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INCENTIVE MEASURES FOR INDUSTRIAL DEVELOPMENT*

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FIJI

Terminal report

Prepared for the Governments of the member
states of the South Pacific Commission
by the United Nations Industrial Development Organization,
executing agency for the
United Nations Development Programme

Based on the work of Paul L. Chen-Young, adviser on
incentive measures for industrial development

United Nations Industrial Development Organization
Vienna

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During its three-month stay in the South Pacific Region (July - September 1977), the UNIDO expert met and exchanged views with various members of the governments, numerous officials and managers of indus[illegible] firms and foreign experts. In Fiji, the Ministry of Comme[illegible]stry and Co-operatives through the Permanent Secretary, Mr. [illegible]ingh, and in Western Samoa, the Department of Economic Dev[illegible]ment through the Director, Mr. Hans Kruse, were particularly helpful in providing basic background material and co-ordinating field interviews. Such assistance by the Ministry and the Department is greatly appreciated.

The expert's field activities were undertaken after an initial briefing by Dr. Ian Te'o Fa[illegible]rbairn, Economist of the South Pacific Commission. His assistance throughout the field activities and his comments on drafts of the report proved valuable and his contribution is acknowledged.

The expert also wishes to express its appreciation to the UNDP Office at Suva and especially Messrs. Christopher Goss and Peter Cameron for their advice and help.

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A. [illegible] INTRODUCTION

Many Pacific country leaders have invariably expressed the view that there should be greater economic co-operation in the Region. The South Pacific Bureau for Economic Co-operation (SPEC) was established mainly to provide Secretariat Services for the South Pacific Forum and :

- to identify opportunities for the modification of trade patterns, bearing in mind the objectives of regional trade expension;
- to investigate ways in which industrial and other development could be rationalized, using the concept of original enterprise;
- to look into the concept offer free trade among the island member countries;
- to establish an advisory services on sources of technical assistance, aid and investment finances;
- and to help co-ordinate action on regional transport.

To date certain concrete steps have been taken to foster regional and sub-regional projects of the establishment of a regional shipping line; the decision to set up a regional shipping agency; a skipjack tuna assessment programme; and a regional telecommunications training centre. However , many obstacles still exist to proceed with any advanced form of regional integration which would have to resolve key issues such as : a common industrial policy towards local and foreign private investment; a regional investment rationalization programme in industry and in agriculture; a common foreign exchange policy; the movement of capital and people within the Region; and a common trade policy.

There are understandably practical problems which account for the slow progress in facing these issues. Among the more important are : differences in political status, with some countries being independent, some being quasi independent and some dependencies of metropolitan powers; different levels of economic development resulting in greater concern for national development instead of regional economic projects and arrangements; different factor endowments (e.g., New Caledonia with nickel; Nauru with phosphate and Fiji with sugar, while many of the samller countries have no major commercial possibilities, apart from fisheries); and Niue, the Gilbert Islands and Tuvalu: isolation and remoteness from major markets coupled with poor shipping, air and telecommunication services.

B. IMPLICATIONS

From the survey conducted on industrial incentives in Fiji and Western Samoa, the practical problems mentioned above will not be easily overcome in the foreseeable future for the reasons cited. It is also clear that regional economic co-operation in industrial development has been accorded a low priority by the respective Governments, although there was some indication of interest in increased economic collaboration. Understandably, Western Samoa was concerned that any regional economic commitment on industrial matters should not benefit principally Fiji and that it would wish to see a system devised which would safeguard its interests. This is a fundamental problem which faces any regional economic grouping, especially with countries with wide disparaties in development as, for example, on the Caribbean Economic Country. However, there are specific areas in which practical steps could be taken to achieve greater economic co-operation. Among the more important are :

1) - Should the Governments of Fiji and Western Samoa accept the recommendations made regarding the criteria and form of incentives, a practical degree of incentive harmonization would be achieved. The proposals would tend to encourage maximum use of the region's labour, agricultural and other natural resources e.g. foresting and

fisheries. Acceptance of the proposals would also minimize the problem of competitive subsidization of industries by the countries concerned. It is conceivable that the proposals could also be applied to the Pacific islands.

2) - Given the interest expressed by the Government and the private sector in encouraging more trade among the two countries, but not excluding the possible involvment of other Pacific countries, consideration should be given to having a joint meeting of Government Officials and businessmen to examine the possibility of a limited Free Trade area. Such a meeting could be sponsored by SPEC and it would attempt to identify specific products (manufacturing as well as agricultural) for which there could be regional benefit to have a preferential or zero tariff for the products identified. Similar products from extra-regional sources being imported into the region would be subject to a higher tariff and, in certain cases, quantitative restrictions could be considered. It might be prudent to initially introduct such a Free Trade Area among Fiji and Western Samoa for the products identified.

3) - Greater effort should be made on a regional basis to obtain a relaxation of the import restrictions non applicable in New Zealand and Australia. Not only have these countries imposed restrictive import policies to the detriment of the Pacific islands, but their liberal export incentives results in unfair competition for manufacturers in the islands. The forthcoming ESCAP/ADB industrial survey mission could consider the adverse effects that the trade policies of these two countries are having on production and export potential of industries in the Pacific islands.

4) - Cognizance should be taken of the reproduction of indigenous products and design (e.g. fabric design in Western Samoa) outside of the region and export of such goods into the region at lower prices to the detriment of local production. In such cases, import restrictions should be imposed on a Regional basis and an institution like SPEC should bring the matter to the attention of the exporting country.

5) - Given the problem of finance, the proposed Development Fund for the region is fully supported and, notwithstanding the unenthusiastic attitude which some countries have taken on the establishment of a Regional Development Bank, the establishment of such a Bank should be viewed as a necessity. Experience in other regions, such as the Caribbean, has shown that a Regional Bank is one of the strategic institutions in : mobilizing extra-regional funds from countries and institutions; catering more specifically to the needs of smaller countries by providing finance and technical advice; and in supplementing the financial needs of the larger countries from extra-regional funds obtained. Before finalizing the proposed Development Fund, it would be worthwhile for a team of senior Government Officials to visit the Caribbean Development Bank in order to obtain first hand information on the practical ramifications of having a Regional Development Bank. The possibility of obtaining financial assistance to underwrite such a mission should be explored.

6) - Among its terms of reference, it is suggested that the forthcoming ESCAP/ADB mission identify projects (industrial and agro-industrial) amenable to a regional effort in terms of investment and marketing. Full cognizance should be taken of the implications of a possible Regional Trading Area and any liberalization in import policies of New-Zealand and Australia.

7 – [illegible] position, [illegible] ability [illegible] the [illegible]. [illegible] it [illegible] possible [illegible] were [illegible] likely [illegible]; [illegible] countries; [illegible] entity [illegible] bring [illegible] from within [illegible] introduced. The possibility [illegible] financial [illegible] from international [illegible] to help [illegible] should be explored. [illegible] to fund [illegible] inter-country visits [illegible] meetings [illegible] basis for [illegible] entity [illegible].

