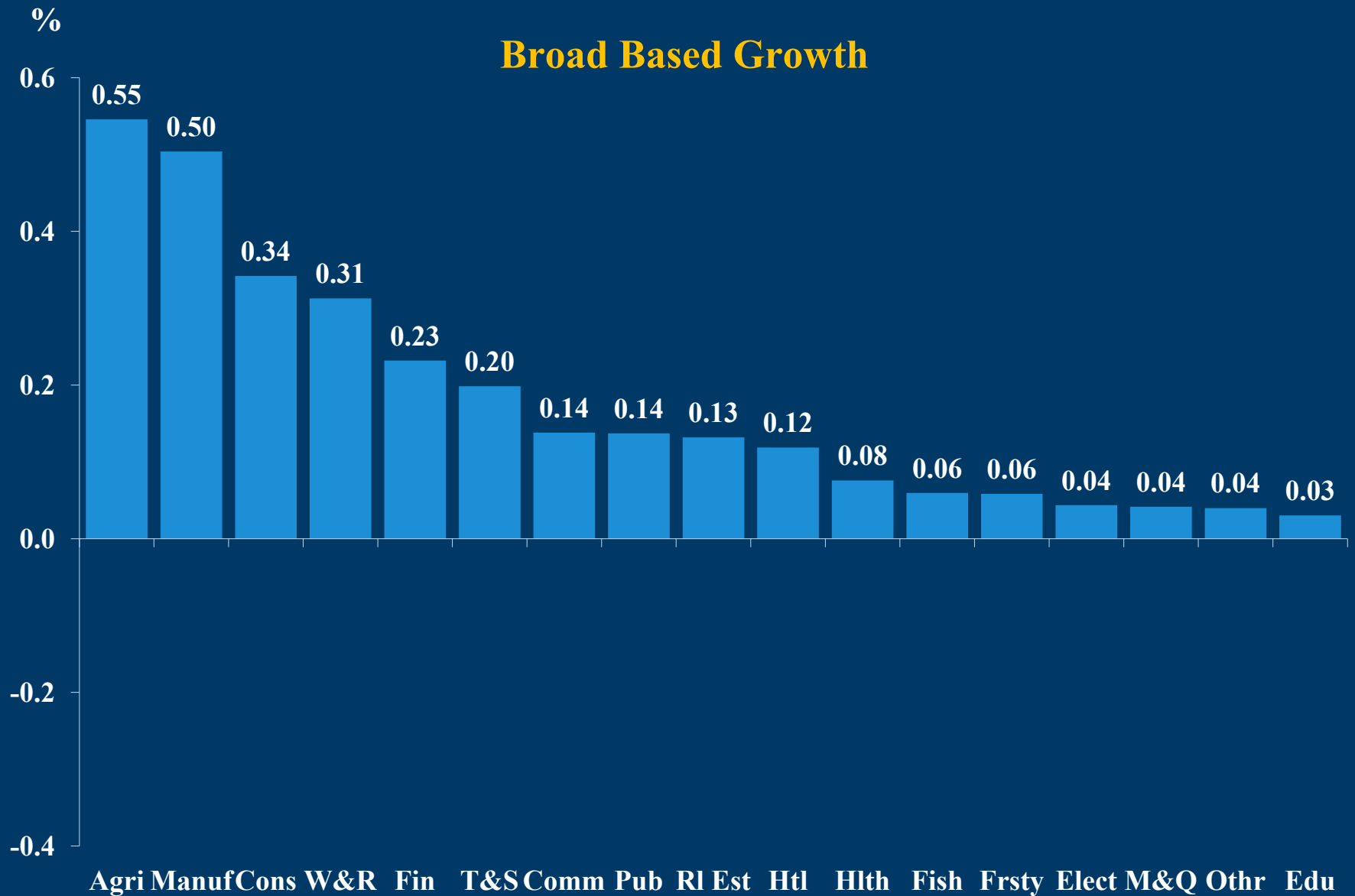
**Medium Term Growth Outlook looks positive!!!**



