



***“People First”***  
**UNITY BUDGET 2020-2021**



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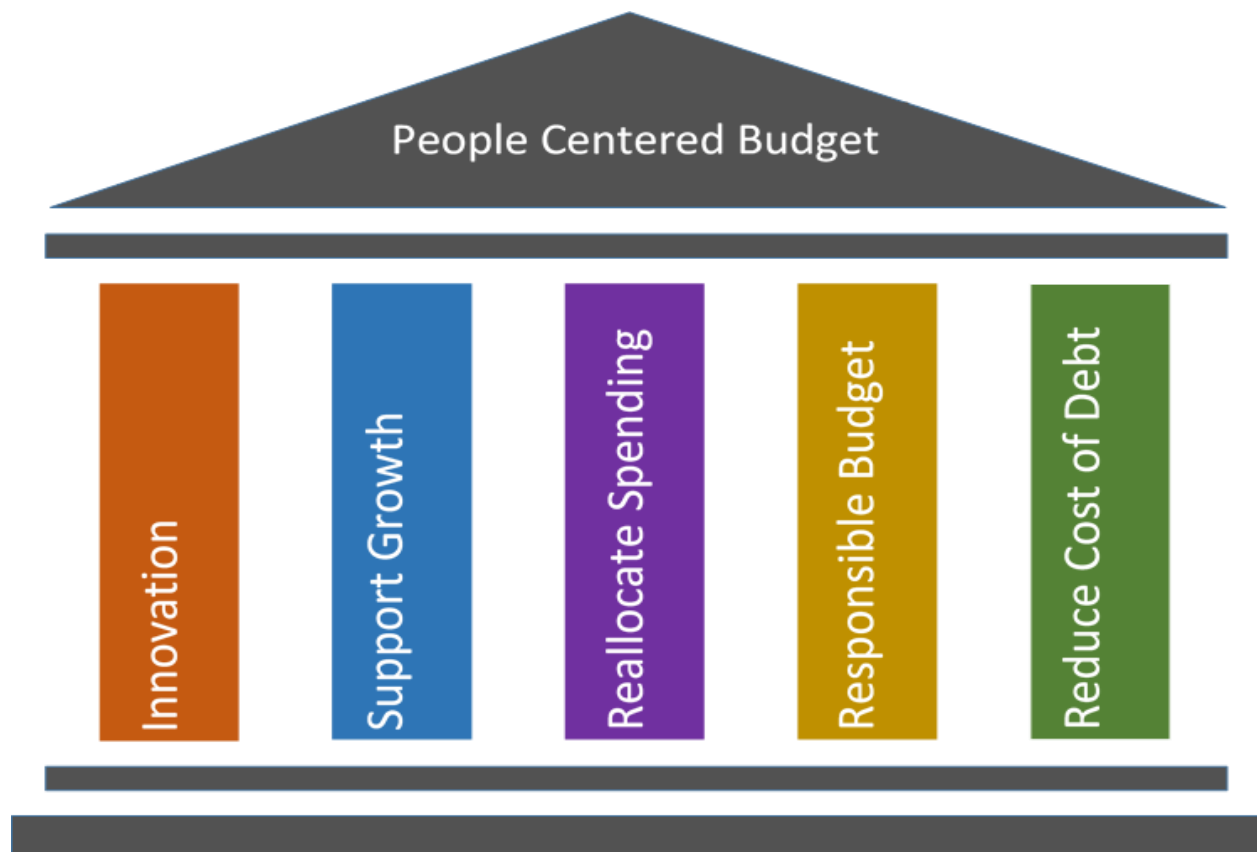
# UNITY FIJI

*“People First”*

UNITY BUDGET: 2020/2021

*“SAVING LIVES AND LIVELIHOODS”*

## FIVE PILLARS



**Overarching Theme: People centered:** We must put people first. The incomes of one third of our working population have been reduced. Families are suffering which is turning to fear and desperation as the crisis is prolonged. The social impact in domestic violence, substance abuse and suicides are increasing. This



Unity Budget is focused on easing the suffering of the people through the budget and not through their own savings. \$1 billion is allocated to support income of workers that have been affected by the pandemic.

**Pillar 1: Innovation:** These are unprecedented times. Conventional thinking will not work. A prolonged economic crisis will increase the suffering of our people. This Unity Budget introduces innovation and creativity in finding the solutions to ease the suffering, restore financial stability and get us back on our feet as soon as possible.

**Pillar 2: Support growth:** The Unity Budget will support growth through a combination of fiscal and monetary policy measures. On the fiscal front, the Unity Budget allocates \$350 million to a capital program with high impact on growth. On the monetary side, money supply will rise through quantitative easing which will maintain liquidity and keep interest rates low.

**Pillar 3: Responsible budget:** While accommodating the urgent requirements of this crisis and promoting economic recovery, the Unity Budget is a responsible one. We are stabilizing government financial position through new revenue measures and the identification of savings from wastage and non-essential spending. The net deficit is set at 5.3% of GDP, nearly half of the 10.2% estimated at the COVID-19 Budget. The stock of debt is set at 63% of GDP lower than the 66% in the COVID-19 Budget.

**Pillar 4: Reallocate savings.** The Unity Budget will redirect government spending of \$1 billion away from wasteful and nonessential spending to higher priority areas like health, education, infrastructure, law and order, and welfare support.

**Pillar 5: Reduce cost of debt:** The Unity Budget will introduce measures to reduce the cost of debt by \$80 million per year.

## FISCAL FRAMEWORK

**Table 1: Budget Estimates (\$million)**

<b>Estimated Revenue</b>	<b>19/20 (Bud)</b>	<b>COVID 19/20 (Bud)</b>	<b>UB 2020/21 (Baseline)</b>	<b>UB 2020/21 (Est)</b>
Direct Taxes	804.8	546.0	573.30	631.71
Indirect Taxes	2,275.4	1,476.1	1,549.91	1,719.29
Others	316.7	269.1	282.56	251.37
<b>Total Operating Receipts</b>	<b>3,397.0</b>	<b>2,291.2</b>	<b>2,405.76</b>	<b>2,602.37</b>
Total Investing receipts	94.7	216.5	109.63	170.42
<b>Total Estimated Revenue</b>	<b>3,491.7</b>	<b>2,507.7</b>	<b>2,515.4</b>	<b>2,772.79</b>
<b>Estimated Expenditure</b>				
Operating	2,534.8	2,392.7	1,857.4	1,644.20
Capital	1,252.6	1,098.0	878.4	640.92
VAT	53.5	45.6	36.9	29.90
<b>Total Estimated Expenditure</b>	<b>3,840.9</b>	<b>3,536.3</b>	<b>2,772.7</b>	<b>2,315.02</b>
Savings ploughed back to priority areas	-	-	-	1,000
<b>Total revised expenditures</b>	<b>3,840.9</b>	<b>3,536.3</b>	<b>2,772.7</b>	<b>3,315.02</b>
<b>Net Deficit</b>	<b>(349.20)</b>	<b>(1,028.60)</b>	<b>(257.3)</b>	<b>(542.23)</b>
<b>Financing</b>				542.23
Domestic borrowing	281.5	860.9	198.1	422.94
Foreign borrowing	67.7	167.7	59.2	119.29
<b>Ratios</b>				
Nominal GDP	12,703.8	10,074.1	10,275.6	10,275.6
Net Deficit/GDP	-2.7%	-10.2%	-2.5%	-5.28%
Rev/GDP	27%	25%	24%	27%
Exp/GDP	30%	35%	27%	32%
Total Public Debt	5,978.5	6,657.9	6,915.2	6,520.7
Debt/GDP	47%	66.1%	67%	63%

Source: Budget Estimates, Budget Supplement and own estimates

# UNITY FIJI

*“People First”*

## UNITY BUDGET: 2020/2021

***“SAVING LIVES AND LIVELIHOODS”***

### 1. INTRODUCTION

#### 1.1 Role of Government

The entire world is facing the most dangerous crisis in history. Over half a million people have lost their lives around the world. The health crisis has become the worst economic crisis ever. In only three months, the COVID-19 has brought the international economy to its knees. The virus does not respect the size, location or wealth of countries.

With the closure of borders since 19<sup>th</sup> March 2020, the COVID-19 crisis has destroyed Fiji’s main industry of tourism. The incomes of over a third of our formal employment have been reduced. The people and businesses are suffering the worst economic disaster in our history. The social impact of the loss of incomes are being felt in domestic violence and suicides.

The role of Government to address both the health and the economic impact of the crisis is critical. There are many things that only Government can do. Surprisingly, when people need reassurance, the Government has been silent since it presented its mini COVID-19 budget in March 2020. The people are waiting anxiously to hear what the Government will offer in response to the COVID-19 pandemic.

Government’s ability to help the people in these unprecedented times is severely hampered by the weak state of the economy and its fiscal position before the crisis. Debt to GDP was close to 50% forcing Government to start cutting spending which, in turn, was pulling down economic growth. The economy declined by 1.3% in 2019.

At such times as these, we know that Government needs all the help it can get. Unfortunately, Unity Fiji’s offer of assistance to Government was not acknowledged nor accepted. We have released to the public many of our suggestions on how best to respond to the virus. We have therefore decided to prepare this Unity Budget (UB) in the genuine spirit of finding the best solutions to ease the impact of the crisis on our people. We owe it to the families of over 130,000 workers who have lost their incomes to ease their struggles. We owe it to the 200,000 people who have been pushed to poverty to lift them up as quickly as possible. We owe it to the small businesses that are struggling or have closed to start up again. We owe it to many businesses that are facing cash flows and loss of customers to grow again and start to offer our people jobs. We owe it to all the people of Fiji to guide them back as soon as possible to their normal lives.

Unity Fiji believes that we have the credentials to develop this Unity Budget. The Leader of Unity Fiji was a former Permanent Secretary for Finance who had prepared many national budgets. He was also a former Governor of the Reserve Bank of Fiji who designed and successfully executed economic rescue packages of past crises. The Leader of Unity Fiji had worked at the International Monetary Fund (IMF) and the World Bank.

We believe that Fiji will overcome this greatest crisis of our lives not with political agendas, but with a well thought out package of measures and policies that will ease the suffering of the people, help businesses survive and pull the economy up sustainably as soon as possible. We are confident that this Unity Budget will contribute to our economic survival in this crisis and our recovery to grow and prosper as a nation.