8) – Given the traditional dominance of Australia and New Zealand in Pacific trade, there remains a natural dependence and even preference for goods being imported from these countries, especially with the demise of the large trading companies. This reliance has dampened the drive towards regional cooperation and the possibilities for economic collaboration. If regional progress is to be made, greater effort will have to be displayed to break down this psychological barrier.

FIJI

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[illegible] a request from the Government of Fiji to the South Pacific [illegible] to undertake [illegible] incentive [illegible] in the region to [illegible] supplement work [illegible] by Dr. [illegible] Hartmann ([illegible]), [illegible] provide the services of a specialist to undertake the [illegible], [illegible] an economic and financial consultant [illegible] on industry development problems [illegible] and work [illegible] July 29, 197[illegible].

1. Terms of Reference

[illegible] the duties [illegible] spelled out for the [illegible] the post of "Adviser on Incentive Measures for Industrial Development" are as follows:

"The expert will suggest [illegible] guidelines for modifying and perhaps harmonizing the sets of incentive measures for industrial development offered by the Government of Fiji and other member countries of the South Pacific Commission. The Adviser will work in co-operation with the Commission itself and with Governments. In particular, the expert will be expected to:

1. Review the description and analysis of the existing incentive measures [illegible] by the South Pacific Commission.
2. Suggest how the present incentives could be better adapted to achieve the Government's stated industrialization objectives.
3. Consider the advantages of harmonizing the incentives offered by the different islands, the form that such harmonization might take and the institutional and legal steps which would be needed to implement such a harmonization.
4. Recommend other joint action which might be taken by the islands to promote accelerated, harmonious and balanced industrial development of the South Pacific region.
5. Prepare a report on the above for discussion with the Commission during the final two weeks of the mission. The expert will also be expected to prepare a final report, setting out the findings of his mission and his recommendations to the Government on further actions which might be taken."

In letter dated June 2, 1977 from the South Pacific Commission to the UNDP in Suva, Fiji, it was proposed that the "Adviser" would

1. "Assess the effectiveness of incentive schemes of the countries selected for promoting industrial development and related policy objectives using whenever possible established quantative assessment techniques.
2. Make suggestions and recommendations on ways and means for improving the effectiveness of industrial incentives in the Pacific region context.
3. Investigate and report on possible ways/steps for Pacific countries to achieve a rough harmonization of industrial incentive schemes, taking into account the experience of the Caribbean and South America.
4. Assist the SPC Economist to complete a technical handbook on industrial incentives schemes in the Pacific region."

In discussions with the South Pacific Commission and UNDP, Suva, Fiji, it was agreed to de-emphasize the harmonization aspect of the study.

2. Countries Visited

With the concurrence of the SPC Economist, Dr Te'o Ian Fairbairn, and the UNDP Assistant Regional Representative, Mr Goss, during initial discussions in Suva, Dr. Chen-Young allocated his time as follows:

Fiji	- 29th July - 29th August
New Caledonia	- 29th August - 2nd September
Western Samoa	- 2nd September - 11th September
Tonga	- 11th September - 15th September
Fiji	- 15th September - 22nd September

During visits to the above countries, interviews were held with Government officials, representatives of both public and private sector organizations, and businessmen. Appendix II lists the names of persons interviewed along with their respective organizations. Appreciation is expressed for their kind co-operation and assistance without which the Report could not have been completed.

B. BRIEF DESCRIPTION OF THE ECONOMY OF FIJI

Fiji has a group of about 320 islands with the two larger islands (Viti Levu and Vanua Levu) representing approximately 7,055 square miles, or approximately 90 per cent of the total land area. It became independent on October 10, 1970 and, in 1976, had a population of 585,000 of which Fijians (the indigenous population) were 253,452 and Indians 290,185 with the balance being from many racial origins. Over the past four years population has been growing at slightly over 2.3% per annum.

In 1976, Gross Domestic Product (at current factor cost) was F$476+ million giving a per capita income of F$837, although this figure is being revised by the Central Planning Office. When adjusted to constant prices, GDP for 1975 was F$196.9 million, showing a growth rate of 0.2% over 1974, a sharp decrease from the high rate of 12.7% between 1972 and 1973. In terms of contribution to GDP, Commerce (including tourism) is first (21.6%), followed by Agriculture (19.8%) and Finance and Insurance (16.2%). GDP distribution (in constant prices) for 1975 percenage breakdown is as follows:

Sector	F$ mill.	Percent
Agriculture, Forestry and Fishing	39.1	19.8
Mining and Quarrying	1.9	1.0
Manufacturing	19.9	10.1
Electricity, Gas and Water	3.3	1.7
Building and Constructions	8.7	4.4
Distribution (including tourism)	42.5	21.6
Transport and Communication	16.5	8.4
Finance and Insurance	32.0	16.2
Government Services	24.9	12.6
Other Services	10.5	5.4
Imputed Bank Service Charges	- 2.4	- 1.2
	196.9	100.0

Source: Bureau of Statistics, Suva
Current Economic Statistics (April, 1977)

Notwithstanding the greater contribution of distribution to GDP, sugar remains the backbone of the Fijian productive economy. Out of total exports of F$115,948 million in 1975, sugar accounted for 81.7% or F$94.7 million. But sugar export earnings have not been sufficient to offset imports, thus resulting in trade deficits. In 1976 for example, the deficit was F$78.6 million and, in the absence of substantial capital inflows, foreign exchange reserves declined from F$129.1 million at the end of the fourth quarter 1975 to F$110.2 million at the end of the fourth quarter 1976. The present level of reserves represents over 5 months imports and the country's current external reserve is reasonably strong and, according to the 1976 Report

+0.802F$ = 1.00 US$

of the Central Monetary Authority of Fiji, the "foreign exchange liabilities of Fiji are moderate when compared with those of other developing countries".

Nevertheless, the continuing trade deficit reveals a fundamental weakness in the Fijian economy, not unlike many other developing countries, and it is a situation which has to be closely monitored.

Tourism has become the second largest earner of foreign exchange after sugar. The industry peaked at 186,323 visitor arrivals in 1973, but it later suffered a decline, with visitor totalling 168,665 in 1976. Over the same period, the number of beds increased from 5,736 to 7,656, but occupancy fell from 50% to 41%. However, "turnover" from hotel sales is estimated to have increased from F$18.9 million to F$28.6 million and total expenditure from January to September 1976 was estimated at F$39.1 million.

While unemployment has been increasing, the estimated rate of 7.1% in 1975 out of a labour force of 180,400 is relatively low when compared to other developing countries. Government is nevertheless concerned about this problem and is targeting a rate of 6.5% over the Plan period 1976-1980. According to Development Plan VII Agriculture accounts for the largest number of employees (65,300) followed by Government and other services (27,200) and distribution (19,700) A comparative picture on contribution to GDP and employment is as follows:

Sector	% Contribution to GDP	No. of Employees	% Contribution to Total Employment
Agriculture, Forestry and Fisheries	19.8	65.3	43.3
Mining and Quarrying	1.0	1.8	1.0
Manufacturing	10.1	10.9	7.2
Electricity, Gas and Water	1.7	1.6	1.0
Building and Construction	4.4	13.1	8.7
Distribution (including tourism)	21.6	19.7	13.2
Transport and Communication	8.4	10.0	6.6
Finance, Insurance, Business Services	15.0+	1.3	1.0
Government and Other Services	18.0	27.2	18.0
	100.0	150.9	100.0

+ Adjusted for Imputed Bank Charges.