# CONTRIBUTION TO 2013 GROWTH



# CONTRIBUTION TO 2014 GROWTH

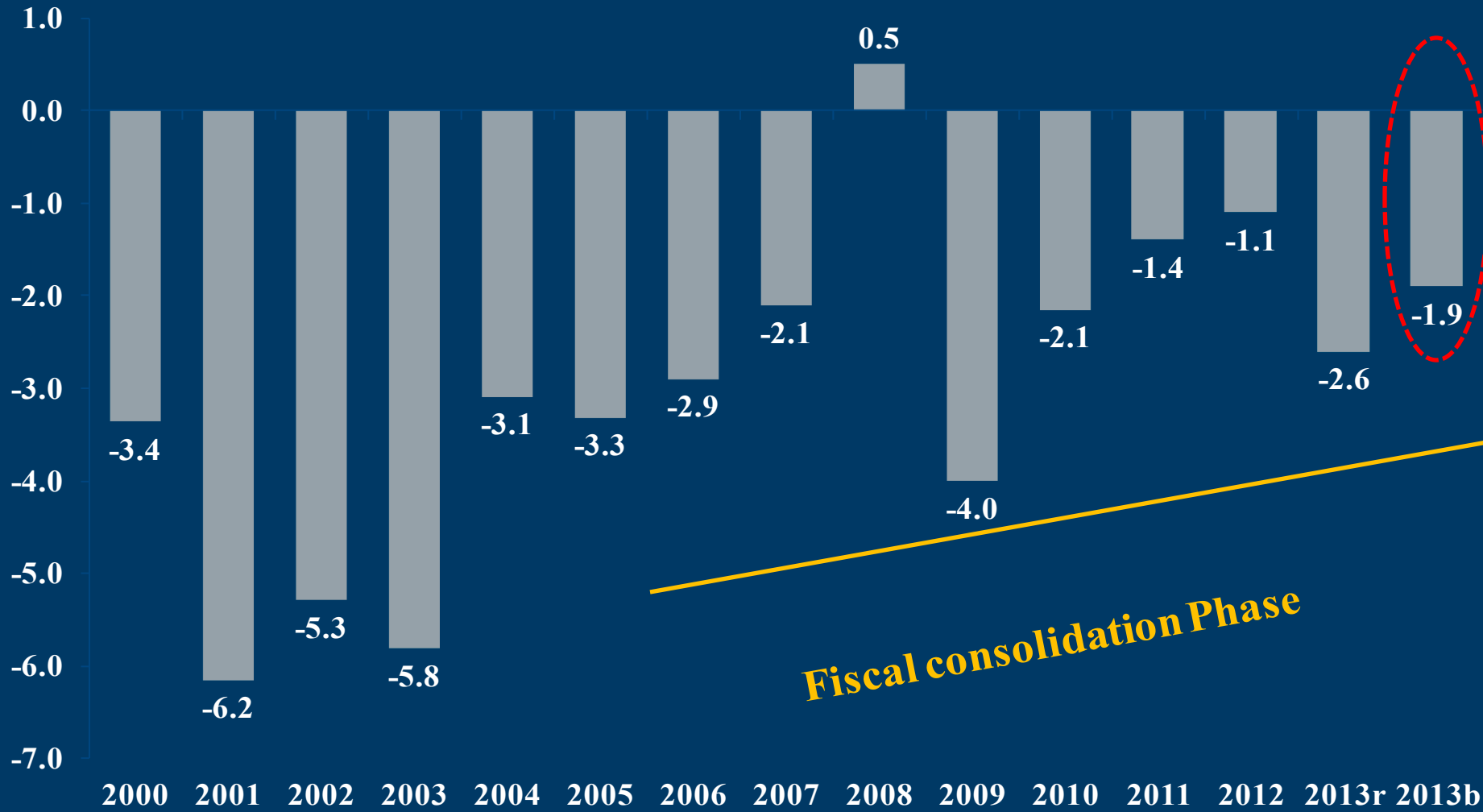


# FISCAL DEFICITS



**Average deficits of around 2 percent of GDP since 2006!!**

% of GDP



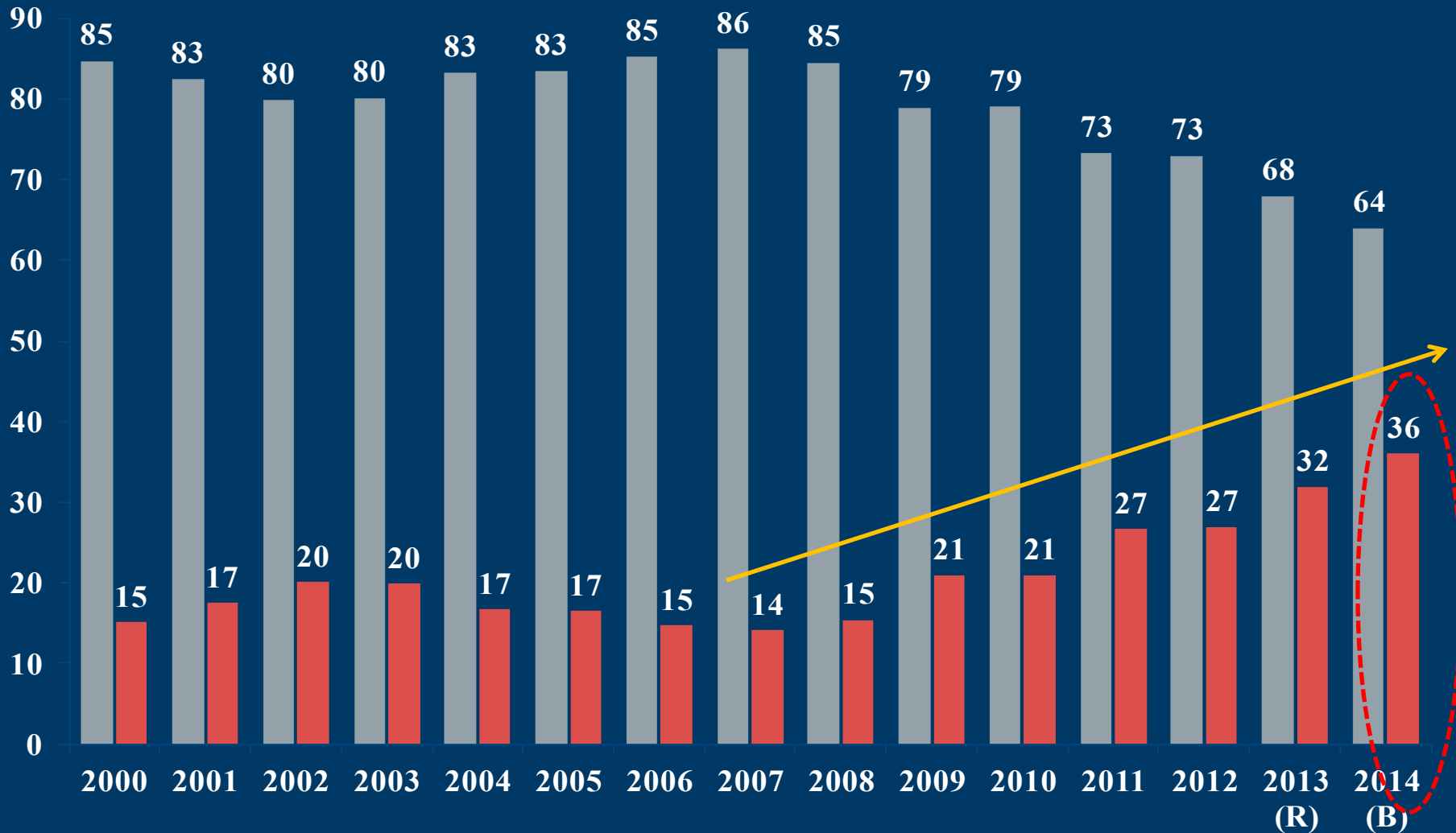
**Fiscal consolidation Phase**

# QUALITY OF EXPENDITURE



% of GDP

**Enhancing quality of deficits with more resources channeled to capital expenditures**



# GROWING THE CAPITAL BUDGET



*Move to higher capital mix to support the Economy*