## 1.2 Organization of the Unity Budget

The organisations of the Unity Budget are:

- a) After a brief discussion of economic conditions prior to the crisis, the Unity Budget assesses the economic impact of COVID-19 and presents its proposal for a clear 3-phase roadmap in response to the crisis.
- b) Next, the Unity Budget presents our economic outlook for the next 24 months based on consultations, quantitative modelling and our own estimation.
- c) The outlook sets the backdrop for the presentation of budget strategies which covers, economic, fiscal, monetary, financial and sectoral. In setting these strategies, we are of the firm view that conventional approaches will not work in this dangerous time. In general, we have adopted what we believe are innovative and creative thinking to solve the complexities and multiplicity of the issues that we are facing. We have looked back to learn from global history like the Great Depression.
- d) Armed with these strategies, the Unity Budget articulates the four priority areas of health, education, infrastructure, law and order and welfare support.
- e) Finally, we present our revenue and expenditure estimates.

We emphasise that we have taken due care in the reasonableness of all the figures in this Budget. However, these figures and information are our own and we are not responsible for the use of this Unity Budget by any other person.

## 2. ECONOMIC CONDITIONS

### 2.1 Knowing where we are

Knowing where we are is essential in charting the best way forward. To address the different interpretation of the economic and financial positions of the country before the COVID-19 pandemic which started in February 2020, the Unity Budget lets the data speak.

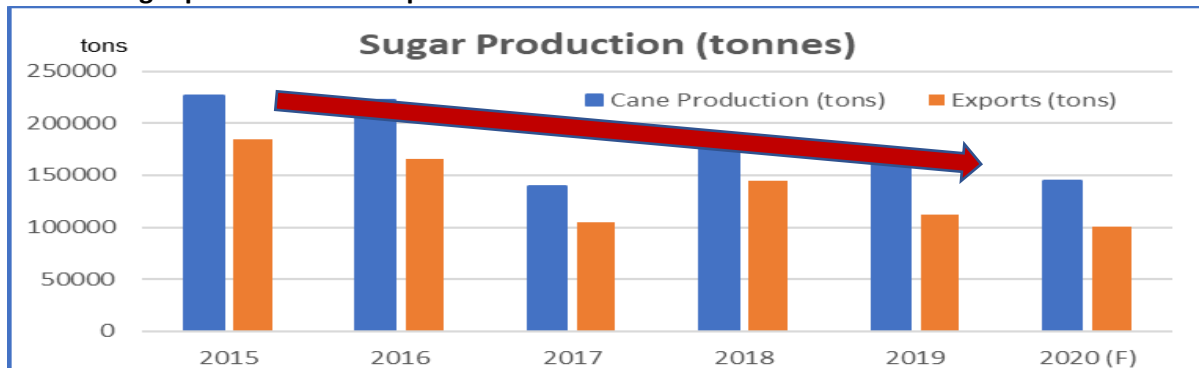
#### 2.1.2: Resource based industries were declining

In the last 15 years, with the consistent decline in the production of resource based sectors, the economy became increasingly dependent on only one industry, tourism, which is extremely susceptible to crises that affects international travel such as COVID-19.



**Sugar** production and exports have been declining for more than a decade (Chart 1). This year and the next, we anticipate that the sugar production will further decline due to mill inefficiency, disaster that hit Fiji in 1<sup>st</sup> quarter of the year and competition from big sugar producers such as India and Brazil over-supplying sugar in Europe and North American markets.

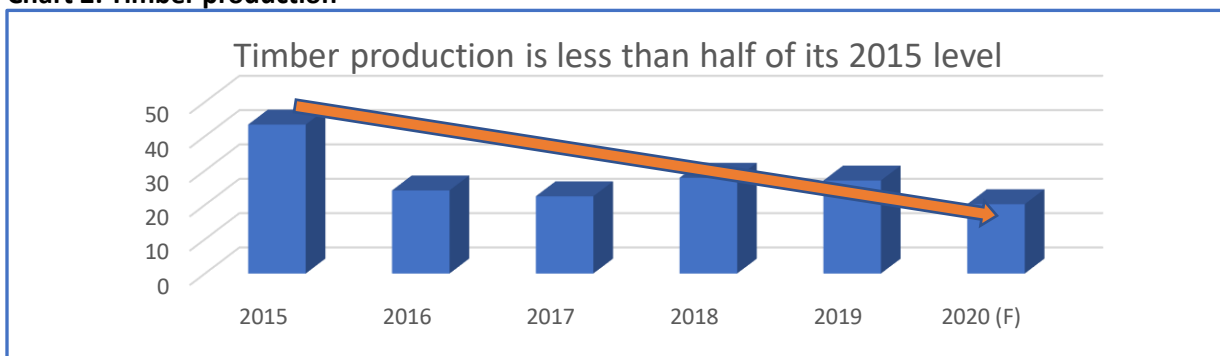
**Chart 1: Sugar production and exports**



Source: RBF Quarterly Review

Like many resource based sectors, the **timber** industry shows mixed results from 2019 and the first quarter of 2020. This is partially due to frequent tropical cyclones that affect Fiji in the last 3 years and this year which damaged trees grown in maritime and western divisions. The impact of COVID-19 on incomes will depress demand for local and export sales of timber. This will be partially offset by the higher demand for local timber to cater for rehabilitation of TC Harold. We project timber production to decline further by 7% this year for sawn timber, wood chips and mahogany.

**Chart 2: Timber production**



Source: RBF Quarterly Review

**Gold** production by Vatukoula Gold Mine averaged 41,000 ounces in the last 5 years, reaching a peak in 2016 of approximately 48,226 ounces (Chart 3). Price of gold is denominated in US Dollar. With the US Dollar at an all-time high, gold earnings have rose over time. However, gold production has been low due to poor core quality and power disruptions. We expect a 5 percent decline in production of gold in 2021 and earnings in line with the medium term trend.

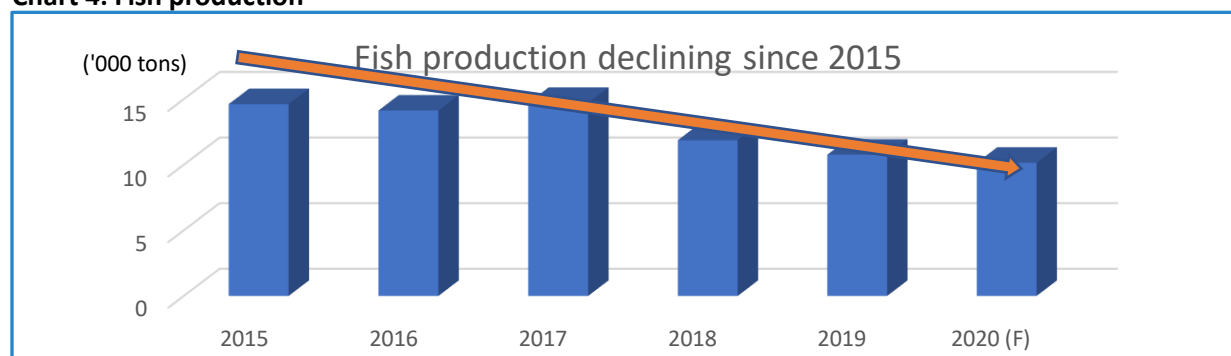
**Chart 3: Gold production and exports**



Source: RBF Quarterly Review

The **fisheries** sector contributes to around 2.5 per cent to GDP and over 9 per cent of total export earnings. Fiji exports frozen fish including deep water snapper, sunfish, swordfish, blue marlin, striped marlin, mahi-mahi, wahoo, beachde-mer, species of tuna, and reef fish to overseas markets. The industry's performance in the last 5 years has been weak and this could be due to overfishing and increase presence of foreign vessels as well as a decline in fish population within Fiji's exclusive zone. For 2020, we expect fish production to drop by 5.5 percent to 10,150 tonnes.

**Chart 4: Fish production**

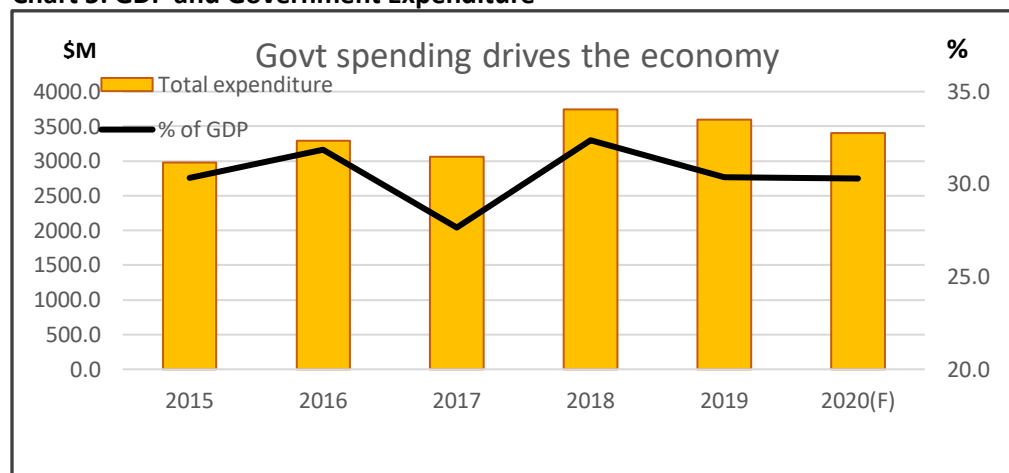


Source: RBF Quarterly Review

### 2.1.2 Growth fueled by government spending

With the decline in traditional sectors as shown above, Fiji's 13 years of consecutive economic growth was at the back of higher government expenditure (Chart 5) which has led to higher debt (Chart 10). At the end of 2019, debt hovered just below 50% of GDP, \$1.7 billion higher than the global benchmark of 35% for small open economies such as Fiji.

**Chart 5: GDP and Government Expenditure**



Source: Budget Supplement

The close correlation between economic growth and government spending in Chart 5 confirm that the economy has been driven by higher government spending. After realizing the danger of this strategy, Government began cutting back on spending leading to a reduction in economic growth. The growth figure released recently is that the economy declined by 1.3% in 2019.

Government expenditure grew at an average of \$150 million each year between 2015 to 2019. The major increase in government spending were the purchase of goods and services, operating grants, wages and salaries, and travel. The sustainable impact (multipliers) of these expenditures on economic activities are very low. This combination placed the economy and government fiscal position at a precarious position before the crisis.

### 2.1.3. Inflation is negative due to world recession

Inflation has been moderate at less than 3 percent long term average (Chart 6). It turned negative in the first half of 2020 due to lower demand and global prices especially of fuel. We expect inflation to stay low in the next two years.