In an attempt to curb inflation, Government in April 1973 introduced a complete freeze on incomes, prices, rents and dividends. This was relaxed on June 30 by allowing increases in personal emoluments of up to 8%. Current policy is to limit wage increases to 10% per annum. Partly because of these guidelines, Government has successfully managed to hold the Consumer Price Index to an increase of 5.5 percentage change between January 1976 and January 1977.

Wage rates have moved at approximately the same rate for all industries and disparities are not pronounced, as shown below:

SELECTED EMPLOYMENT STATISTICS

Sectors	Employment 1973	Employment 1976	Value of Output per Employee (1975)	Average Earnings 1973 (cents)	Average Earnings 1976 (cents)	Change in Earnings 1973-76	% Increase in Employment 1973-76
Agriculture	3443	3786	909	38.96	62.83	61.3	- 10.0
Mining	1748	1550	1000	49.45	90.89	83.8	- 11.3
Manufactur.	10116	11444	1555	47.25	82.95	75.5	13.1
Electricity	1727	1765	2200	52.81	90.22	70.8	2.2
Construction	9454	7672	1031	51.43	89.46	73.9	- 18.9
Commerce	9668	11701	4126	50.61	81.79	61.6	21.0
Transport	4909	6774	2578	51.37	88.04	71.4	38.0
Finance	2601	3697	8481	(50.6	(80.96	(60.00	42.1
Services	17810	21605	1700	(	(	(	21.3
ALL INDUSTRIES	61476	69994	2812	49.69	83.48	68.0	13.8

Source: Bureau of Statistics, Suva, Report of Employment Survey, 1976 and Current Economic Statistics, April 1977.

The average hourly wage for "All Industries" in 1976 was 83.48 cents, with Agriculture being the lowest at 62.83 cents and Mining the highest at 90.89 cents. Over the 1973-76 period, total employment increased by 13.8% but there were decreases in Mining (-11.3%) and Construction (-18.9%). Despite the decreases in employment in the latter two sectors, wages increased above the overall average of 68.0 cents.

Between 1973 and 1976 Manufacturing employment increased by 13.1% but average hourly wages rose by 75.5%. The hourly rate of 82.95 cents in 1976 for the sector is below the average rate of 83.48 cents for "All Industries"

In terms of average hourly wages, Manufacturing is competitive with other sectors and it is not a high wage sector. However, using value added per employee, as a crude proxy for productivity, the value of output per employee is slightly more than one-half of All Industries ($ 1555 as compared with $ 2,812) and approximately one-third that of Commerce ($ 4,126). With value added in Commerce being essentially wages, applied services, rents, interest, and profits, investors/businessmen will continue to find it more attractive to invest in Commerce than in Manufacturing - in terms of profitability and risk - unless deliberate policy measures are introduced to make Manufacturing more attractive. Even if adjustments are made to relate the wage bill to value added, this conclusion would still be valid since employment and average hourly rates are approximately the same for both sectors.

C. INDUSTRIAL POLICY OF GOVERNMENT

Government's policy is to encourage private investment in the Manufacturing sector. Policy statements can be found in official publications such as:

(i) Investment in Fiji : A Guide to Investors (Ministry of Commerce, Industry and Co-operatives);

(ii) Fiji's Seventh Development Plan : 1976-1980 (Central Planning Office), and

(iii) Fiji Today (Ministry of Information).

In addition to these published official documents, the Ministry of Commerce, Industry and Co-operatives has prepared a document entitled Investment in Fiji : A Guide for Overseas and Local Investors. The international accounting firm, Price Waterhouse and Co. has also prepared a document available to the public entitled Information Guide : Doing Business in Fiji.

Government has been in the continuous process of examining its policies towards private investment in Manufacturing. The Ministry of Commerce, Industry and Co-operatives has prepared internal papers on subjects such as "Criteria and Procedure for the Evaluation of CKD Imports"; "Protection to Local Industries"; "Export Incentive Scheme"; "Concept of 'Pioneer' Status when applied to Industrial Concession"; and "Construction of Inexpensive Buildings in Industrial Areas".

From the source material cited and from discussions with senior Government officials, the following points are listed to serve as a background towards a better understanding and evaluation of "Incentive Measures Used for Industrial Development" in Fiji. The rationale for the points listed may be obtained from the source documents listed.

The main highlights are as follows:

- Government has a liberal attitude towards private local and foreign investment as evidenced by a low rate of company taxation, incentives to encourage industries of particular value to the country and ease of repatriation of profits and capital.
- While Government recognises the need and importance of foreign capital in introducing modern technology, management, and in making a valuable economic contribution, it wants the skills and knowledge of Fiji citizens to improve and also their chances to take part in the ownership and management of sound domestic and international businesses.
- Certain sectors/industries of the economy which are within the scope of Fiji nationals will be reserved for them. But if it is considered that enterprises within the reserved list (i.e. essentially service industries) will have an improved chance of succeeding from joint ventures with foreign investment, favourable consideration will be given to such proposals.
- Well-established foreign-owned companies should consider diversification by forming separate companies to encourage local participation, especially in cases where local people do not have the know-how to start on their own.
- Government will establish industrial support services, including common facility schemes, consultancy and financial aid, to help stimulate and secure maximum local involvement.

- Government will actively promote equity participation by local people and businesses in overseas ventures and will limit the amount of local borrowings to reflect the extent of equity holdings by locals. A Unit Trust will be established to encourage more local savings and participation in businesses.
- Government will encourage export-oriented assembly of manufactured goods on a large scale and, because of the "built-in" concessionary nature of the present single line tariff, additional tariff concession will only be rarely considered. Quantitative import restrictions will be very sparingly applied.
- Industrial diversification from developed urban areas will be encouraged by drawing up a framework for the types of industries to be diversified.
- Every effort will be made to monitor the problem of excess capacity created in some industries.
- A policy of industrial development, within the context of the South Pacific region, will be borne in mind and Government will work for greater harmonisation of industrial policies through regional organizations.