*Average 2001 - 2005*

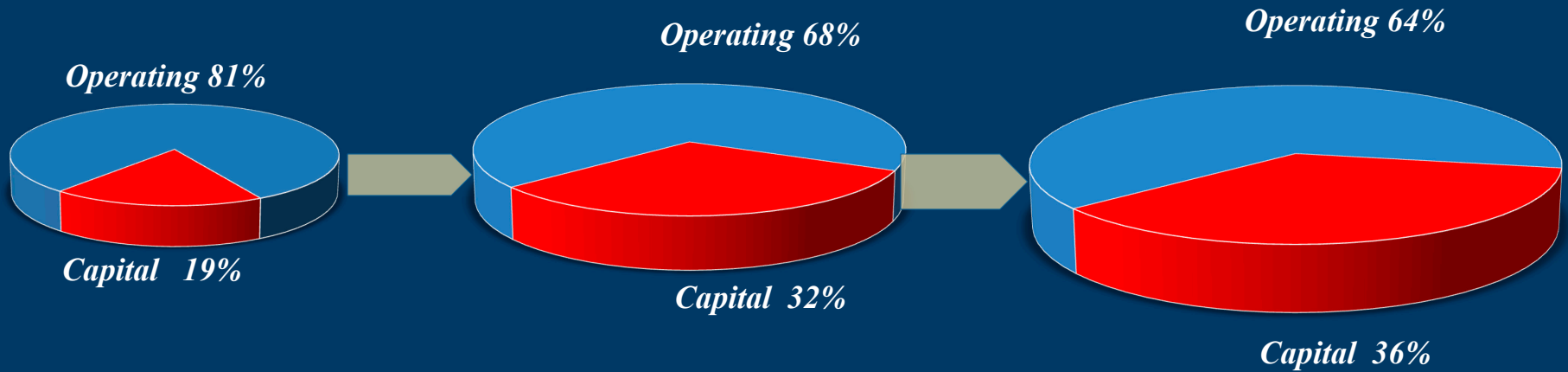
**1,202m**

*2013 Total Expenditure*

**2,274m**

*2014 Total Expenditure*

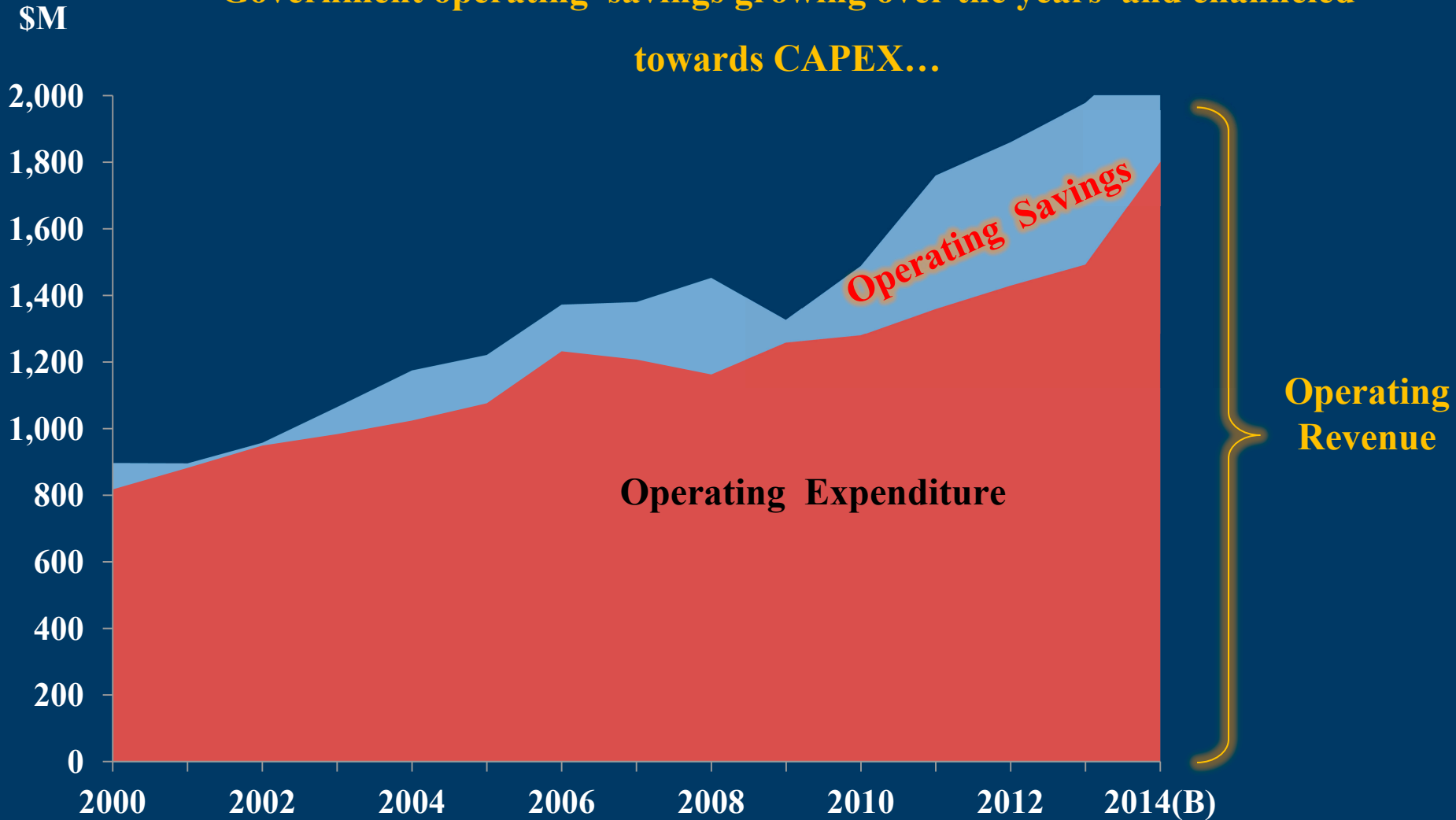
**\$2,814m**





# Government Operating Savings 2009 - 2014

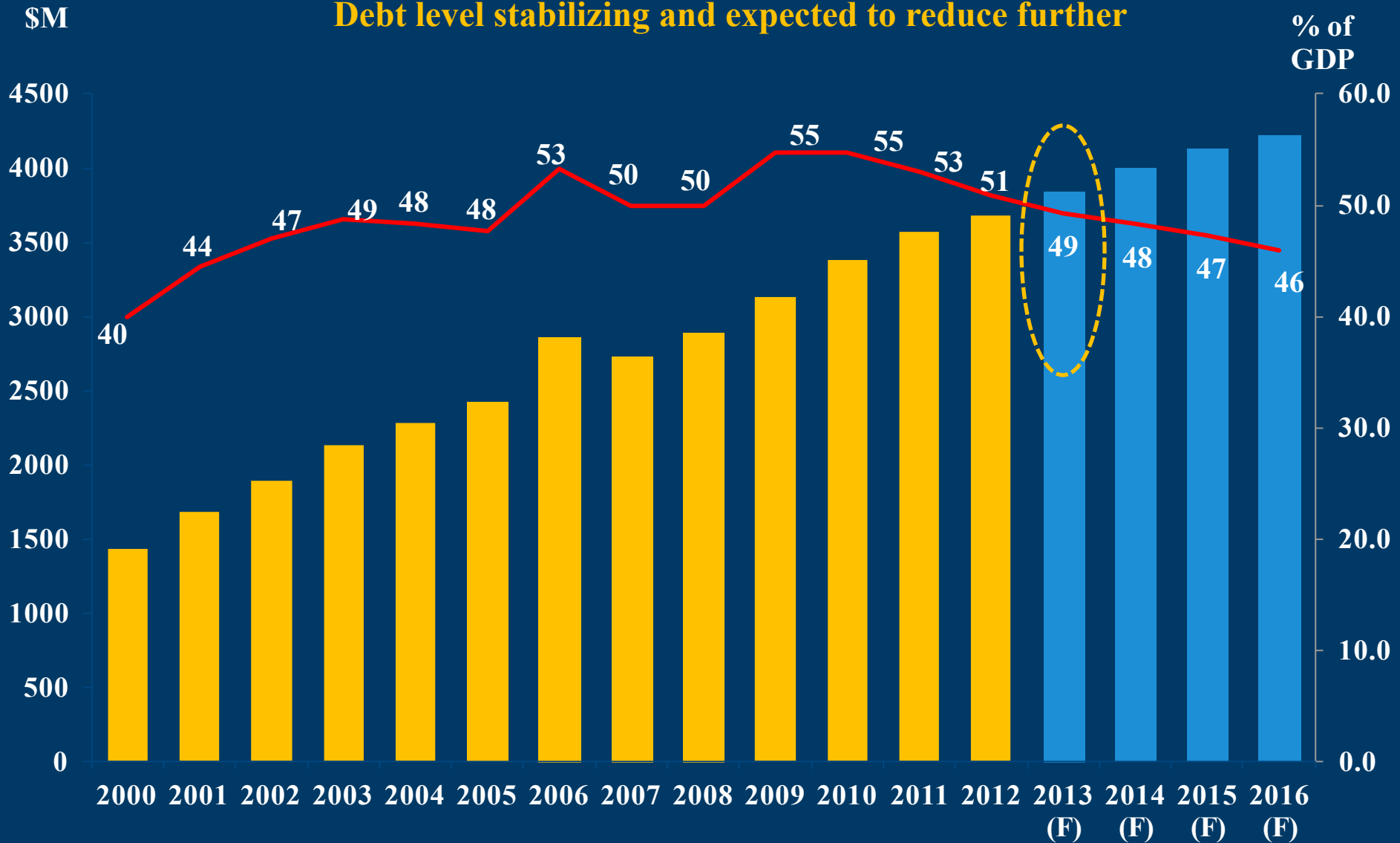
Government operating savings growing over the years and channeled towards CAPEX...