**Chart 6: Inflation**

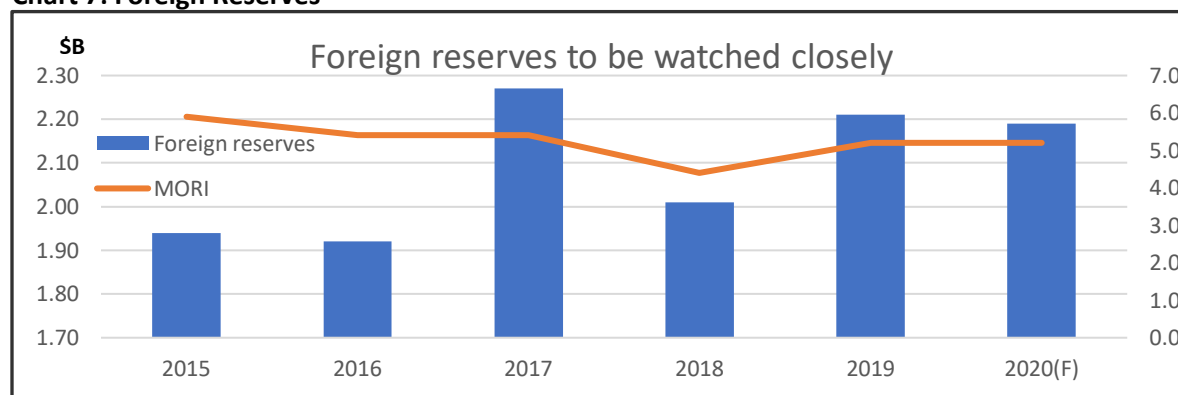


Source: RBF Quarterly Review

### 2.1.4. Foreign reserves on watch

Supported by lower import demand and lower fuel prices, foreign reserves are adequate at above 5 months of import cover (Chart 7). We expect foreign reserves to remain adequate. However, in this uncertain climate, the level of foreign reserves need to be monitored closely.

Chart 7: Foreign Reserves



Source: RBF Quarter Review

In summary, when COVID-19 hit in February 2020:

- a) The economy was already declining by 1.3%;
- b) The economy was concentrated only on tourism with all resource based sectors declining; and
- c) With debt at close to 50% of GDP, there were no fiscal buffers to allow us to respond meaningfully and quickly to the crisis.

## 3. IMPACT OF AND RESPONSES TO COVID-19

### 3.1 Impact of COVID-19

The economic impact of the COVID-19 crisis are:

- a) **Jobs:** We estimate that more than 130,000 workers have either lost their jobs, on reduced pay or on leave without pay. This is more than one third of the formal work force. Furthermore, this number does not include those in casual employment. More people stand to lose their jobs as the crisis continues.
- b) **Businesses:** Most businesses are suffering from lower sales leading to tight cashflows. Many micro and small businesses are expected to collapse and never rise again.
- c) **Government revenue:** The loss of 70% of government revenue (\$1.5 billion) is due to lower income, decline in imports, and lower profits. Based on the recent forecast of a 21.7% decline in GDP this year, we estimate that the fall in government revenue would be greater than \$1.5 billion estimated by Government.
- d) **Debt:** In the COVID-19 budget, the Government revealed that the national debt would rise to over 60% of GDP. With the numerous demands for expenditure and the need to rescue the economy which only the Government can do, we expect debt to rise to over 80% of GDP before the crisis is over unless we take the necessary measures proposed in this Unity Budget.

- e) **Economic growth:** The Reserve Bank of Fiji (RBF) expects Fiji's economy to decline by 21.7% this year. This is the largest economic decline in recorded history. With no end of the virus in sight, the economic impact will be devastating.
- f) **National income:** Given the 21.7% decline in the economy and the drop in inward remittances, we expect national income to decline by at least \$2.5 billion in 2020 alone.
- g) **Poverty:** We estimate that poverty will rise to 50% of the population. This will push an additional 200,000 of our people below the poverty line.
- h) **Social impact:** Serious social issues like domestic violence and suicide have increased reflecting the financial stress and tension in families as they struggle to survive without regular income.

## 3.2 Government's responses to COVID-19

### 3.2.1 Lack of direction and impact

The Minister for the Economy announced his stimulus package of around \$1 billion in the COVID-19 Budget on 26<sup>th</sup> March this year with the following measures:

- a) Directed workers that were out of a job or suffering from reduced pay to draw on their retirement savings at the Fiji National Provident Fund (FNPf).
- b) \$400 million or 40% of financial measures were through the Reserve Bank and the commercial lenders. These are not free money. The suspended interest payments will be added to the loan amount and, at the end of the day, the borrower pays more. The RBF additional contribution was a loan at 5% per year. Not many people will be eligible for these loans. Explicit interest subsidy is more effective.
- c) \$420 million or 42% were in tax breaks. Almost all of the tax breaks were aimed at companies. Studies have shown that only a very small proportion of incentives given to companies are passed on to the people.
- d) \$140 million or 14% are in other relief measures including \$50 million to the Fiji Sugar Corporation (FSC). The suspension of Tertiary Education Loan payments and utility bills are temporary and will have to be paid. Forgiveness would have been more effective.
- e) Only \$40 million was allocated to the top priority of saving lives which is a mere 4% of the package.

In summary, the actual cash that Government was giving to the people to survive the greatest crisis of our lives was only \$150 million or 15% of the total package.

This is the greatest economic crisis that Fiji will ever face. The COVID-19 pandemic has caused immeasurable pain and suffering to the general population and businesses. It has demolished our greatest revenue earner leading to enormous job losses that we have never experienced before. Over 130,000 families are suffering. Many businesses are not going to survive. But the Government's responses have been piecemeal, inadequate and slow.

### 3.2.2 Poor people focus

We believe that the government's responses to date to this unprecedented crisis could be bolder, clearer and more decisive. The Government chose to direct workers who have lost incomes because of the crisis to withdraw their life savings from the Fiji National Provident Fund (FNPf). We believe that this FNPf assistance is not only inadequate but unfair to the workers for being asked to deplete their retirement balances while Government supports businesses through the budget. This Budget would progressively reimburse funds withdrawn by FNPf members in future years when finances improve.



The Government's handling of the spill-on economic effect of the crisis on workers has been heavy handed. Government has not been cognizant of the sustainability and credibility of the decisions taken to lay off hundreds of people from various State Owned Enterprises (SOEs) following the laying off of 50,000 workers in the tourism sector by passing an Act allowing employers to lay off workers due to COVID-19 being defined as an "Act of God". A more compassionate alternative action could have been to either reduce pay or send people home but leave them on the payroll until businesses pick up again.

The offer by Unity Fiji and others for a bipartisan approach to addressing the most serious crisis ever has been ignored by Government. When people and business are suffering, the Government has clearly chosen not to put people first. They have not provided the people with hope and assurance that their livelihoods will be protected. Instead, they have used the instrument of the law to justify their actions on the faithful workers, mums and dads, tax payers, and all Fijians.

History will remember this period of labour and employment relations as a time when we realise that Trade Unions were necessary to protect the rights of the workers. Even any unequalness that existed in Fiji's labour market that have taken decades to correct, cannot compare to the deliberate, divisive, manipulation of the law to meet an unjust end.

This Unity Budget is a call for the national mobilisation of resources that is equitable, fair and just to the people of Fiji in this crisis.

## 3.3 Unity Budget responses to COVID-19

We propose a phased approach to address the impact of the COVID-19 on the economy:

- a) The first phase are the immediate responses over the next six months to protect lives and ease the suffering of the people.
- b) The second phase are the medium term responses over the next twelve to twenty-four months to create more fiscal space to fund the rescue package to stabilize the economy.
- c) The third and final phase are the long term measures to pull the economy up again sustainably as soon as possible.

### 3.3.1 First Phase: Save lives and ease suffering

Our immediate responses should focus on saving lives and easing the suffering of the people:

- a) **Keep Fiji COVID-19 free:** While Government had declared Fiji COVID-19 free, we should take all necessary precautions to keeping it free. The discovery of another 3 cases recently emphasise our vulnerability to opening our borders. Fiji will need to remain vigilant of the possibility of a second wave and a third wave of the COVID-19 pandemic as has happened in South Korea and Japan. This would require a cautious approach to opening our borders and ensuring that all precautions are in place. In addition, we should take this time to prepare our health services to be able to cater for a possible second wave.
- b) **Ease the suffering of the people and support small businesses:** Unity Fiji believes that a direct income support is the best and most effective solution to easing the suffering of the families and supporting small businesses. We propose that a cash injection of \$1 billion is required to make up 40% of the \$2.5 billion decline in national income. The assistance to be paid monthly for the next 9 months, would be debited directly to workers bank accounts whose incomes have been affected including the owners of small businesses.

Considering the weak financial status of Government, we propose that the \$1 billion income support through a cash injection be funded by \$500 million in savings from Government expenditure and \$500 million in borrowing from the RBF at a negative rate of interest. With the current negative rate of inflation (Chart 6), the inflationary risk of borrowing from the RBF is manageable. The low global fuel prices and the decline in demand for imports will reduce the risk to foreign reserves (Chart 7).

Many governments around the globe have adopted this direct income support. It is the most economically efficient way to providing assistance. The advantages of a cash injection directly to the people are:

- i. It is targeted at the people that are most severely affected by the crisis.
  - ii. It reduces the growing financial uncertainty and provide much needed assurance to families of a confirmed source of income that they can rely on for at least the next 9 months.
  - iii. It will ease the social impact of the crisis.
  - iv. It helps small businesses stay afloat which will assist economic recovery and provide jobs.
  - v. It circulates cash through the economy which ultimately flows to small businesses, larger retailers and ultimately to producers, distributors and wholesalers.
  - vi. The borrowing from the RBF injects new money to the financial system and raise the speed of circulation of money which will catalyze economic activity.
  - vii. The negative interest rates will save debt servicing for Government.
  - viii. We estimate that 20% of the \$1 billion will flow back to Government through taxes and fees.
- a) **Welfare support:** The Ministry of Social Welfare should be allocated more funds to address mental health and other social issues that are becoming more prevalent with increased poverty as well expanding its range of programs of assistance for the poor and needy.
  - b) **Reduce wastages and defer non-essential government spending:** When revenue is declining by 70%, the only immediate choice left to Government is to seriously cut spending. There is simply no other way. This Unity Budget identifies huge potential to cut non-essential spending by over \$1.5 billion by reducing wastage and deferring some capital expenditures until Fiji's economic situation recovers.