THE INDUSTRIAL INCENTIVE PROGRAMME

(a) COMPANY TAX

Fiji's company tax rate is comparatively low as follows:

• Non-resident companies carrying on business in Fiji	40%
• Non-resident mutual insurance companies in respect of life insurance and non-resident or non-mutual insurance companies to the extent that the income of their life insurance business are deemed to be mutual	25%
• Every other company	$33\frac{1}{3}$ %

Dividends repatriated abroad by a foreign-owned locally registered company are taxed at 15%. In respect to locally-owned incorporated companies, one third of after tax profits may be distributed to shareholders without being treated as a part of shareholders' chargeable income. The remaining two thirds, less 5% on witholding tax on which partial credit is given, is subject to tax. For example, if there is full distribution on pre-tax profits of $300,000 and the maximum tax rate of 52.5% payable by a shareholder is assumed, tax paid would be $100,000 by the company and $73,332 by the shareholders as follows:

	F$
Pre-tax Profits	300,000
Company Tax	100,000
After-tax Profits	200,000
100% Distribution	200,000
5% Dividend Tax	10,000
Net Distribution	190,000
Amount Assessed to Shareholders	
(i.e. 2/3 of $200,000)	133,333
Tax at 52.5%	69,999
Balance of Dividend	69,999
Dividend Tax (at 5%)	3,333
Tax Paid by Shareholder	73,332

While the above example gives the theoretical maximum tax payable by a shareholder, in practice he would pay less since maximum distribution required by a local company would be 60% of after-tax profits. Using the same example, total tax payable by the shareholder would be $44,000 as follows:

	F$
After-tax Profits	200,000
Distribution 60%	120,000
Dividend Tax 5%	6,000
Net Distribution	114,000
Amount Assessed to Shareholder (i.e. 2/3 of $120,000)	80,000
Tax at 52.5%	42,000
Balance of Dividend	42,000
Dividend Tax (5%)	2,000
Tax Paid by Shareholder	44,000

From the above examples the tax structure is such that it has a built-in incentive for companies to retain profits by providing a tax saving of approximately 40% to the shareholder. Furthermore, the Commissioner of Inland Revenue will permit companies to retain income for bona fide business purposes.

To further encourage investment in industry, four main types of tax concessions are offered: reduced tax on income irrespective of sales; acceleratad depreciation; reduced tax on income for export sales; and import duties concessions.

(b) FISCAL CONCESSIONS

(i) INCOME TAX CONCESSION IRRESPECTIVE OF SALES

Under the Third Schedule of the Income Tax Act 1974, many companies whose objectives are considered by the Minister of Finance to contribute to the economic development of Fiji may receive an income tax concession in respect of profits of $5,000 per annum or if greater 15% of the smaller of the paid up equity capital of the company relating to the enterprise excluding bonus shares, scrip, and similar issues unless the issues are made out of reserves; or the total net value of fixed capital investment of the company relating to the enterprise, but excluding the cost of written down values of all private motor vehicles and ships; all private dwellings built for estate workers in remote areas not exceeding $3,000; the cost of land, tunnelling and site preparation; any items previously used for productive purposes in Fiji; and, "in the case of second-hand plant, machinery, equipment and utensils, the cost shall include the cost of freight, insurance and duties but shall not exceed the sum of such items and the written down values of such items based on original cost when new".

In determining equity capital relating to the enterprise, the Minister may make such apportionments as he deems necessary, thus providing for the possibility of treating quasi-equity loans as paid up capital, provided that such loans or debentures have been provided from funds outside Fiji. The concession is effective from the date of production and may vary from 3 to 5 years, although the Minister may grant or extend the concession to 8 years, depending on the locality and the degree of economic contribution of the enterprise.

In calculating profits or gains, a company enjoying income tax concessions is obliged to depreciate its assets during the tax concession period. Losses may be carried forward by approved enterprises up to six successive years immediately following the end of the tax concession period.

Under the Act, no concession shall be granted if the Commissioner is "not satisfied that the shareholders of the company are substantially the same as on the date when the concession was granted... The shareholders of a company shall not be deemed to be substantially the same if thirty percent or more of the voting power or the right to receive dividends is not held by the same person".

The Act stipulates that companies seeking concession are to apply to the Minister responsible for Commerce and Industry providing full information including:

(a) proposed paid up equity capital;

(b) proposed total fixed capital investment;

(c) full details to which the following factors will be involved:

(i) the anticipated foreign exchange earnings;

(ii) the curtailment of existing imports;

(iii) the labour intensity of the enterprise;

(iv) the extent to which local raw materials will be utilized.

The authority to grant the concession rests with the Minister of Finance.

Existing companies already trading in Fiji may be declared an approved enterprise "where the company incurs substantial capital expenditure connected with the expansion of production of the original product or of an approved new product" in which case the "Commissioner may make such allocations and apportionments as he considers to be reasonable".

(ii) <u>ACCELERATED DEPRECIATION</u>

An initial allowance of 20% on plant and machinery and 10% on buildings used for commercial, industrial and agricultural purposes, including housing for employees, in addition to normal depreciation allowances, is provided under the Act.

In addition, at the discretion of the Minister of Finance, accelerated depreciation allowances are available for companies which incur capital expenditure of more than F$5,000 which is considered expedient for the economic development of Fiji. The approved company may claim a deduction, instead of any other depreciation, of one fifth of its depreciable capital spending on buildings and equipment during any five of the eight years from the date of expenditure. Such relief is available also to a company enjoying income tax concession.

(iii) INCOME TAX CONCESSION IN RESPECT OF EXPORTS

Under the Fifth Schedule of the Income Tax Act, the Minister may approve "a product of manufacturing or agricultural processing, the manufacture or produce of deep-sea fishing or of production of minor agricultural commodities" (but excluding sugar and copra except for their derivatives) for income tax concession, provided that the increase in exports for any fiscal year is in excess of F$5,000.

Manufacturing means "any product wholly manufactured in Fiji or any product which includes components which are imported but the additional costs relating to assembly, processing, further manufacturing or treatment represent an addition to cost of not less than thirty percent or such percentage as the Minister may direct".

Application for the incentive shall be submitted to the Minister "not later than three months after the commencement of the fiscal year the profits of which are to be subject to an application". The concession available is:

"(a) A rebate of one-half of the tax chargeable on the company in respect of the export profits relating to the manufacture or processing of such approved product for the fiscal year in which approval is first given and the two subsequent fiscal years.

(b) For the subsequent five fiscal years a deduction from such profits attributable to export of the approved product for the fiscal year and the mean profits attributable to export of the approved product for the three immediately preceding years."

(iv) IMPORT DUTY CONCESSIONS (AND PROTECTION)

Import duties are divided between "Fiscal" and "Customs" duties. The former is a general duty which replaced the two tier "preferential" and "non-preferential" duties, while the latter is a substitute for the "Port and Customs Service Tax", which is a charge varying between 5-7 1/2% to help offset the costs of operating the ports and customs.

Fiscal duties on plant and equipment and raw materials are generally low (in the region of about 7 1/2%) and in many cases have been reduced or removed to assist enterprises To date all enterprises operating in three industries (i.e. Agriculture, Fisheries and Forestry; Printing; and Furniture) are being granted fiscal duty concessions on raw materials.

Partial protection is provided as an incentive to industry by increasing the fiscal duty and, in a few cases. by imposing quantitative restrictions by licensing.