# GOVERNMENT DEBT



Debt level stabilizing and expected to reduce further



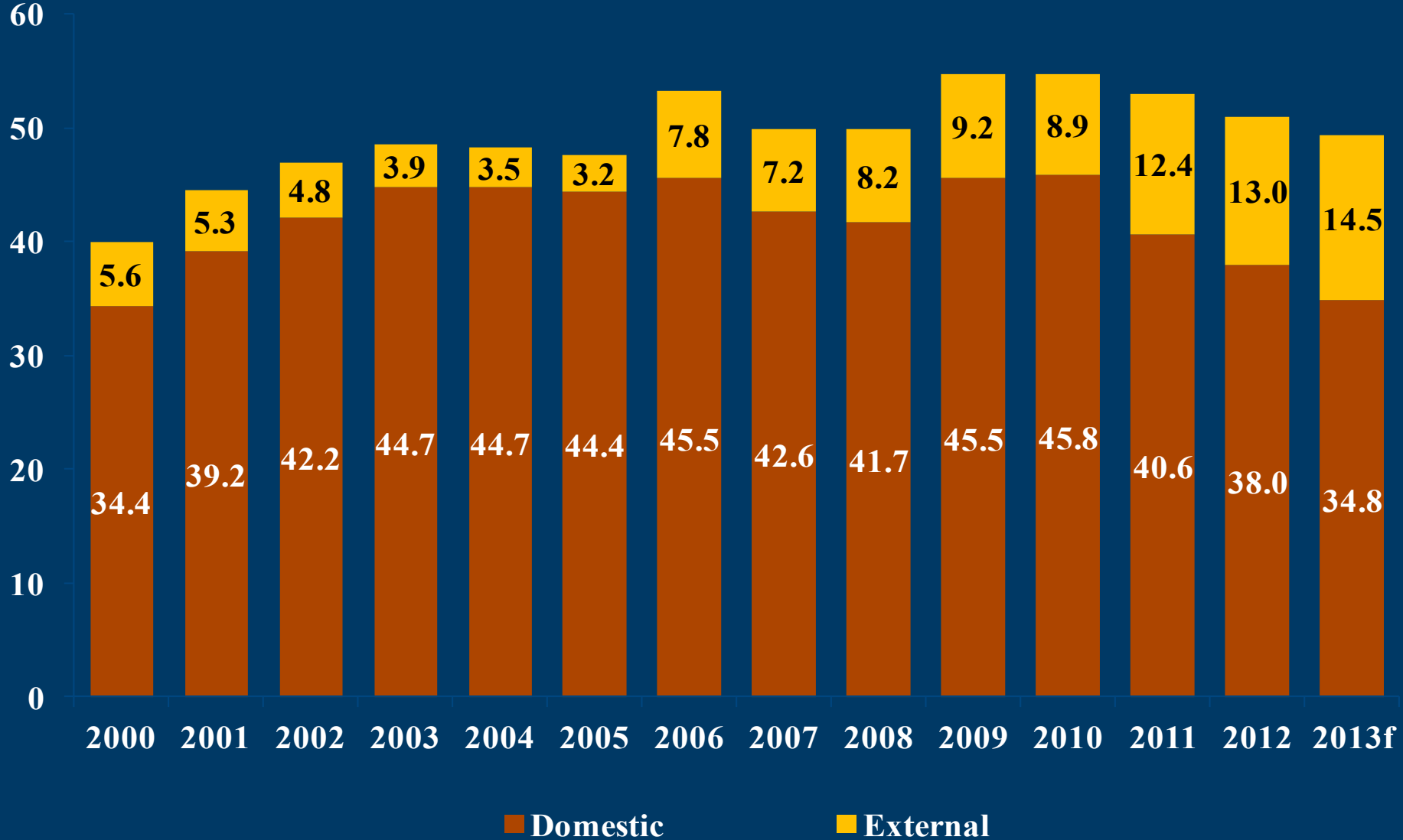


# DEBT MIX



External debt will reduce after global bond repayment

% of GDP



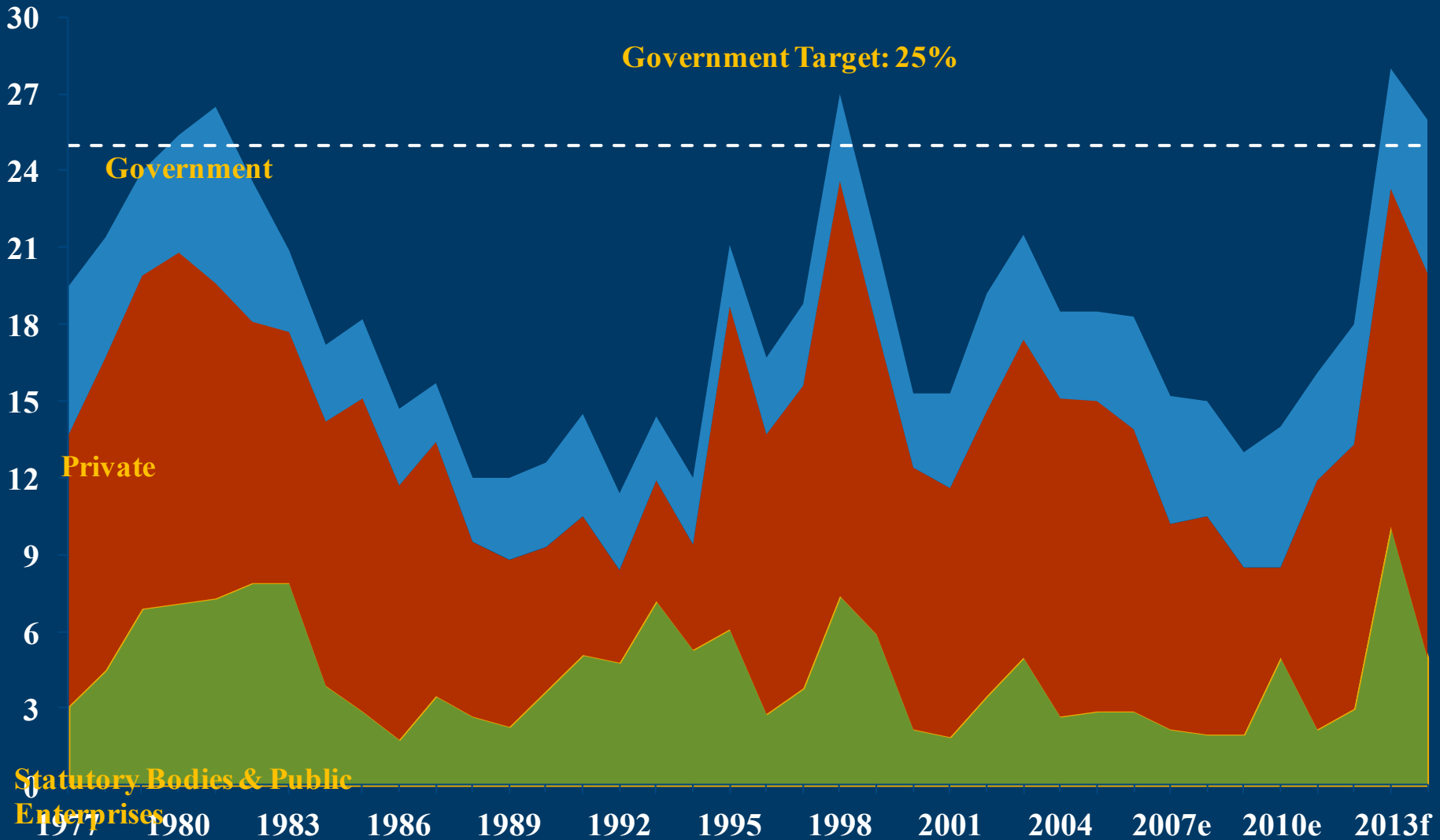
# INVESTMENT



% of  