### 3.3.2 Second Phase: Reposition government's fiscal position

We propose that the second phase is to reset the government's budget to give the Government more room to provide the fiscal stimulus that we need to lift the economy as soon as possible. The Unity Budget proposes the following measures to be implemented in the next financial year:

- a) **Realistic baseline revenue projection:** Given the hammering that the economy is going through, it is likely that the revenue will remain weak in 2020/2021. The Unity Budget sets a realistic and even a conservative stance in projecting baseline revenue.
- b) **Equitable burden sharing:** The Unity Budget introduces new revenue measures aimed primarily at sharing the financial load of the crisis amongst the people who can afford to do so. One third of the taxpayers who pay the salaries of Ministers, Members of Parliament and salaries of civil servants are suffering. It is therefore only fair that Ministers, members of Parliament and civil servants carry their

share of the load based on their ability to pay. The measures for equitable burden sharing is in Chapter 7.

- c) **Zero-based budget and Fiscal Management Model:** We will apply the concept of zero-based budgeting to all Heads of Expenditures (HOE). This is discussed fully in Chapter 8. Another useful tool to use at this time is the Fiscal Management Model (FMM)<sup>1</sup> which allows simulation of the impact of policy options.
- d) **Improve health services:** The funding of the Ministry of Health should be increased to ensure Fiji meets the standards required by Australia and New Zealand to enter their travel “bubble” and also to prepare for the possibility of a second and third wave of the COVID-19 pandemic by purchasing more PPEs and equipment like ventilators. The Unity Budget will also allocate more resources to improve the deteriorating health services. This is discussed fully in the Chapter on Health.
- e) **Diversify the economy:** Agriculture has been allowed to slump badly in the last thirty years. Initiatives that have been attempted in the past have failed miserably. Our resource based industries like sugar, timber, fishing and mining have all been allowed to decline over a long time (Charts 1-4). The COVID-19 has taught us the painful lesson of over relying on tourism. We must diversify immediately into resource based industries and tertiary industries. It is not about giving more money to the Agriculture Ministry. It is about changing the model which Government has been using up to now.

### 3.3.3 Third Phase: Build a resilient economy

The Unity Budget’s third and final phase is to reset the economy aimed at pulling the economy up sustainably as soon as possible. We propose that this phase commence from the 2021/2022 fiscal year should Fiji make satisfactory progress through the first and second phases of the virus. In this third phase, the focus should be to:

- a) **Reduce government intervention in the private sector.** The Unity Budget recognizes the important role of the private sector in generating incomes and jobs. Government must only intervene in the private sector to set standards and remove market bottlenecks.
- b) **Create the right environment for foreign and domestic investment.** Investment is a prerequisite for sustained economic growth. We believe that there are a lot of investment incentives already in place that are adequate for this purpose. The Unity Budget will provide to investors a transparent roadmap, economic stability and policy certainty that are the most important factors in making investment choices. What is considered more important now is setting the certainty in policies and achieving financial and economic stability.
- c) **Improve competitiveness:** Our cost of doing businesses are rising rapidly. We propose that strategies be considered to improve domestic cost competitiveness.
- d) **Review taxes and their administration.** Fiji needs to review its taxes to avoid cascading taxes and simplify tax administration.

## 4. ECONOMIC OUTLOOK

### 4.1 Economic outlook depends on tourism

The outlook for the next two years critically depends on the rebound of tourism. Fiji’s Tourism industry contributes to 45% of our GDP and it is the largest foreign exchange earner. Over 200,000 people rely on this industry. With the closure of international borders and the suspension of flights, the effect of the

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<sup>1</sup> The FMM was developed for Fiji by the Leader of Unity Fiji under his consultancy work with the ADB

COVID-19 on the tourism industry is catastrophic. Over 60,000 employees in this sector have been laid off or working reduced hours.

We forecast tourism earnings to decline to \$100 million from \$1.9 billion registered a year ago, and tourist arrivals to fall by 90 percent to 120,000 in 2020.

**Chart 8: Tourist arrivals and earnings**



Source: Budget Supplement and own estimates

A combination of health and incomes factors will make the recovery of tourism long and hard. In addition to the loss of income, the health consideration will have a more profound impact on holiday plans. Even though flights may resume, tourists will be extremely careful before they decide to visit another country for holidays. The discovery, production, and distribution of a vaccine is an important factor in the revival of global tourist travel. The 14 day quarantine periods at both ends of an overseas trip (1 month in self-paid quarantine) will result only in travelers to Fiji being those for long term stay (employment and education). It is very likely that the short stay tourism that Fiji is used to, may be a long way away.

The knock on effects of the depressed tourism market on the Fiji economy will be widespread. We therefore predict that we will not restore our tourist numbers until 3 years' time. Without tourism, there is no other economic sectors that will take up the slack.

## 4.2 Raising confidence

COVID-19 has shattered consumer, business and investor confidence. It is therefore unlikely that private investment will recover in the next two years. Local and foreign investors will be wary of the slowdown in the global economy and the length of the economic recession in Fiji. Due to falling revenues and profits, it will take a while for public investment to reach its previous level. On the positive side, the low consumer confidence will reduce import demand and conserve foreign reserves.

Lifting the low level of confidence is important but will take time. The most effective way to raise confidence is for a clear and credible economic and financial plan which has been missing up to now. This Unity Budget will help restore confidence.

### 4.3 Global economy

The COVID-19 pandemic has brought the global economy to its knees in 3 months. Many developed countries are facing the second wave of the virus. The IMF projects the global economy will decline by 4-5% in 2020 and a small growth in 2021. This critically depends on the success of these countries to bring the virus under control and the availability of a vaccine.

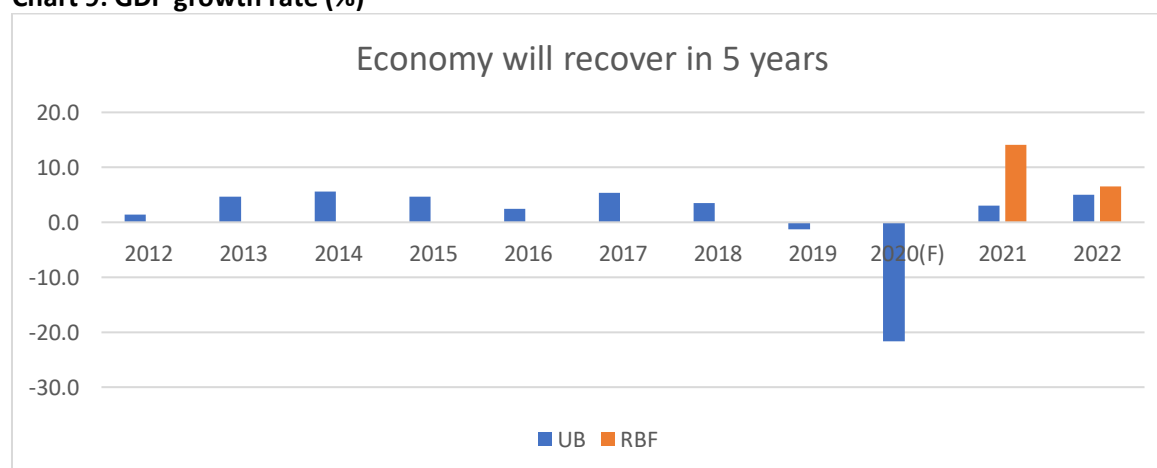
### 4.4 Economic growth projection

When the COVID-19 started in February 2020, Unity Fiji predicted that the economy will decline by 10%. In late March, the Reserve Bank announced a 4.5% decline. We knew that this was a very optimistic assessment. In early July, only three months after releasing its optimistic outlook, the RBF raised its forecast by close to six times its original prediction. It now expects the economy to decline by 21.7%.

Fiji has never experienced this magnitude of the economic decline in its history. Such a decline will have a dramatic impact on people's lives. It reaffirms our call that we brace for the worse and more importantly chart a clear roadmap to limit the decline and restore growth as soon as possible.

The RBF expects the economy to rebound very quickly to 14.1% in 2021 and 6.5% in 2022. This is unlikely to happen under the uncertainty of finding a vaccine against the virus and the possibility of a second wave which is already starting in some countries around the world. In addition, COVID-19 will bring permanent changes to the economy and tourism will be affected for some time to come. Confidence will take time to rebound. In our assessment, the economy is expected to register a modest growth at the end of next year if there is no second wave of the virus. Beyond 2021, we are poised to see a range of global GDP growth moving towards a flat growth in the medium term depending on how the developed countries manage the second wave of the virus. This Unity Budget is therefore presupposed on a gradual return to a modest 3% growth by 2022/23, increasing to 5% by 2024 if we implement the measures to diversify our economy articulated in this Budget. It would therefore take 5-years for our incomes to fully recover to pre-COVID levels.

**Chart 9: GDP growth rate (%)**



Source: Budget Supplement and own estimates



## 5. UNITY BUDGET STRATEGIES

### 5.1 Fiscal strategy

Our lack of economic and fiscal resilience to the greatest threat to our economy calls for creative and innovative thinking. The conventional economic remedies will not work. They will worsen the situation and make our recovery difficult. Based on the above economic backdrop, the 2021 fiscal budget needs to mark a multi-year expenditure switching program with an expansionary investment component to allow for the shortest possible trough period, and to provide the economic agility to turn the bend in the most seamless, painless and sustainably natural way considering the current strengths and challenges of the economic structure and skill capacity.

Construction projects are a key investment area, as these would employ hundreds and have strong economic multiplier and ripple effect. It will need to be tampered with better cost management and more assertive but selective price controls to keep building material accessible at household level hence more thought needs to go into retail and wholesale price differentiation for consumer protection.

In conventional economics, our high debt level would dictate that we reduce the deficit by slashing expenditure by more than the fall in revenue. This will be catastrophic for the country. It will deepen the recession leading to massive unemployment and economic hardships. We must take a bold but calculated action. The fiscal strategies are therefore based on the following:

- a) Avoid severe reduction in total expenditure to help support incomes.
- b) Identify savings by eliminating wastage, delaying nonessential spending and redirecting them to priority areas like health and infrastructure. This is outlined in Chapters 6 and 8.
- c) To regain fiscal stability by keeping the deficit down, introduce temporary measures to share the burden of the government response to COVID-19 by raising incomes based on ability to pay and consumption taxes. This is discussed fully in Chapter 7.
- d) Increase budget support from donors to help keep the deficit down.
- e) Allow the fiscal deficits to rise in the next 3 years but through a program of revenue measures and strict priorities on spending, reduce to 3% after that. This will raise debt to a maximum of 75% of GDP, but as the cost of the COVID-19 eases and with the measures included in this budget, this level of debt should trend back to 60% in 5 years and below 50% in 7 years.
- f) Introduce measures to reduce the cost of borrowing immediately. In this crisis, we can live with a higher debt stock as % of GDP as long as the cost of borrowing stays sustainable as a % of exports and revenue. Measures to reduce the cost of borrowing are outlined in Chapter 5.
- g) As the quality of expenditure rises, the government expenditure multiplier will also increase leading to higher economic growth which will reduce debt to GDP quicker towards a more acceptable level.