(c) NON-FISCAL CONCESSIONS

Under the Fiji National Training Act, 1973, a 1% levy/grant is imposed on gross annual payroll to underwrite the cost of training apprentices. The intention is to encourage employers "to send apprentices and other beginners to Derrick Technical Institute or other training establishments for trade training under "block release" and "day release" arrangements, with costs being met by the Fiji National Training Council (F.N.T.C.) under its grant/levy financing." The value of the grant is dependent on the type and degree of training undertaken, but it is subject to a general maximum of 100% of levy paid.

(i) FINANCIAL ASSISTANCE

"The Fiji Development Bank (FDB) was established in 1966 as a Government-owned financing institution to provide financial assistance to enterprises operating in Fiji in order to promote the economic development of Fiji."

The Bank finances Agriculture, Industry and Commerce, with financing in the latter sector aimed mainly at giving "those of the Fijian race a better opportunity of acquiring a share in Fiji's commercial sector by providing medium and long-term loans for any useful purpose, including provision of working capital".

While the Bank has established certain guidelines on the maximum amount of a project cost which it will finance, in "the case of Commercial Loans to indigenous Fijians, there will be no limitation on the loan to be provided, the sole determining factor being the Bank's assessment of the economic and technical and management viability of the project". Loans granted under this scheme do not normally exceed F$100,000. As at June 30, 1977, 426 loans totalling F$2.586 million had been approved under this Scheme and made at a concessionary rate of 1% above the cost of long-term Government borrowings. As at June 30, 1977, there were 1335 loans outstanding with a value of F$15.715 million, of which F$6.113 million was to Industry and Commerce.

(ii) PROVISION OF INEXPENSIVE INDUSTRIAL BUILDINGS

Under a US$835,000 UNDP Programme for rural/urban industrial support services, Government has agreed to provide industrial land, factory buildings, and worksheds. Government or municipal authorities will provide all the necessary common services. Factories and workshops are to be allocated to small "actual or potential entrepreneurs from low-income sections of the community". Rent to be charged is expected to cover the full amount of capital costs plus an additional charge of 5% on the unimproved capital value of land. An upward sliding scale of rent will apply for the first 5 years with a fixed rent for the next 20 years. After three full years of occupancy the tenant will be given the option to purchase the building with rent paid being credited towards the purchase price.

(iii) PROVISION OF TECHNICAL SERVICES

To complement the factory assistance programme, a "Rural and Urban Industrial Support Services" is being funded by UNDP. The Industrial Promotion Division of the Ministry of Commerce, Industries and Co-operatives is directly responsible for the everyday management of the project and it is from this former Division that counterparts are to be provided". It is considered "essential in order to enable not only identification of entrepreneurs and projects, but also for carrying through the projects to successful fruition. This programme should give particular emphasis to promotion of small-scale industries in rural areas, based on local resources and needs." Among the immediate objectives of the project is the need "to assist in the operation of a Support Services Programme, including project identification, and feasibility, a technical extension service, facilitation of financing and marketing services."

(iv) PROVISION OF INDUSTRIAL ESTATES

In Fiji's Sixth Development Plan, 1971-1976, the policy on industrial estate is stated as follows:

> "The industrial estate concept, by the physical proximity of various production units, promotes a more mobile labour force, the greater difference of skills and a greater likelihood of industrial "linkages" being forged via the provision of common services (e.g. repair facilities) or inter-firm trading."

Government has declared a number of areas as industrial estates as a part of its programme aimed at encouraging industries to be established outside of the urban areas. In certain cases only the minimum infrastructure services are provided. Moreover, the industrial estate programme is not closely integrated with the one to provide inexpensive factory space.

D. ADMINISTRATION OF INCENTIVES

Until the end of 1975, applications for incentives were assessed by an Industrial Review Committee with representation by the senior officials from the Ministry of Finance, the Ministry of Commerce, Industry and Co-operatives, the Inland Revenue Department and the Customs Department. Recommendations on applications were made by the Committee to the Ministers of Finance and Commerce, Industry and Co-operatives, both of whom had to approve the applications.

Since 1976 the Committee was restructured and became the Business and Industrial Development Committee (BIDC), which is served by a Secretariat in the Ministry of Commerce, Industry and Co-operatives. Representation has been extended and now includes the senior officials from the previous Committee plus officials from the Ministry of Urban Development, Housing and Land Welfare; Home Affairs; Lands and Mineral Resources; the Central Planning Office (under the Prime Minister's office); and from the Central Monetary Authority. The Permanent Secretary for Commerce, Industry and Co-operatives serves as Chairman. The Committee meets on a fortnightly basis to review industrial and commercial policy and to make recommendations, along with incentive applications for approval, once per month to a Council of Ministers from: Commerce, Industry and Co-operatives (who serves as Chairman); Finance; Urban Development, Housing and Social Welfare; Lands and Mineral Resources; and Labour.

The BIDC falls under the Industrial Promotion Division of the Ministry of Commerce, Industry and Co-operatives. Also under this Division, but operating almost autonomously from the BIDC, is the UNDP Urban/Rural Support Services which was already discussed.

The principal operational areas dealt with by the BIDC are:

° tax concessions

° protection

° import duty concessions

° joint ventures

° foreign investment

° work permit processing for industrial commercial and allied business

° advisory services to business, especially local investors.

When the Committee of Officials recommends action to the Committee of Ministers, any decision taken by the Ministerial Committee is deemed to be final.

The broad criteria used in assessing applications for concessions are as follows:

(a) employment content;

(b) contribution to local value added;

(c) contribution to redistributing income more equally;

(d) conservation or generation of foreign exchange;

(e) contribution to trade within the South Pacific;

(f) price levels of output;

(g) generation of skills;

(h) linkage effect;

(i) local equity participation;

(j) use of local raw materials; and

(k) environmental effect.

Consideration is now being given to refine the present criteria by defining industries as "Priority" or "Selected" and to offer a "package" of incentives to enterprises meeting the criteria. The factors to be considered would be industries:

"(i) based largely on local resources for main raw materials;

(ii) capable of large foreign exchange earnings, e.g. import substitution of over F$100,000 p.a.;

(iii) largely export oriented, i.e. over 50% of its production per year;

(iv) likely to improve technical skill and knowledge to locals;

(v) located in "approved areas";

(vi) having Government participation in equity funds;

(vii) labour intensive, i.e. employing more than 19 factory workers."

A list of the industries which have been identified as "Priority" or "Selected" has been prepared and is now under consideration. The main underlying principle used in the industries identified and the incentive packages being considered is that there should be a high local value added. In addition to economic contribution, as a basis for granting concessions, consideration is also being given to identifying industries which would normally be reserved for nationals. These are essentially service industries and those requiring relatively simple technology which nationals are capable of operating successfully.

In distinguishing a national from a foreign investor, the following definition is used:

"An overseas person is defined as:

- Any individual who is not a citizen of Fiji.
- Any individual who has not continuously maintained a home and lived in Fiji for the previous seven years.
- A branch of an overseas company operating in Fiji.
- A company under the control of overseas persons.