GDP

## Investment above Government target

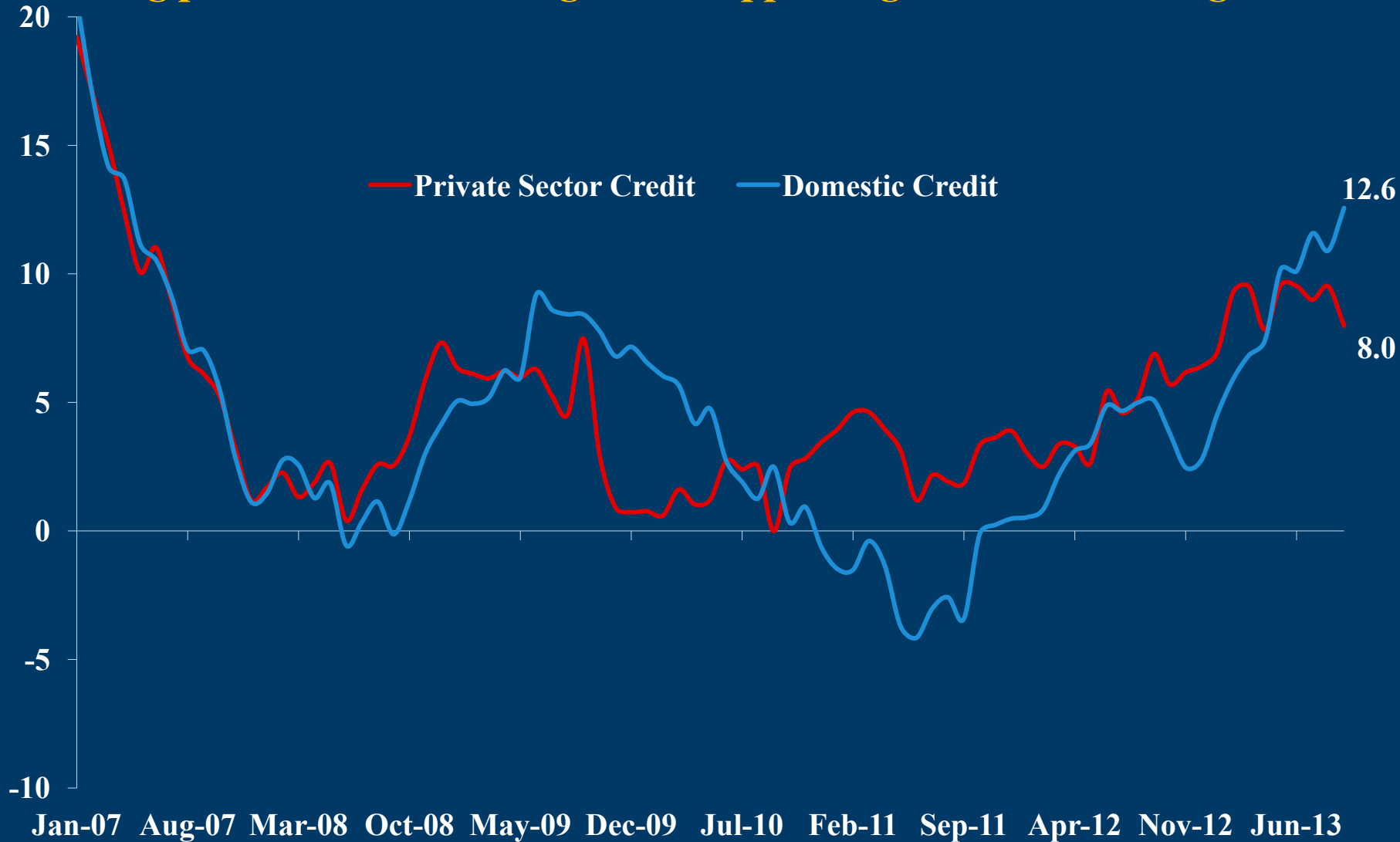
Government Target: 25%



# DOMESTIC CREDIT



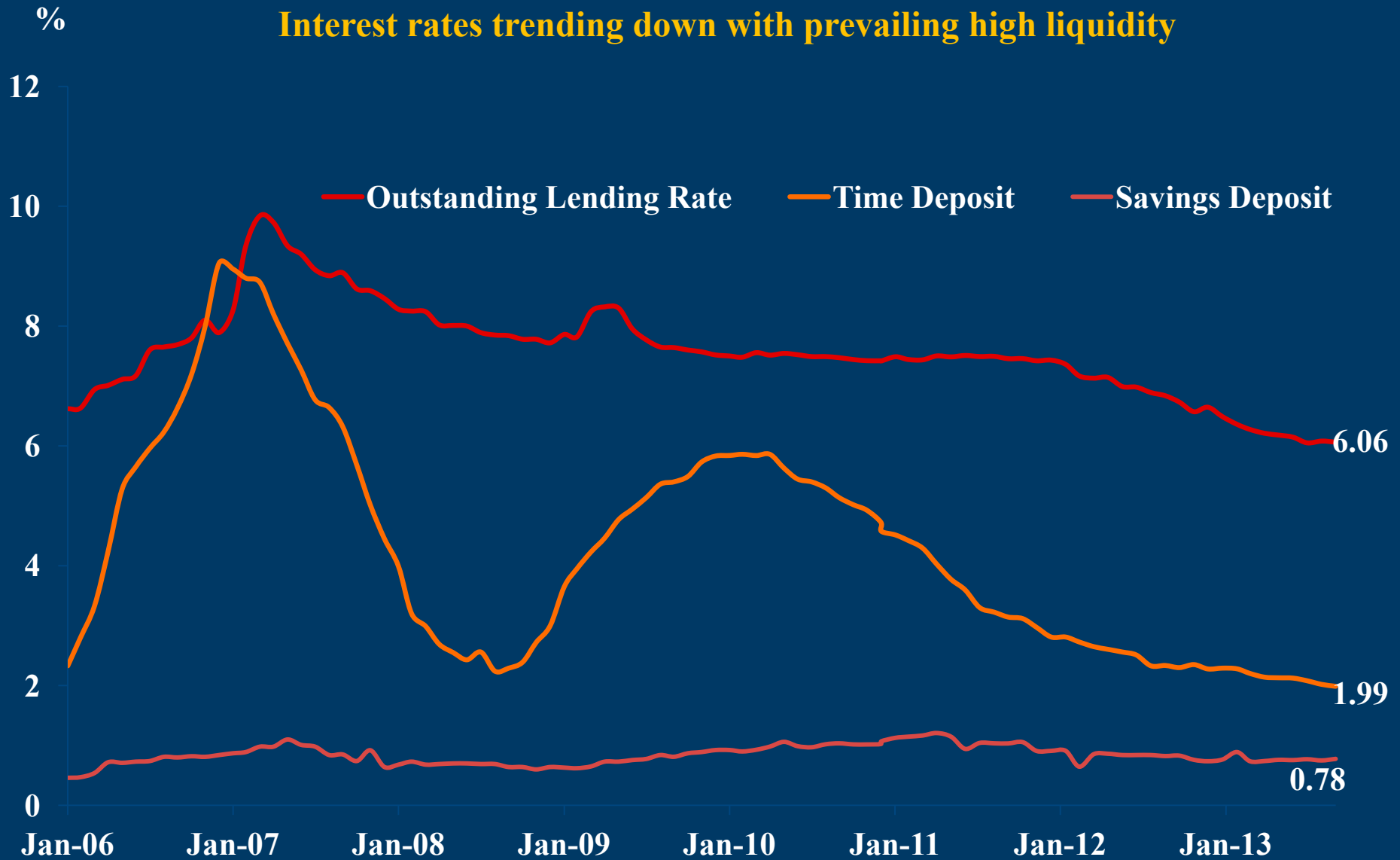
*Strong private sector credit growth supporting investment and growth*