### 5.2 Monetary strategy

#### 5.2.1 Increase money supply

Traditionally, the dual aims of monetary policy are price stability and adequate foreign reserves. In this climate of depressed demand, the threat to these two aims is low. Monetary policy can therefore play a more active and catalytic role rather than its usual passive role. Monetary policy should focus on the following:

- a) Increasing money supply through quantitative easing. This will keep interest rates low. The threat to inflation and foreign reserves are low.
- b) Reducing the interest to borrowers by sharing the credit risks with commercial banks and government
- c) Maintaining a stable exchange rate.
- d) Safeguarding the independence of the FNPf from Government.

### 5.2.2 Impose selective price controls

In economics, price control is normally regarded as inefficient tool of welfare support. However, in this unusual economic environment, the risk of price gouging will be very high. To protect the people, the Unity Budget proposes to introduce temporary price controls on selected essential goods, residential rent, and building materials.

## 5.3 Risk strategies

For fiscal and economic stability, we must measure and track the entire spectrum of risks to Government. These risks are at several levels:

- a) The credit risks of not being able to pay its own debt.
- b) The servicing risks of its loans to statutory bodies and SOEs not being paid.
- c) The contingency risks of its guarantees to SOEs being called upon.

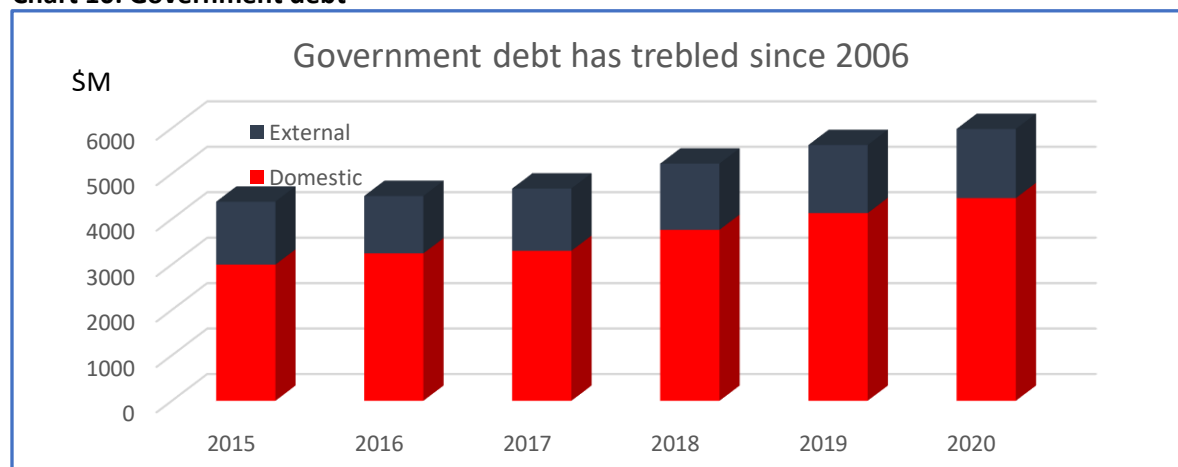
Government exposure to these risks have trebled in the last ten years which considerably weakens its financial position.

### 5.3.1 Credit risk is mounting

Debt levels determine the strength and resilience of government finances. Debt is normally measured as a percentage of the economy. Under the Bainimarama Government, Fiji's debt grew from \$2.9 billion in 2006 to \$5.6 billion at the end of July 2019. This is a 96 percent increase within a 14-year period. Our debt to GDP stood at 49% before the COVID-19 crisis. Government has announced that debt to GDP will rise to 63%. According to global experiences, the debt level of small developing countries like Fiji should be around 35% of GDP. This implies that Fiji's debt overhang is 14% of GDP which means Fiji has overborrowed by \$1.8 billion.

Total outstanding Government debt stood at \$5.63 billion at the end of July 2019 of which \$4.1 billion (%) was domestic debt and \$1.4 billion (%) external loans. Of the \$4.1 billion domestic debt outstanding, Green bonds accounts for \$100 million with 5 and 13 years maturities and yields at 4 percent (5 years) and 6.30 percent (13 years).

**Chart 10: Government debt**



Source: Budget Supplements

FNPF remains the largest holder (75%) of Fiji Government stocks followed by Insurance Companies (17%), commercial banks (3%) and NBFIs & private individuals comprise the balance.

Fiji major external lenders are the Asian Development Bank (27% of total external debt), Exim Bank of China (32% of total), World Bank (11%) and IFAD (0.1%). The balance of 30% comprise of global bond which was raised in the international bond market. Global bond outstanding currently stands at \$433m for the period ending July 2019. This bond is due for payment in October 2020.

The risks associated with excessive debt are as follows:

- a) **Depreciation of the Fiji dollar:** With majority of Fiji's offshore loan denominated in USD, the depreciation of the Fiji dollar against the US dollar increases the value of outstanding debt and immediately increases interest payments abroad.
- b) **Interest risks:** The dominance of the FNPF in tendering for government bonds and treasury bills impose a surcharge on interest rates. The RBF should reduce this risk by underwriting all issues of government bonds and treasury bills.
- c) **Servicing risk:** The high debt level raises interest payments by Government which is currently at over \$350 million a year. The growing interest payment is crowding out essential expenses. The weighted average interest rate on the entire debt stock in January 2020 was 6.2% which is extremely high for a small economy like Fiji and this Unity Budget aims at reducing the average cost of debt.

To reduce the above risks to the budget, this Unity Budget will put in place the following measures:

- a) Introduce measures to reduce the cost of new debt from over 6% to below 2% which will save the country \$80 million per year through the following:
  - i. Negotiate loan terms with our major international lenders of the ADB, WB and Exim Bank of China. If possible, convert loans into grants;
  - ii. At maturity in October 2020, convert the international bond to multilateral loan at lower interest costs;
  - iii. Negotiate greater budget support through grants; and
  - iv. Require the RBF to underwrite the issues of local bond and treasury bills at a lower interest rate ceiling of 2%.

- b) Reduce the proportion of foreign loans to total loans which has trebled from less than 10% to over 30% in the last 14 years by borrowing more locally in the next 2 years. Foreign loans carry a high cost premium in exchange rate risks.
- c) We do not support any devaluation of the Fiji dollar. Competitiveness is not an issue at this time. Devaluation will only hurt the people by raising prices with no real gains in output or foreign reserves.

### 5.3.2 Contingency risk is rising

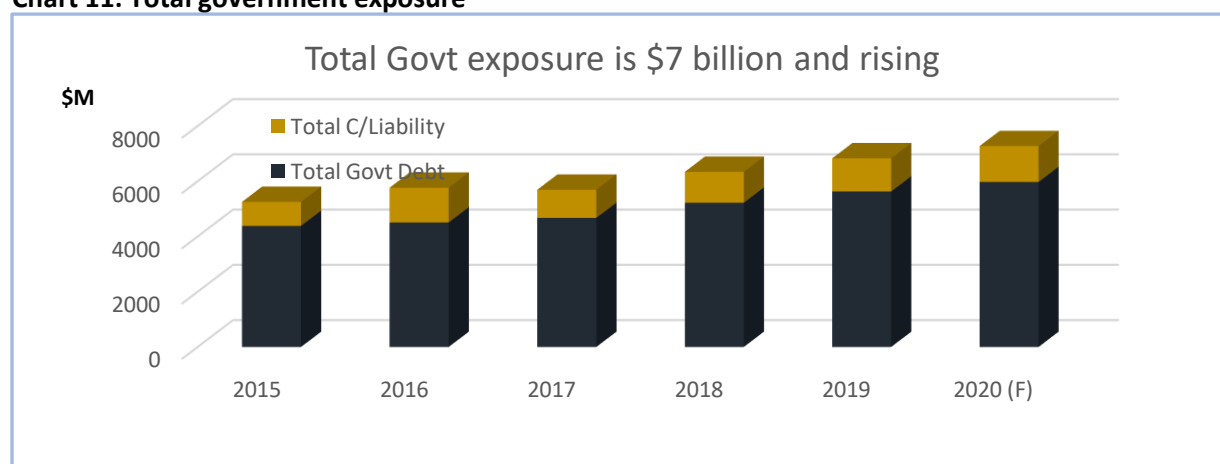
The government transfers to State Owned Enterprises (SOEs) have exploded in the last decade. Total capital and operational grants to SOEs and statutory bodies has reached \$1.7 billion. However, the rise in transfers is not matched by better performances of many of the SOEs. This means that taxpayers are paying to cover up the non-performance and excesses of these SOEs.

Government continues to pump in significant volume of operating grant to SOE keep them going. This is in the case of Fiji Broadcasting Commission (FBC), Fiji Sports Council and Fiji Sugar Corporation. This indirectly implies that Government is rewarding their poor performance and paying their loans through this grant. Parliament's recent approval of a guarantee of \$455 million to Fiji Airways will raise Government exposure to the Airline. It is estimated that Fiji Airways is paying close to \$38 million on a monthly basis for lease of its aircrafts. If this pandemic is protracted which appear most likely, the taxpayers may have to fork out more to keep the airline afloat. This Unity Budget will re-examine all the options to reducing the cost of keeping these airplanes on the ground.

COVID-19 has weakened business performance due to lower demand and delinquent customers. This will have dramatic effects on government owned organisations like FDB, HA and FSC leading to heavy reliance on Government to provide budget support and bail out SOEs.

Total government guarantee at end of July 2018 is approximately \$1.1 billion. Taking account of total government debt outstanding of \$5.6 billion, total Government exposure is forecast at \$6.7 billion or 60 percent of GDP. This is bound to increase to 80% in two years if we do not take the corrective measures in this Unity Budget.