For the purposes of this paragraph, a company shall be deemed to be under the control of overseas persons -

(a) if more than one-half of the shares or more than one-half of the issued paid-up capital, or more than one-half of the voting power is held by overseas persons;

(b) overseas persons have by any other means whatsoever control of the company; or

(c) overseas persons by reason of the share-holding at the end of any fiscal year of the company (or in the case of a company in liquidation) would be entitled to more than one-half of the profits for that year if those profits were distributed by way of dividend at the end of that year.

When shares in one company are held by or on behalf of another company such shares shall be deemed to be held by the shareholders in the last mentioned company.

Persons answering the above description are referred to as foreign investors."

Borrowings by a non-resident controlled company must be approved by the Central Monetary Authority. Normally all companies are obliged to operate within a debt equity ratio not exceeding 3 : 1 and foreign controlled companies are further limited to borrow locally to the extent of the percentage of local equity participation. According to the Central Monetary Authority's <u>Exchange Control Manual</u> (1973):

" Borrowing in Fiji by non-resident controlled companies will be considered within the following guidelines:

(1) Unless national interest considerations apply, consent to such borrowing will be considered only for amounts proportionate to the extent of any resident equity interest in the Company.

(2) Where national interest considerations are involved, local borrowing would normally be limited to 20% of the total loan requirements.

Banks may without prior reference to the Central Monetary Authority lend up to F$20,000 to new non-resident controlled companies for a period of up to three months. For non-resident controlled companies which are customers of the bank and have an existing loan or overdraft facility the limit is either F$20,000 or 10% of the existing overdraft limit, whichever amount is greater, also for a period of up to three months. This increase is to be provided only in exceptional circumstances. The Central Monetary Authority should be informed immediately after the banks have lent to such companies under this discretionary authority, giving details of the circumstances in which the additional facility is provided.

In respect of individual non-resident customers Banks may lend up to F$1,000 for any period and for any purpose at their discretion. It will not be necessary for Banks to report details of individual loans made under this discretionary authority but Banks may be asked periodically to indicate the aggregate of such loans."

E. SIGNIFICANCE OF THE CONCESSION FIRMS

1. Firms Approved and Concessions Granted

The number of firms and approvals for concessions and the type of concessions granted is shown in Table 1 below:

TABLE 1

Number of Firms Approved for Concessions and the Type of Concessions Granted (as at August 1977)

Firms Approved	162
Firms Receiving	
(a) Fiscal and customs concession on machinery	74
(b) Fiscal and customs concession on materials	133
(c) Income tax	64
(d) Accelerated depreciation	16 *
(e) Export incentive	2 *

Source : Appendix I.

* Subsequent information from the Commissioner of Inland Revenue shows 29 firms receiving accelerated depreciation concession and 19 receiving export incentives.

As shown, fiscal and customs duty concession on raw materials is the most common type of incentive granted, with 82% of the approved firms awarded this concession. Next in importance is import duty concession on plant and machinery with 46% of the firms benefitting from the concession. Export incentive has been awarded to only two of the 162 firms and only sixteen have obtained accelerated depreciation concession. From a closer examination of Appendix I, which shows details of the concessions granted by industries, there appears to be no consistent policy for the award of incentives. In certain industries, firms producing similar commodities obtain different concessions and no concession in a few cases.

While it is Government policy to award similar incentives to firms operating in the same industry, the apparent non-consistency in the award of incentives is explained by:

(a) lack of any quantifiable qualifying criteria for incentives;

(b) the absence of a specific package of incentives available to qualifying enterprises within an industry; and

(c) operating an industrial policy of "survival of the fittest" by granting concessions to virtually any enterprise without proper regard to market size and available industry plant capacity.

In certain industries, concessions are awarded to an enterprise, despite the existence of excess capacity. Fiscal duty is the most loosely awarded concession and, while it is done on the "survival of the fittest" principle, the Fijian market is so small that the viability of local enterprises - which are being encouraged by Government - becomes threatened with the distinct possibility that it is the larger enterprises, with adequate capital and allied activities, which will survive. Industries where this problem is becoming apparent are: tea blending; corrugated roofing; and nail manufacturing. As one local investor has pointed out; the "survival of the fittest" investment policy has created duplication with certain local companies struggling for survival and "it is a disheartening exercise when bitten, leading to a great reluctance to undertake further investments".

There are no records available to show the <u>actual</u> number of firms which are <u>using</u> the concessions awarded. Working from the lists submitted by the Inland Revenue, the Customs and Excise, and the Industrial Promotion Division of the Ministry of Commerce, Industry and Co-operatives, and from the 1973 <u>Census of Industries</u> undertaken by the Department of Statistics, there were 58 "concession firms" on which information could be provided.

Of the 58 firms enjoying concessions and reporting for statistical purposes, 26 are locally-owned; 26 foreign-owned; and 6 jointly-owned by nationals and non-nationals. Of the concessions awarded, the most common is fiscalduty concession on imported raw materials, with 35 firms enjoying this benefit, of which 20 were locally-owned. Only 11 of the 58 firms enjoyed any tax concession "package", i.e. income and import duty concessions. Of the 11 firms, only 3 were locally-owned, with 5 on a joint venture basis, and the remaining 3 foreign-owned.

2. Employment and Earnings (see Table 2)

The concession firms represented approximately 26% of the number of firms reporting; accounted for 1/3 of the number of employees; and 36% of the wage bill. Concession firms were not operating in 7 of the 27 industry groups shown. The industry groups in which there are no concession firms are: Butchering and Meat Packing; Sugar and Coconut Oil; Non-Alcoholic Drinks; Curios and Artifacts; Retreading and Flip-Flops; Office Machines; and Boat Building. If these and another marginal group (for concession purposes) were excluded, the concession firms would account for 52% of employment and 68% of the wage bill in Manufacturing. In certain industry groups, nearly

all firms operating enjoy concessions viz: Beer and Tobaccc; Miscellaneous Food Products; Printing and Publishing; Paint; Plastics; Agricultural Machinery; and Miscellaneous Products.

3. Import Structure

The relative dependency on imports by concession firms is shown in Table 3.

With the exclusion of the industry groups: "Dairy, Fruit, Fish and Rice Milling; Textiles and Clothes and Footwear; and Furniture and Upholstering", the concession firms account for over 60% of raw materials used in Manufacturing; and virtually all of the imported raw materials. Non-concession firms rely more heavily on local raw materials, with the ratio of total local purchases to total raw materials being 54.6%, while that for the concession firms was 21.6%. However, total Manufacturing is biased heavily by the sugar and copra industries and, if those were excluded, the ratio of total raw materials to local raw materials purcha ed would be 24.7%. This ratio is not very differerent from the concession firms, but they account for 50% of the value added in Manufacturing.