# INTEREST RATES



Interest rates trending down with prevailing high liquidity



# INFLATION



%

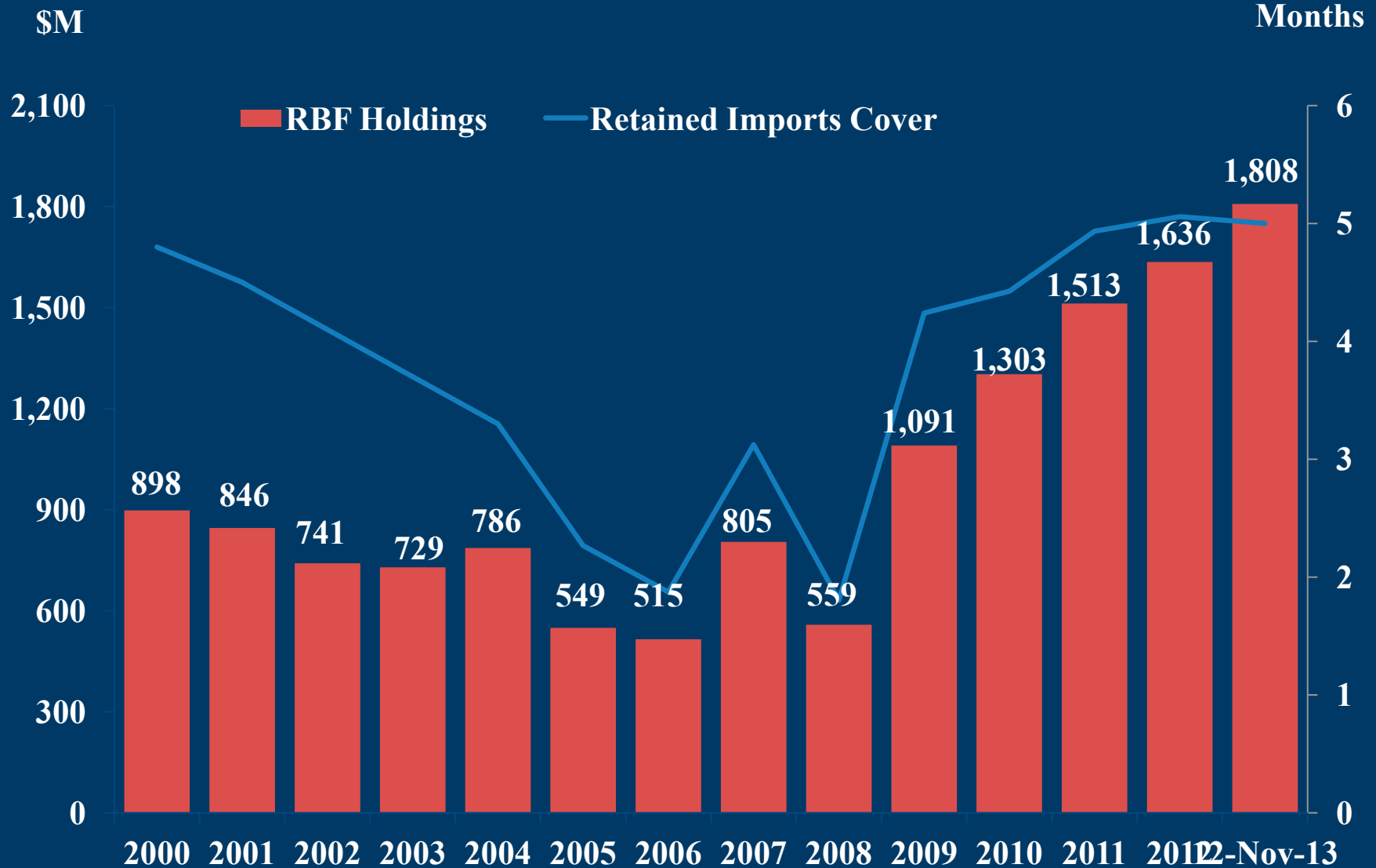
*Inflation has stabilized and expected to remain low*



# FOREIGN RESERVES



*Foreign reserves at 5 months import cover with no immediate risk*



# SUMMARY

# SUMMARY



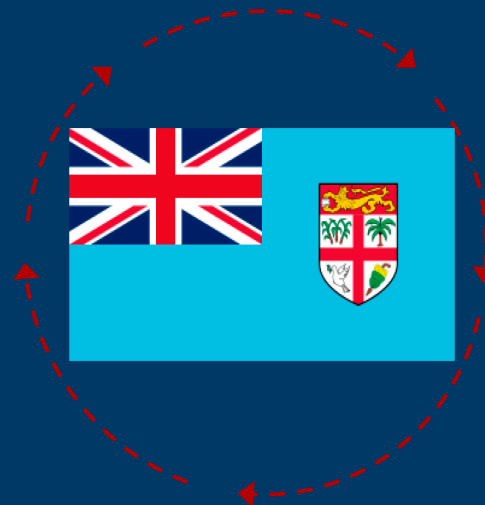
✓ Positive economic growth  
& favorable economic  
prospects

✓ Preparation for 2014  
Elections is on track

✓ Increased Fiscal  
Discipline

✓ Increasing Private  
Sector Investment

✓ Effective  
Maintenance of  
Foreign Reserves as  
well as Price Stability



✓ Strong commitment towards  
reform - Restructuring of key  
Sectors

✓ Low Levels of  
External Debt Relative  
to International Peers

✓ Significant expansion &  
continued strong potential for  
the Tourism Industry