**Chart 11: Total government exposure**



Source: Budget Supplements

The rising risks of the SOEs to government financial health must be addressed. The measures in this Unity Budget to address these risks are:

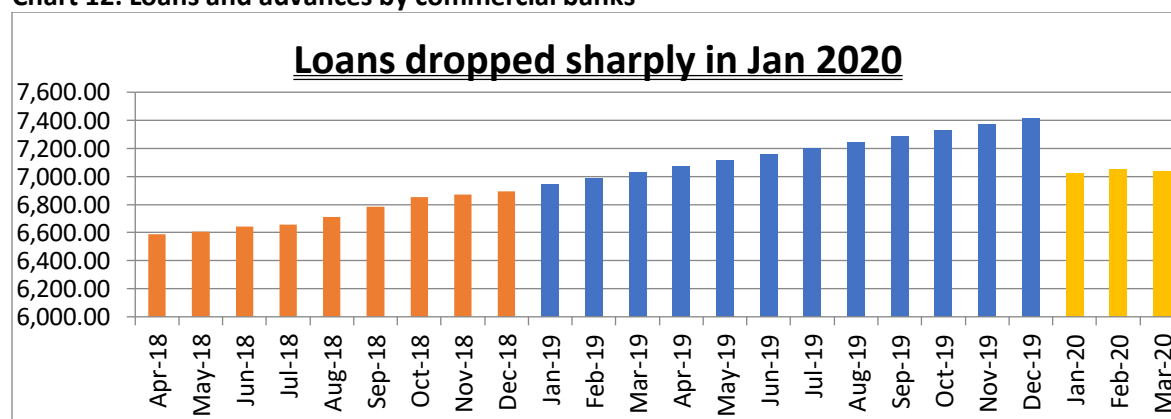
- a) In the short term, we will reduce the operating transfer to the SOEs in half. This will save \$340million.
- b) We will defer non-essential capital spending of SOEs for 2 years and only allow essential capital expenses. This will make available \$500 million.
- c) Reabsorb the functions of some of the SOEs back to central government. One classic example is the FRA.
- d) In the medium term, we will privatise selected SOEs to avoid reliance on taxpayer's money and introduce programs to improve the financial performance of the rest of the SOEs.

## 5.4 Financial strategy

The economic crisis is beginning to be felt in the financial system. Lending which was already declining before the COVID-19 crisis has plummet. On the other hand, the lending rates have increased.

In this depressed economic climate, there will be a rise in the non-performing loans of commercial banks and credit institutions which will necessitate higher provisioning, lower profits and may raise interest rates. The RBF should provide pragmatic prudential provisions during the period of this crisis while protecting the overall soundness of the financial system.

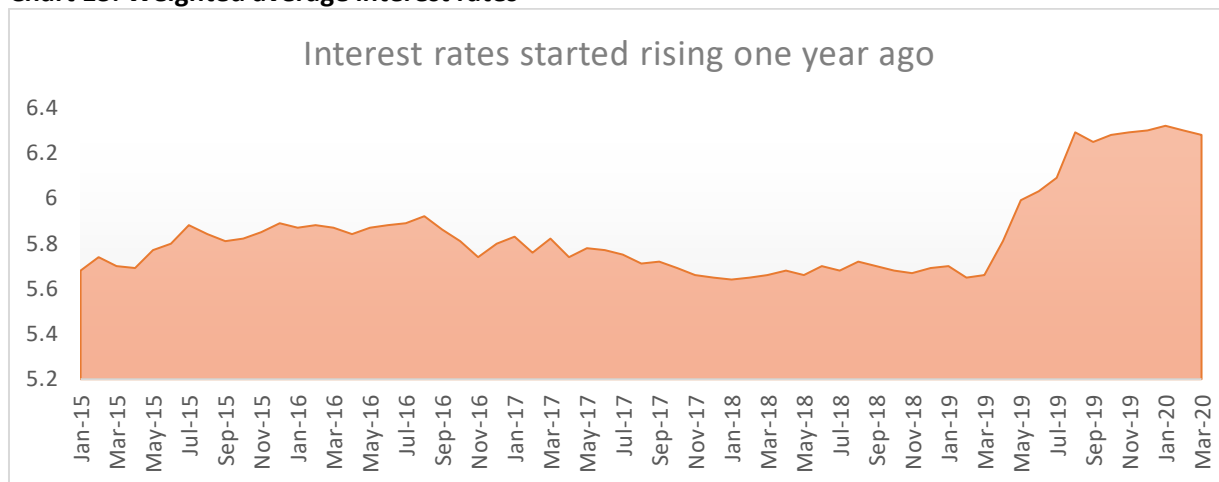
**Chart 12: Loans and advances by commercial banks**



Source: RBF Quarterly Review



**Chart 13: Weighted average interest rates**



Source: RBF Quarterly Review

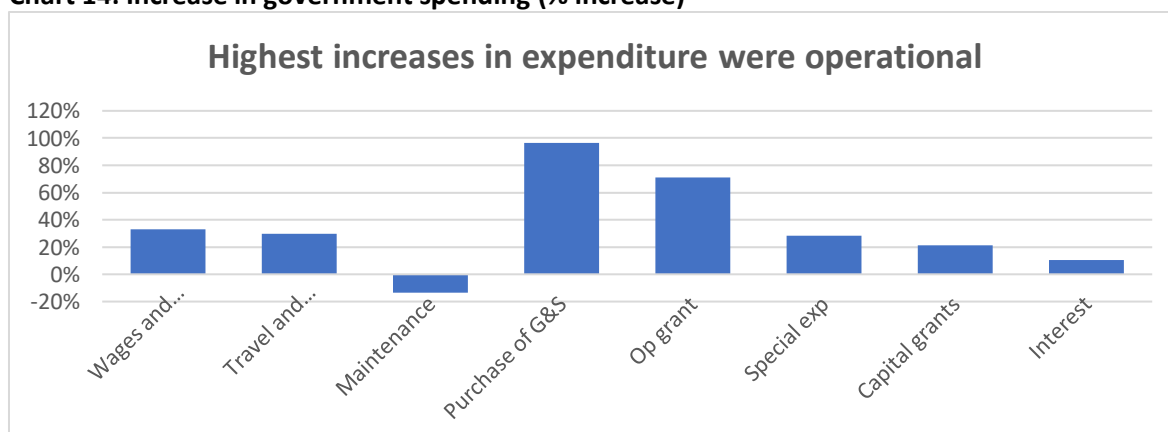
The financial sector could play a more active role in the economic recovery. While deferring income through the restructure of loans helps the cash flow, the sector can and should do more to help the economy stabilize and grow. Providing access to finance through RBF facility will not be enough. The most critical issue for businesses is to lower the cost of borrowing. Our financial strategy will include:

- Lowering the interest rates to borrowers through more innovative products like convertible equity where merited.
- Lowering fees and charges.
- Quantitative easing will help maintain adequate liquidity and keep interest rates low.

## 6.SPENDING PRIORITIES

A central part of this Unity Budget is the reprioritization of government expenses to more productive areas of health, education, infrastructure, law and order and welfare payments. The quality of government spending has been low. Most of the increases in government spending has gone to paying higher salaries, travel and per diems, operating grants and purchasing of vehicles. These types of spending do not sustainably support economic growth.

**Chart 14: Increase in government spending (% increase)**



Source: Budget Supplement

The first step in redirecting spending is to identify areas of savings. A total of \$1.5 billion of savings has been identified which should not affect the delivery of essential government services. The second step is to reallocate savings to priority areas:

**Table 3: Rechannelling savings to priority areas (\$m)**

Sector	Additional Allocation (\$m)
Health	100
Education	30
Law and order	10
Income support	500
Infrastructure	350
Welfare support	10
<b>Total</b>	<b>1,000</b>

## 6.1 Health

The first wave of the COVID-19 pandemic did not test the state of our health services. Being an island nation, closing our borders kept the infection rate very low. Before the COVID-19 arrived, there were many fundamental problems that Fiji faced in health services. If the COVID-19 had worsened in Fiji, our hospital and health services would not be able to cater with tragic impact on the population. The COVID-19 also puts a lot of risks to the medical treatment of other diseases and services.

The ongoing problems in our health sector are well known and include poor health facilities, inadequate hospital beds, inadequate supply of medicines and outdated equipment. The challenges are not confined only to services. The changes in the organizational structure had too many direct reports to the CEOs.

Health Centres around the country are ill equipped. Majority of the population go to Health Centres where medicines and basic items are not available like basic antibiotics (flucloxacillin), dressings, gentian violet, let alone in rural and maritime islands. Patients are required to go to private chemists for medication and with many losing jobs, this makes it very hard for families.

One of the most pressing problems is the state of the CWM hospital that serves the majority of the people of Fiji. The problems are wide ranging including the laundry, incinerator and operating theaters. In summary, the hospital is not compliant with the OHS requirements. This state of the hospital is extremely dangerous to patients and health workers and urgent repairs must be done immediately.

We also need to learn from the experiences of the first wave of COVID19 where:

- a) Personal protective equipment was in short supply including gloves, PPEs and ventilators.
- b) The procedures were inadequate and there was no aerolized room at the CWM.
- c) There were serious lack of funds. Government's COVID19 responses were largely funded by donors including the Australia Department of Foreign Affairs and Trade (DFAT), Pacific Community, China, World Health Organisation (WHO), UNICEF, UNFPA, and others.

We must take this time to fully prepare for a possible second wave of the virus through an additional allocation of \$100 million to the Ministry of Health to execute a health program that will include the following:

- a) The procurement of PPEs and the setting up of proper facilities to prepare for the second wave.
- b) Procurement of enough testing equipment.
- c) Establish procedures that will enable us to join the ANZAC bubble and others as soon as possible.
- d) Purchase of medicines.
- e) Provision of equipment to health centers.
- f) Urgent improvements to the CWM hospital to be OHS compliance.

In the medium term, we should implement the following:

- a) Review of the status of the entire health system.
- b) Review the organisation structure of the Ministry of Health.
- c) Strengthen public health services as the mainstay for provision of health care in Fiji. We should therefore adjust the funding ratio to 35% towards public health and 65% to hospitals.
- d) Set up a decentralized model of hospitals which will provide better health services and modern facilities which may help retain our trained doctors and nurses.
- e) Modernise the equipment in hospitals and health centers.
- f) Build new health centers to improve access to medical facilities.
- g) Focus on preventive, curative and rehabilitative services with priority on NCDs, including nutrition, mental health and injuries; maternal, infant, child and adolescent health; and communicable diseases, environmental health and health emergency preparedness, response and resilience.<sup>2</sup>
- h) Strengthen the health systems to focus on primary health care; a productive, motivated health workforce; evidence based policy, planning, implementation and assessment; medical products; equipment and infrastructure; and sustainable financing of the health system.<sup>3</sup>
- i) Strengthen Divisional Hospitals for immunizations, maintaining water quality, and increase community understanding;
- j) Increase the number of skilled health workers per 10,000 populations from the low level of 27.3; and<sup>4</sup>
- k) Support the FNPF large hospital project in the West to position Fiji as medical tourism destination for the region. Tamavua was earmarked for brand new hospital to service the entire greater Suva area.