TABLE 2

FIRMS REPORTING EMPLOYMENT AND WAGE BILL

1973

ISIC	Total No. Of Returns Expected	Total No. Of Returns Received	No. Of Incentive Firms Tabulated No.	No. Of Incentive Firms Tabulated %	Total No Of Employees: Total All Firms	Total No Of Employees: Total Concession Firms	%	Total Compensation: Total All Firms ($'000)	Total Compensation: Total Concession Firms ($'000)	%
3111	15	9	-	-	211	-	-	284	-	-
3115/3118	3	3	-	-	3481	-	-	5039	-	-
3117	18	11	2		382	183	47.9	520	246	47.3
3133/40	2	2	2		258	258	100.0	484	484	100.0
3134	14	10	-		154	-	-	120	-	-
3112/13/14/16	11	9	2		285	65	22.8	399	90	22.5
3119/21/22	7	6	2		91	63	69.2	115	95	82.6
3220/40	77	37	2		428	24	5.6	236	16	6.8
3311	27	15	3		840	415	49.4	1141	535	46.9
3319	16	10	-		69	-	-	54	-	-
3320	61	26	4		455	167	36.7	462	183	39.6
3418/20	25	16	12		550	510	92.7	769	726	94.4
3521	3	3	3		52	52	100.0	86	86	100.0
3525	6	4	4		150	149	99.3	160	159	99.4
3558	4	4	-		102	-	-	105	-	-
3560	4	4	3		77	74	96.1	159	157	98.7
3698	9	7	4		199	256	128.6	931	621	66.7
3812/3818	26	16	6		840	547	65.1	1371	1005	73.3
3822/38	19	12	2		146	158	108.2	166	149	89.8
3828	3	3	-		129	-	-	235	-	-
3841	2	2	-		104	-	-	166	-	-
3843	5	2	2		118	116	98.3	155	155	100.0
3908	7	6	5		65	63	96.9	77	76	98.7
	364	217	58		9186	3100	33.7	13234	4783	36.1

TABLE 3

IMPORT DEPENDENCE OF CONCESSION FIRMS

(F$'000)

ISIC	IMPORTED RAW MATERIALS Total (all firms)	Total (Concession firms	PURCHASED % (2) : (1)	LOCAL RAW MATERIALS Total (all firms)	Total (Concession firms)	PURCHASED % (5) : (4)
3111	652	-	-	2029	-	-
3115/18	3730	-	-	27,379	-	-
3117	1268	763	60	438	275	62
3133/40	2108	2108	100	789	789	100
3134	214	-	-	140	-	-
3112/13/14/16	4272	894	21	970	13	1
3119/21/22	1169	1077	92	571	331	57
3220/40	743	115	15	1	2	200
3311	271	164	60	626	379	60
3319	25	-	-	47	-	-
3320	213	95	45	580	260	44
3418/20	1038	967	93	64	63	98
3521	657	657	100	101	101	100
3525	619	619	100	217	217	100
3558	291	-	-	5	-	-
3560	660	658	99	7	7	100
3698	356	356	100	1191	759	63
3812/18	3493	2938	84	486	317	65
3822/38	553	504	91	191	148	77
3841	44	-	-	57	-	-
3843	339	339	100	61	61	100
3908	301	301	100	3	3	100
TOTAL	23,016	12,555	55	35,965	3,725	10

TABLE 4

SALES AND GROSS OUTPUT IN 1973

(F$'000)

ISIC	LOCAL SALES Total (all firms)	LOCAL SALES Total (Concession firms)	% (2) : (1)	EXPORTS Total (all firms)	EXPORTS Total (Concession firms)	% (5) : (4)	GROSS OUTPUT Total (all Firms)	GROSS OUTPUT Total (Concession firms)	% (8) : (7)
3111	3318	-					3483	-	
3115/3118	2859	-					45540	-	
3117	2281	1178	52	424	424	100	2693	1579	59
3133/40	10966	10966	100	28	28	100	11113	11113	100
3112/13/14/16	7253	1215	17	257	174	58	7495	1462	19
3119/21/22	1968	1531	78	85	83	98	2072	1631	79
3220/40	1253	143	11	57	19	33	1497	162	11
3311	3008	1285	43	948	829	87	4179	2194	53
3319	152	-	-	37	-	-	190	-	-
3320	1711	715	42	-	-	-	1741	731	42
3418/20	2867	1417	49	88	88	100	2962	1512	51
3521	944	944	100	71	71	100	1024	1024	100
3525	1298	1298	100	35	35	100	1336	1336	100
3558	578	-	-	-	-	-	649	-	-
3560	767	763	99	2	2	100	1094	1088	99
3698	4483	3495	78	125	125	100	4984	3885	78
3812/18	5593	4106	73	149	97	65	6595	4822	73
3822/38	910	805	88	-	-	-	1209	1118	88
3841	319	-	-	-	-	-	274	-	-
3843	703	703	100	-	-	-	759	759	100
3908	344	341	99	41	41	100	419	415	99
TOTAL	53,575	30,905	58	2,347	2,016	86	101,368	34,831	34

4. Output and Sales

Table 4 shows that the concession firms are responsible for 86% of all the exports of the manufacturing sector and, in 8 of the 13 industries exporting, represented 100% of exports. However, export as a percentage of total output is under 2% for the Sector, while it is under 7% for the concession firms. Among the industries exporting, Sawmilling is the highest exporter with 38% of its output being exported. If exports of this industry were excluded, total exports as a percentage of total output for the manufacturing sector would be 1.4% while the figure for the concession firms would be 3.4%.

5. Capital Stock and Taxable Position

Table 5 shows that the book value of the capital stock was F$14.750 million in 1973 as against F$56.919 million for all firms in Manufacturing. The figure for Manufacturing is influenced significantly by some F$38.508 million for the Sugar and Coconut Oil industries which, if excluded, would reduce the total book value of capital for Manufacturing to F$18.411 million. The capital stock of the concession firms would then represent over 80% of the capital stock in the Manufacturing sector.

Using the ratio of taxable income to book value of capital stock as a crude indicator of profitability, the return on capital (excluding Sugar and Coconut Oil) would be 30% for firms enjoying concessions and 45% for non-concession firms. The following is shown as an illustration of likely profitability of industries in Manufacturing for 1973:

	Taxable Income as % of Total Book Value of Capital for Non-Concession Firms	Taxable Income as % of Total Book Value of Capital for Concession Firms
Bakery Products	28	54
Beer and Tobacco	39	39
Non-Alcoholic Drinks	55	55
Miscellaneous Food Products	30	22
Textiles, Clothes, Footwear	53	37
Sawmilling	102	7
Furniture and Upholstering	27	42
Printing and Publishing	100	29
Paint	115	115
Soap	29	29
Plastics	10	10
Concrete Products	5	20
Structural Metal Products	84	39

TABLE 5

TOTAL CAPITAL STOCK, TAXABLE INCOME, TAX PAID

1973

(Values in F$000)