✓ Credit Rating stable,  
potential for upgrade

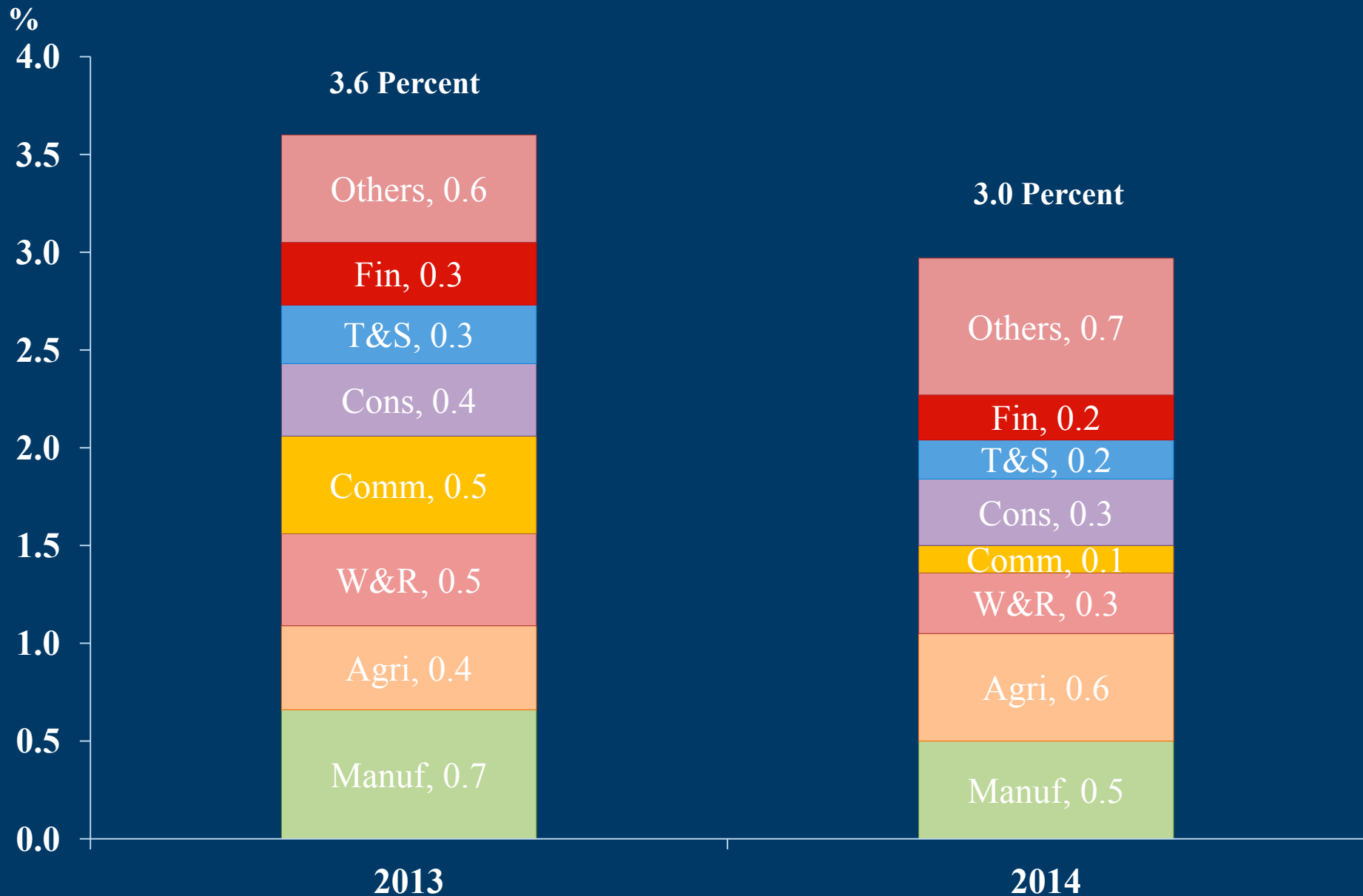


**VINAKA VAKALEVU**

**QUESTIONS??**

# SPARES

# SECTORAL CONTRIBUTION TO GROWTH



# MDG 1: ERADICATE EXTREME POVERTY AND HUNGER



MDG Target	Target for 2015	MDG Benchmark	National Target Roadmap (2010 -2014)	MDG Status: will target be met?
1.A.	Halve the proportion of people living below the national poverty line 1990 - 2015.  1. Population Below Basic Needs Poverty Line	<b>HIES 2002/03</b>  National - 35% Urban - 28% Rural - 41%	<b>2020 Target</b>  National average reduced from 35% to 15%	<b>Unlikely</b>  <b>HIES 2008/09</b>  National 31% Urban 19% Rural 43.0
1.B.	Achieve full and productive employment for all including women and young people.  1. Growth Rate of GDP per Person Employed  2. Employment to Population Ratio T - Total M - Male F - Female	<b>1990 FBOS</b>  2.9%  <b>1996 Census</b> T - 57.22% F - 18.4% M - 38.8%	<b>2014 Target</b>  3% rate of GDP Growth	<b>Unlikely</b>  <b>2011 FBOS</b>  1.4%  <b>2007 Census</b> T - 53.6% M - 75.7% F - 36.6%

# MDG 2: ACHIEVE UNIVERSAL PRIMARY EDUCATION



MDG Target	Target for 2015	MDG (Benchmark)	National Target (Roadmap)	MDG Status: will target be met?
2.A.	All children will complete a full course of primary education	<b>2000 MOE Report</b>	<b>2012 Target</b>	<b>Likely</b> <b>2012 MOE Report</b>
	1. Net enrollment in primary education	94.7 %	95%	99.27%
	2. Net enrollment in secondary education	71.0 %	90%	80.4%
	3. Literacy rate of 15-24 years-old, women and men (%)	97.5%	N/A	92.9%

# MDG 3: PROMOTE GENDER EQUALITY AND EMPOWER WOMEN



MDG Target	Target for 2015	MDG (Benchmark)	National Target (Roadmap)	MDG Status:
3.A.	Eliminate gender disparity in education  1. Ratio of girls to boys in:  (i) Primary; (ii) Secondary; and (iii) Tertiary education	<b>MOE 1990 Report</b>  P: 0.9 : 1 S: 1.1 : 1 T: 0.7 : 1	<b>2012 Target</b>  Combined 1:1 <b>(For all)</b>	<b>Strong</b>  <b>MOE 2011 Report</b>  P: 0.94 : 1 S: 1.05 : 1 T: N/A
3.B.	Share of women in wage employment in the non-agriculture sector	<b>E&amp;U Survey 1990</b>  27.1%	<b>2011 Target</b>  35% to 37.9%	<b>Unlikely</b>  <b>E&amp;U Survey 2010/11</b>  24%
3.C.	Proportion of seats held by women in parliament.	<b>1990 UN Women</b>  15.5%	<b>2014 Target</b>  Not less than 20%	<b>Unlikely</b>  <b>2005 UN Women</b>  12.6%

# MDG 4: REDUCE CHILD MORTALITY



MDG Target	Target for 2015	MDG (Benchmark)	National Target (Roadmap)	MDG Status:
4.A.	Reduce child mortality by two-thirds			<b>Likely</b>
		<b>1990 MOH Report</b>	<b>2014 Targets</b>	<b>2011 MOH report</b>
	1. Under 5 mortality rate per 1000 live births	27.8	20	17.7
	2. Infant mortality rate per 1000 live births	16.8	15	13.1
	3. Proportion of 1 year old immunized against measles	86.0	95	82.5