## 6.2 Education

Children are our future and education is the key to their successes in life. However, our education system and the quality of education have worsened in the last 15 years:

- a) Operational grants has been reduced which has eroded the quality education, affected school operations and technological studies especially in the area of learning.
- b) The determination of the amount of current grant provided is not transparent. Grants are adjusted if schools are found to have bank balances irrespective of the source and intentions of the bank balances.
- c) Since 2014, capital development in most schools have grounded to a halt.
- d) Development Funds are not paid.
- e) Most schools do not meet OHS requirements and no audit has been undertaken.

<sup>2</sup> WHO, Fiji: *WPR FIJI–WHO Country Cooperation Strategy 2018–2022*, <https://iris.wpro.who.int/bitstream/handle/10665.1/13942/WPRO-2017-DPM-008-fji-eng.pdf>, accessed 24 June, 2020

<sup>3</sup> Ditto

<sup>4</sup> WHO, Fiji: *WPR FIJI–WHO Country Cooperation Strategy 2018–2022*, <https://iris.wpro.who.int/bitstream/handle/10665.1/13942/WPRO-2017-DPM-008-fji-eng.pdf>, accessed 24 June, 2020

- f) The Technical Education Schools (TES) system has not worked because of inadequate funding.
- g) Schools cannot do e-learning due to lack of technological upgrading and development in schools (lack of capital).
- h) The morale of teachers is very low which affects their performance and ultimately the quality of education.
- i) No consultations were done in the revision of curriculums. It was remotely done by Head Quarters and overseas consultants with no contextual reference.
- j) Undertake a comprehensive review of government's policies and the impact of COVID-19 on the quality of primary and secondary education in Fiji.

In this Unity Budget, the allocation to the Ministry of Education is increased by \$30 million for the following purposes:

- a) Assist parents for payments of school equipment when school resumes in early July.
- b) Restore grants to school under a transparent and fair system.
- c) Restore payments of bus fares.
- d) Assess the quality of education against global benchmarks to not only look at teaching and learning but also assessing the environment in which the learning take place like buildings and equipment.
- e) Introduce a fair measurement of performance for bonus payment.
- f) Balance mainstream education (Class 1 – Form 7) which absorbs about 80% of costs against 20% for technical/skills development to a 70:30 ratio.
- g) Establish an Education Commission to look at development of curriculum holistically.
- h) Build more classrooms, equipment for science laboratory.

In the medium term, consideration should be given to move away from the centralized education model where the Ministry controls everything including finance of the schools. This has only made the education system worse. We should allow schools that want to operate on a partially funded model with more funding coming from parents and school fees.

## 6.3 Infrastructure

The development of infrastructure will remain a top priority, but the focus will shift to higher quality and better value for money. The allocation to infrastructure development amounts to \$1 billion a year. However, the quality of this investment especially on roads is extremely low. The allocation to infrastructure will fund the following strategies of the Unity Budget:

- a) A full review of all infrastructure budget will be undertaken. Nonessential infrastructure projects will be deferred, some shelved and some reviewed. This will halve the amount allocated to infrastructure.
- b) A new allocation of \$350 million will be made to new and ongoing infrastructure projects in priority areas only. This will allow us to raise the quality of the investment by closer project management and releasing funds based on performance indicators.
- c) Refocus the priority of the Fiji Roads Authority (FRA) to road maintenance and reduce the overheads of the SOEs that are at the front line of providing infrastructure development.
- d) Ensure that 100% of the population has access to clean and reliable water supply.

The medium term strategies on infrastructure are:

- a) Reinstate the PWD arrangement.

- b) Establish a funding source for infrastructure development that reduces reliance on scarce government resources through the following:
  - i. Consider setting up a Pacific Travel Infrastructure Investment Property Trust as a mechanism to co-fund ports, maritime, and air travel infrastructure. This can catalyse the commercialization of SOEs in various countries. Divest a percentage of all Fiji Government travel SOEs like the Ports Authority, Airports Fiji Limited, Fiji Airways into the Trust to provide anchor funding.
  - ii. Extend Fiji SOE and Government skills to secure management contracts to manage neighbouring country's SOEs as a revenue growth and provide intermediary procurement, privatisation, reform centered support so we become a true advisory center and trading post in our region. This center of gravity for this is currently still with Australia and New Zealand.
- c) Secure a 10-year phased road development funding for the main Suva CBD road development of \$250m.

## 6.4 Law and Order

The Unity Budget will raise the allocation for the police force by \$10 million for:

- a) Equipment;
- b) Additional personnel; and
- c) Training.

## 6.5 Welfare payments

It is important that we look after the vulnerable members of our country, the disadvantaged, the aged and the poor. To reinstate the monthly allowances for senior citizens and support welfare schemes, the allocation to social welfare will be raised by \$10 million.

# 7.REVENUE MEASURES

## 7.1 Hierarchy of Taxes

The revenue measures of this Unity Budget are based on universal best practices. A study by OECD Economists in 2012 established a hierarchy of taxes from the most harmful to long-term economic growth to the least harmful. The hierarchy is largely based on the mobility of the tax base. The study revealed that capital is the most mobile and most sensitive to high tax rates. Land is the least mobile and least sensitive to high tax rates. High corporate income tax is the most harmful to long term economic growth followed by high personal taxes. Consumption taxes and property taxes were found to be less harmful to economic growth relative to taxes on capital and income.

We have considered the above ranking in developing our revenue measures to those based on growth, asset sales, widening the tax base, avoiding cascading of taxes and simplifying administration.

The government revenue has taken a beating by the corona virus. The Unity Budget is a responsible budget. We must protect the government's financial position. The entire country must share the load especially by those that can afford to do so. But at the same time, we must protect the welfare of those that are poor and those affected by the crisis.



The revenue measures of this budget are aimed at balancing responsibility, equitable sharing of the load and on simplicity.

## 7.2 Short term revenue measures

The Unity Budget will introduce the following new revenue measures to help keep the borrowing down:

- a) Temporary increase VAT to 12% but exempt essential food items.
- b) Increase marginal tax rate by 10% points and those earning above \$100,000 to 35%.
- c) Increase social responsibility tax by 20% points which applies to those earning very high income.
- d) Impose a temporary company tax surcharge of 20% points on those companies making super profits based on return on assets.
- e) Increase import duties on all passenger vehicles by 100%. Heavy machinery and trucks are excluded.
- f) Increase excise duties on alcohol and tobacco by 20%.
- g) Increase import duties on white luxury goods by 20%.
- h) impose 10% NCD levy on all sugar, preservative, and salt-based products, carbonated drinks, and alcohol and cigarettes;
- i) Increase telecommunication levy by 10%; and
- j) Increase fringe benefit tax by 10%.

We expected to raise \$430 million from these new revenue measures.

## 7.3 Supporting economic recovery

The immediate focus of the Unity Budget is to raise demand, provide jobs and pull up the economy. In support of these aims, the Unity Budget will implement the following measures:

- a) Remove the Environment and Climate Adaptation Levy;
- b) Reduce the departure tax by 50%; and
- c) Increase fuel rebate/concessions to domestic shipping and fishing industry.

## 7.4 Sale of shares

The divestiture of government shares in public enterprises supports the broader aims of reducing fiscal risks and streamlining the size of government. In support of these broader aims and to bring in much needed revenue, Government should take the available options of selling some of its shares in Amalgamated Telecommunications Holdings (ATH) and Energy Fiji Limited (EFL). Government has 72,966,105 shares remaining in ATH (or 17.3% of ATH's total shares) and if it were to sell all for them at the current market price of \$2.01 per share on the SPSE then it could raise \$146.7 million. For EFL, the FNPF had purchased 20% of the shares in that company for \$206 million which translates to \$247 million for 24% at the same price. As ATH is a listed company, the transaction with EFL faces less hurdles as it is not a listed company.

Unity Budget will also look at the divestment by Government of its interests in heavily subsidized loss-making and heavily indebted SOEs like Fiji Broadcasting Corporation Limited and Fiji Sports Commission. More lead time will be required to restructure and wean-off government subsidies in these entities.

The Unity Budget builds in the sale of \$100 million worth of shares to EFL in 2021 and \$150 million worth of ATH shares in 2022. These shares are only to be offered locally. The only institution within Fiji that has the capacity to purchase these shares is the FNPF. There is financial benefit to the FNPF members from increasing their shareholdings in these companies. FNPF should carefully consider readjusting his portfolio away from the tourism sector. Rather, it should divest itself from the tourism sector and re-direct its efforts to utility infrastructure investments like AFL, EFL and FPCL and solicit reputable strategic partners like the World Bank's International Financial Corporation, EU's EIB and ADB's Private Sector Operations.

## 7.5 Medium term revenue measures

In the medium term, the following new revenue measure could be considered:

- a) **Taxing Government Statutory Bodies:** There are probably only few institutions left that are still operating as Statutory Bodies like Housing Authority, Land Transport Authority, Agricultural Marketing Authority, Fiji Broadcasting Corporation, Fiji Meat Industry Board, and the Fiji Development Bank that could be required to start paying the same corporate tax rates as companies.
- b) **Taxing non-taxed businesses or industries:** Commercial businesses run by religious, sports and other volunteer or non-government organizations should be considered for taxation at corporate tax rates. Credit Unions should be treated the same.
- c) **Eliminate targeted tax preferences:** A total of 20 companies are listed on the South Pacific Stock Exchange, and they enjoy a 50% discount on their corporate tax rates (i.e. 10% as against 20%) as part of the incentive to list and the development of the capital markets in Fiji. They should be required to pay a 15% corporate tax rate.

With the above revenue measures, we expect that tax revenue will recover to its pre COVID-19 level in four years. This should give more fiscal space for government to consolidate and bring debt back to more acceptable levels.

## 8. EXPENDITURE MEASURES

### 8.1 Zero based budgeting

The Unity Budget would have applied the concept of zero-based budgeting to all Heads of Expenditures (HOE). This will require HOE to rebase all programs and activities under each Standard Expenditure Group (SEG) to zero and provide reasons for any allocations. This approach will be the main vehicle to:

- a) Weed out wastage;
- b) Defer non-essential spending to future years including capital spending;
- c) Increase the quality of expenditures across the board;
- d) Apply strict priorities to grant more allocation to essential areas of health, education and welfare support.
- e) Undertake comprehensive public expenditure reviews in the priority sectors of Health, Education and Infrastructure (including Roads and Water utilities).
- f) Thoroughly review and audit Government's overall procurement systems.

## 8.2 Burden sharing: Payroll

This Unity Budget requires the whole country to share the burden of this crisis amongst the people who can afford to do so. Many of the taxpayers who pay the salaries of Ministers, Members of Parliament and salaries of civil servants are suffering. It is therefore only fair that Ministers, members of Parliament and civil servants carry their load based on their ability to pay. We propose that the reduction in pay be executed along the following lines:

- a) Reduce Minister's salaries by a further 10% including all allowances;
- b) Reduce MPs salaries and allowances by a further 10%;
- c) Reduce the salaries of top civil servants from Director upwards by 20%; and
- d) Reduce salaries of all other civil servants by a maximum 10% to a floor of \$30,000.
- e) Non-essential areas within the public service will be required to work and paid only 4-day work weeks or the equivalent

## 8.3 Potential savings

We have identified possible areas of savings:

- a) **Grants to State Owned Enterprises (SOEs):** The government grants to SOEs and statutory bodies have exploded and now stands at over \$1.6 billion. The major grants in this fiscal year are \$245 million to Water Authority of Fiji and \$320 million to Fiji Road Authority (FRA). We propose that the FRA should concentrate solely on properly fixing potholes and reducing their overheads. Obviously, some of these allocations are essential, but we have identified about half that of low priority and about a third are not needed at all.
- b) **Miscellaneous:** There is an allocation of \$200 million in Miscellaneous (Head 50). The allocation to this Head of Expenditure reflects poor budgeting and we will reduce this to below \$100 million.
- c) **Special expenditures:** This ambiguous group of spending has more than doubled in the last ten years to \$119 million of which the largest allocation in 2020 is for the Public Private Partnership (PPP) in Health. There is serious deterioration of the state of our hospitals and health centers across the country. We will reduce this by at least half.
- d) **Vehicles:** Government spends an average of \$32 million a year in leasing vehicles and buying new ones. In the good old days, the amount was less than \$5 million. We can see the indicator of this spending in the number of flash government vehicles on our roads and the long ministerial car convoys around Fiji. We will reduce this by half and also explore the possibility of reverting to owning rather than leasing vehicles.
- e) **Embassies:** There is around \$30 million operating expenses for embassies. We will close all unnecessary embassies which should not have been opened in the first place. We can save half of this amount.
- f) **Consultancy payments:** There was a \$2 million allocation to consultancy in the 2019 budget which was for the services of the international public relations company GORVIS. This is a political luxury which we cannot afford.
- g) **Recruit locals:** We will review all contracts of expatriates in the civil service and SOEs to the view of localizing the positions if locals can meet the required attributes. We estimate that this will save \$300 million in the medium term.
- h) **Zero based budgeting:** The savings from the application of the concept of zero based budgeting is conservatively estimated at \$500 million without any impact on service delivery.

- i) **Cost of debt:** With the measures detailed in Chapter 5, we will reduce the cost of debt by \$80 million per year.
- j) **Other savings:** We have identified other savings amounting to \$60 million.

\$1.1 billion of these savings will be redirected to fund the proposed income support program and the economic rescue package. \$500 million will be earmarked to reducing the deficit to lower rate the of debt accumulation.

## 9 WE ARE ALL IN THIS TOGETHER

We have prepared this Unity Budget as our contribution to finding the best package that will help us sustain our livelihoods during this COVID-19 crisis and restore our lifestyles as soon as possible. The proposals are aligned to our three pronged attack of saving lives and easing the suffering of the people; restoring fiscal balance, and rescuing the economy. They have also built on the pillars of innovation and creativity, putting people first, and creating jobs.

We are all in this canoe together. Unity Fiji joins many others that have been calling for a united approach to fight this most potent threat to our lives and livelihoods. This Unity Budget is submitted in the spirit of unity and togetherness. The impact of this crisis will affect us all.

Unity Fiji commends this Unity Budget to the people of Fiji.

**MAY GOD BLESS US ALL**

## 10.ANNEXES

### 10.1 Revenue Summary

Table A1: Revenue summary (\$m)

	19/20 Budget	COVID-19 (Est)	UB Baseline	UB 2020/21 (Est)
<b>Direct Taxes</b>	<b>804,837.0</b>	<b>545,954.7</b>	<b>573,252.4</b>	<b>631,712.2</b>
Income Taxes	744,392.4	510,239.9	535,751.9	589,327.1
Social Responsibility Tax	8,505.8	5,953.0	6,250.7	7,500.8
Fringe Benefit Tax	24,113.8	17,307.0	18,172.4	21,806.8
Capital Gains Tax	27,825.0	12,454.8	13,077.5	13,077.5
<b>Indirect Taxes</b>	<b>2,275,386.1</b>	<b>1,476,086.5</b>	<b>1,549,890.8</b>	<b>1,719,293.2</b>
Value Added Tax	909,011.8	548,364.6	575,782.8	883,702.0
Customs Taxes	745,999.1	540,449.3	567,471.8	595,845.4
Service Turnover Tax	93,490.3	59,328.8	62,295.2	46,745.15
Water Resource Tax	82,808.3	49,544.2	52,021.4	52,021.4
Departure Tax	163,302.5	106,232.9	111,544.5	81,651.25
Stamp Duty	105,420.8	55,528.9	58,305.3	58,305.3
Fish Levy	79.8	80.6	84.6	0
Telecommunication Levy	1,138.8	885.4	929.7	1,022.64
Third Party Insurance Levy	-	-	-	-
Environment and Climate Adaptation Levy	174,134.7	115,671.8	121,455.4	0
<b>TOTAL TAX REVENUE</b>	<b>3,080,223.1</b>	<b>2,022,041.2</b>	<b>2,123,143.3</b>	<b>2,351,005.4</b>
Fees, Charges, Fines & Penalties	163,210.1	118,188.8	124,098.2	124,098.2
Sales Revenue	1.8	1.8	1.9	1.9
Grant in Aid	13,814.4	29,084.6	30,538.8	50,000.00
Reimbursements & Recoveries	14,397.7	36,631.3	38,462.9	46,155.44
Other Revenue and Surpluses	38,068.9	29,632.0	31,113.6	31,113.6
Dividends from Investments	87,246.4	55,571.1	58,349.7	58,349.7
Interest from Bank Balances	1,185.8	1,185.8	-	-
Repayment of Term Loans Receivable	7,125.7	4,290.0	4,504.5	5,405.40
Sales of Government Assets	80,000.0	206,110.0	100,000.0	100,000.0
Return of Surplus Capital TMA Operations	6,424.1	4,882.9	5,127.0	6,665.16
<b>TOTAL NON-TAX REVENUE</b>	<b>411,474.9</b>	<b>485,578.3</b>	<b>392,196.6</b>	<b>421,789.4</b>
<b>TOTAL REVENUE</b>	<b>3,491,698.0</b>	<b>2,507,619.5</b>	<b>2,515,339.9</b>	<b>2,772,794.8</b>
% of GDP				

Direct taxes	6.3%	5.4%	5.7%	6.1%
Indirect taxes	17.9%	14.7%	15.4%	16.7%
Total tax revenue	24.2%	20.1%	21.1%	22.9%
Non tax revenue	2.6%	2.8%	2.9%	3.13%
Total revenue incld asset sales	27%	25%	25%	27%

Source: Budget Estimates and own estimates

## 10.2 Expenditure Summary

**Table A2: Expenditure Summary (\$m)**

	19/20 (Bud)	COVID 19/20 (Bud)	UB 20/21 Baseline	UB 20/21 Budget
1. Established Staff	985,487.7	936,556.7	749,245.36	674,320.82
2. Government Wage Earners	52,927.7	53,555.5	42,844.40	42,844.40
3. Travel and Communications	34,479.3	30,530.1	22,897.58	17,239.65
4. Maintenance and Operations	73,505.5	69,426.0	59,012.10	95,557.15
5. Purchase of Goods and Services	174,692.8	164,608.4	139,917.14	122,284.96
6. Operating Grants and Transfers	698,183.7	644,261.8	483,196.35	349,091.85
7. Special Expenditures	119,022.7	102,623.9	76,967.93	59,511.35
<b>TOTAL DEPARTMENTAL BASELINE OPERATING</b>	<b>2,138,299.4</b>	<b>2,001,562.4</b>	<b>1,574,080.85</b>	1,360,850.18
<b>Unallocable Operating Expenditures</b>				
11. Pensions, Gratuities and Compassionate Allowances	33,894.3	29,620.0	29,620.0	29,620.0
12. Finance Charges on Public Debt	362,627.9	361,548.5	253,727.8	253,727.8
<b>TOTAL BASELINE OPERATING</b>	<b>2,534,821.6</b>	<b>2,392,730.9</b>	<b>1,857,428.7</b>	<b>1,644,197.98</b>
8. Capital Construction	119,153.5	101,032.7	80,826.2	72,743.54
9. Capital Purchase	97,780.9	62,909.0	50,327.2	50,327.2
10. Capital Grants and Transfers	1,035,705.8	934,007.1	747,205.7	517,852.90
<b>TOTAL BASELINE CAPITAL</b>	<b>1,252,640.2</b>	<b>1,097,948.8</b>	<b>878,359.0</b>	<b>640,923.64</b>
<b>13. Value Added Tax</b>	53,467.10	45,672.7	36,933.1	29,898.95
<b>TOTAL BASELINE EXPENDITURE</b>	<b>3,840,928.9</b>	<b>3,536,352.4</b>	<b>2,772,720.8</b>	<b>2,315,020.58</b>
<b>Add back savings to priority areas</b>	-	-	-	1,000,000
<b>TOTAL EXPENDITURE</b>	<b>3,840,928.9</b>	<b>3,536,352.4</b>	<b>2,772,720.8</b>	<b>3,315,020.58</b>
<b>Reallocation to priority areas:</b>				
Health	-	-	-	100
Education	-	-	-	30
Law and order	-	-	-	10
Income support	-	-	-	500
Infrastructure	-	-	-	350
Welfare support	-	-	-	10
<b>Total</b>				1000

Source: Budget Estimates and own estimates

## 10.3 Expenditure Savings

**Table A3. Potential savings**

Ministry, Office or Sector	Component for Immediate Target	Estimated Amount (\$'000)	Explanation
PM's Office	PM's overseas travel	500	Reduce by 50% as virtual meetings are now the norm
	Pacific Islands Development Forum	1,200	Close PIDF as there is already the Pacific Forum and MSG.
Tourism	Tourism Fiji marketing grant	14,900	Reduce grant by 50% in line with pause in tourism related activities
Higher Education	Grants to Fiji National University and University of Fiji	10,000	Reduce duplication of resources.
Sports	Grants	1,700	Stop hosting of international tournaments in Fiji.
Rural Electrification	Capital Projects	17,900	Suspend implementation of new projects
<b>Total</b>		<b>61,200</b>	