# MDG 5: IMPROVE MATERNAL HEALTH



MDG Target	Target for 2015	MDG (Benchmark)	National Target (Roadmap)	MDG Status:
5.A.	Reduce maternal mortality by 75%  1. Maternal Mortality Ratio per 100,000 live births 2. Number of MM 3. Number of Live Births 4. Proportion of births attended by skilled health personnel (%)	1990 MOH Report  26.5  5  18,643  98%	2014 Targets  20	Likely  2010 MOH Report  22.6  5  22,089  100%

# MDG 6: Combat HIV/AIDS, Malaria and Other Diseases



MDG Target	Target for 2015	MDG (Benchmark)	National Target (Roadmap)	MDG Status:
6.A.	<p>Halt and begin to reverse the spread of HIV/AIDS</p> <p>1. HIV prevalence (Actual numbers)</p>	<p><b>1989 MOH Report</b></p> <p>4</p>		<p><b>Unlikely</b></p> <p><b>2011 MOH Report</b></p> <p>420</p>
6.B.	<p>Achieve universal access to treatment for HIV/AIDS for all who need it.</p> <p>1. Proportion of population with advanced HIV infection with access to antiretroviral drugs</p> <p><b>Cumulative</b>                      Total with access:                      Male with access:                      Female with access:                      Proportion of total with access:</p>	<p>1990</p> <p>N/A</p>	<p><b>2014 Targets</b></p> <p>access to antiretroviral drugs</p>	<p><b>Potentially</b></p> <p><b>2011 MOH Report</b></p> <p>420</p> <p><b>2011 MOH Report</b></p> <p>74 40 34 17.62%</p>

# MDG 7: ENSURE ENVIRONMENT SUSTAINABILITY



MDG Target	Target for 2015	MDG (Benchmark)	National Target (Roadmap)	MDG Status:
7.A.	<p>Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources</p> <ol style="list-style-type: none"> <li>Proportion of Land Covered by Forests</li> </ol>	<p><b>1990 Forestry Record</b></p> <p>NA</p>	<p><b>2014 Targets</b></p> <p>Increase forest area by 2% annually</p>	<p><b>Potentially</b></p> <p><b>2012 Forestry Record</b></p> <p>56% forest cover</p>
7.C.	<p>Halve the proportion of population without sustainable access to improved drinking water and sanitation</p> <ol style="list-style-type: none"> <li>Proportion of population using an improved drinking water source</li> <li>Percentage of urban and peri - urban population with access to piped water</li> <li>Percentage of rural population with access to piped water</li> <li>Total number of WAF meters Urban: Rural: Total</li> </ol>	<p><b>DWS 1990 Record</b></p> <p>84%</p> <p>94%</p> <p>77%</p>	<p><b>2014 Target</b></p> <p>90% Urban and 74% Rural population have access to safe drinking water.</p>	<p><b>Potentially</b></p> <p><b>2011 WAF Record</b></p> <p>98%</p> <p>100%</p> <p>95</p> <p>118,981 21,952 140,933</p>

# MDG 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT



MDG Target	Target for 2015	MDG (Benchmark)	National Target (Roadmap)	MDG Status:
8.C.	<p>Address the special needs of SIDS</p> <p>1. ODA received in small island developing states as a proportion of their gross national income.</p>	<p>MOF 2007 ODA</p> <p>1.4%</p>	<p>2014 Target</p>	<p>Potentially</p> <p>MOF 2012 ODA</p> <p>1.9%</p>
8.D	<p>Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.</p> <p>1. Foreign Debt service as a percentage of exports of goods and services</p>	<p>MOF 2009 Debt Report</p> <p>1.8%</p>	<p>2014 Target</p> <p>Debts to be reduced from 49 % of GDP to less than 40% of GDP by 2012.</p>	<p>Potentially</p> <p>MOF 2012 Debt Report</p> <p>1.9%</p>
8.F.	<p>In cooperation with the private sector, make available the benefits of new technology</p> <p>1. Telephone lines per100 population</p>	<p>TFL 1990 Baseline</p> <p>5.86</p>	<p>2014 Target</p> <p>Telephone lines and cellular subscribers to not less than 25% in rural areas and 75% in urban areas.</p>	<p>Potentially</p> <p>TFL 2009 Report</p> <p>16.9</p>

# ECONOMIC STRUCTURE



Industries	2005 Weights	2008 Weights	Change
Agriculture Forestry & Fishing	14.1	12.7	-1.4
Mining & Quarrying	0.4	0.4	0.0
Manufacturing	14.2	14.4	+0.2
Construction	3.2	3.2	0.0
Wholesale, Retail & Repair of Motor Vehicles	12.7	13.2	+0.5
Accommodation & Food Services	4.3	5.6	+1.3
Financial & Insurance Activities	7.9	12.3	+4.4
Public Administration & Defence	5.5	6.4	+0.9
Education	5.1	4.8	-0.3
Human Health & Social Activities	2.1	1.7	-0.4

# ECONOMIC STRUCTURE



Industries	2005 Weights	2008 Weights	Change
Electricity, Gas	1.4	0.9	-0.3
Water Supply, Sewage, Waster		0.2	
Transport & Storage	15.0	5.8	-3.4
Information & Communication		5.8	
Real Estate	9.3	5.8	+0.6
Professional, Scientific & Technical Activities		2.0	
Administrative & Support Services		2.1	
Arts, Entertainment & Recreation	4.8	0.4	-2.1
Other Service Activities		2.3	

# GOVERNMENT REVENUE



# GOVERNMENT EXPENDITURE





# SOCIAL INDICATORS



- **Fiji on track to achieve 5 out the 8 MDG**
  - **Achieve universal primary education**
  - **Reduce child mortality**
  - **Improve maternal health**
  - **Ensure environmental sustainability**
  - **Global partnership for development**
  - **Eradicate extreme poverty and hunger**
  - **Combat HIV/AIDS Malaria and other Diseases**
  - **Promote gender equality and empower women**
- **Strategies are in place together with resources to achieve all MDGs**

# PUBLIC EXPENDITURE MANAGEMENT



- **Full adoption of cash based accounting by end of the year**
- **Move to accrual accounting will take some time (medium term)**
  - More capacity building and training for transition to full accrual system
  - Scholarships being offered to train accounting cadre
- **Review of the Finance Manual currently underway to improve processes and procedures**
- **Implementation of Electronic Fund Transfers (EFT)**

# PUBLIC EXPENDITURE MANAGEMENT



- **Guided by Procurement Regulations**
  - value for money
  - maximize economy and efficiency and the ethical use of Government resources
  - promote open and fair competition amongst suppliers and contractors
  - promote the integrity of, fairness and public confidence in the procurement process
  - achieve accountability and transparency in the procedures relating to procurement

# CONTINGENT LIABILITIES



- **Contingent liability stand at \$2.1b equivalent to 28.8 percent of GDP**
  - FNPF (58%) have undertaken critical reforms to move towards actuarial sustainability – risks minimized
  - FEA's (15%) financial performance has been very encouraging with \$75.3m profit for 2012 and \$51.9m for 2011- Government will divest shares in 2014
  - FSC (5%) has also made a financial turnaround with further planned reforms to improve productivity and competitiveness
  - Other SOE reforms have also reduced risks from contingent liabilities