ISIC	TOTAL BOOK VALUE OF STOCK AT END OF YEAR			TAXABLE INCOME			TAX PAID/PAYABLE		
	Total (All firms)	Total (Concession firms)	%	Total (All firms)	Total (Concession firms)	%	Total (All firms)	Total (Concession firms)	%
3111	564	-	-	154	-	-	43	-	-
3115/18	38508	-	-	2367	-	-	789	-	-
3117	520	301	57.9	225	164	72.9	50	48	96.0
3133/40	2999	2999	100.0	1172	1172	100.0	392	392	100.0
3134	277	-	-	153	-	-	10	-	-
3112/13/14/16	1811	1157	63.9	887	514	57.9	295	171	58.0
3119/21/22	318	228	71.6	98	50	51.0	29	16	55.2
3220/40	350	38	10.9	333	14	4.2	59	2	3.4
3311	3090	1922	62.2	127	13	10.2	24	-	-
3319	120	-	-	28	-	-	7	-	-
3320	543	317	58.4	360	134	37.2	108	45	41.7
3418/20	2298	2266	98.6	696	663	95.3	227	218	96.0
3512	88	86	100.0	101	101	100.0	34	34	100.0
3525	367	367	100.0	106	106	100.0	32	32	100.0
3558	305	-	-	143	-	-	49	-	-
3520	571	570	99.8	59	59	100.0	20	20	100.0
3698	3385	2856	84.4	603	574	95.2	197	188	95.4
3812/18	1607	1289	80.2	767	499	65.1	256	256	64.8
3822/38	204	130	63.7	273	231	84.6	81	77	95.1
3841	64	-	-	4	-	-	1	-	-
3843	190	190	100.0	158	158	100.0	53	53	100.0
3908	32	31	96.9	17	17	100.0	6	6	100.0
TOTAL	58,211	14,747	25.3	8831	4,469	50.6	2,762	1,468	53.1

Cont'd	Taxable Income as % Total Book Value of Capital for Non-Concession Firms	Taxable Income as % Total Book Value of Capital for Concession Firms
Agricultural and Electrical Equipment	42	177
Bus Building	83	83
Miscellaneous Products	83	83
	45	30

While the ratios shown cannot be interpreted as any realistic estimate of profitability (since information on net worth and capital employed have not been taken into account), there is no consistent pattern to suggest that the concession firms are operating more or less profitably than the non-concession firms. However, the conclusion could be drawn that the manufacturing sector is operating profitably with taxable incomes achieved in each of the 22 industries comprising the sector.

6. Output, Value Added and Productivity

From the information shown in Table 6 the concession firms account for 50% of value added and 31% of output in the manufacturing sector. Using the ratio of output to employee compensation as a measure of productivity, there is no significant difference between non-concession and concession firms, the respective ratios being 9.2 and 7.3 (F$9,200 and F$7,300) of output for each $ of wages paid.

7. Revenue and Costs

Income tax concession in Fiji has been minimal as shown below:

	Income Tax Concession F$	Income Tax Foregone F$	Company Tax Collected (F$'000)	Tax Foregone as % of Company Tax
1973	706,504	235,362	7,134	3.8
1974	420,769	140,254	9,848	1.42
1975	650,639	216,881	13,488	1.61
1976	1,183,556	394,518	15,260	2.59

Source: Inland Revenue Department.

Tax foregone is understated due to the unavailability of information on profitable companies such as the flour and steel mills. But even if the inclusion of such companies would double the 1975 ratio, the income tax sacrifice would still be comparatively low, given the experience of countries such as Jamaica (2.2% in 1963); Nigeria (10% in 1965); and Taiwan (29% in 1974).

TABLE 6

GROSS OUTPUT VALUE ADDED AND PRODUCTIVITY

1973

(Value in $1000)

ISIC	GROSS OUTPUT			VALUE ADDED			COMPENSATION TO EMPLOYEES		RATIO OF OUTPUT COMPENSATION	
	Total All firms	Total Concession firms	%	Total All firms	Total Concession firms	%	All firms	Concession firms	Non-Concession firms	Concession firms
31	75,267	15,785	21	18,030	9648	53	6,961	915	9.8	17.0
32	1,589	162	10	647	24	4	236	16	6.5	10.1
33	6,962	2,925	42	3,155	1,533	49	1,657	718	4.3	4.1
34	3,626	1,512	42	1,919	156	8	769	726	49.2	2.1
35	4,574	3,448	75	1,115	947	85	510	402	10.4	8.6
36	8,672	3,885	45	3,694	2,077	56	931	621	15.4	6.3
37	11,277	6,699	59	4,647	2,509	54	2,093	1,309	5.8	5.1
38	419	415	99	98	109	111	77	76	4.0	5.5
TOTAL	112,386	34,831	31	33,305	17,003	50	13,234	4,783	9.2	7.3

To estimate fiscal duty concessions for the 58 firms averages on 2-digit ISIC groups basis were used showing the normal and concessionary rates as in Table 7.

Because of industry grouping, the fiscal rates shown are approximations based on a detailed evaluation of the rates applicable to each firm falling within an industry group. Furthermore, the value of imported raw materials is not the same as "crude material" imports as classified by customs since it was information collected from survey data with firms indicating what they consider to be the amount of imported raw materials purchased.

Of the eight industry groups, the "normal" fiscal rate ranges from a low of 7 1/2% for Non-Metallic Products to a high of 25% for Clothing and Footwear and Wood Products. With the concession, five industry groups paid no fiscal duty with a rate of 5% to 7 1/2% for the other three groups. Based on imported raw materials of F$13.523 million in 1973, the estimated tax which should have been collected at the normal rate was F$2,572 million. The actual amount collected at the concessionary rate was F$357,000 and the estimated duty foregone was F$2.215 million. This amounts to 10.8% of the F$20.470 million total fiscal duty paid in 1973, which would be higher than countries like Jamaica (6.6% in 1963), but lower than Costa Rica (18.5% in 1963) and Taiwan (39% in 1964).

For 1973, income and fiscal duty concession for Manufacturing totalled F$2.450 million. This represents 3.4% of total revenue of F$72.486 million collected and compares favourably with other countries as follows:

Country	Revenue Cost as % of Total Tax Revenue	Year
Fiji	3.4	1973
Costa Rica	8.5	1963
Mexico	2.8	1957
Panama	9.3	1961
Philippines	3.2	1963
Morocco	1.8	1965
Korea	2.2	1964
India	3.0	1961/2

Source: George E. Lent, "Tax Incentives for Investment in Developing Countries", IMF Staff Papers (July, 1967)

TABLE 7

IMPORT DUTY CONCESSIONS ON RAW MATERIALS

(Values in $1000)

ISIC	Raw Material	Est. Normal Fiscal Duty	Est. Concession Fiscal rate	Est. Collection Normal rate	Est. Collection at Concession rate	Est. Duty Foregone
	1973					
31	5,804	20%	5%	1,160	290	870
32	115	25%	Free	29	-	29
33	259	25%	7½%	65	19	46
34	967	15%	5%	145	48	97
35	1,940	17%	Free	330	-	330
36	356	7½%	Free	27	-	27
37	3,781	20%	Free	756	-	756
38	301	20%	Free	60	-	60
TOTAL	13,523*			2,572	357	2,215

*Assuming Customs Duty at 7.5% estimated collection is $F1,014,225

In estimating the net tax benefit loss, the wage bill for all employees was F$125.0 million in 1973 with PAYE at F$6.3 million and Basic Tax at F$3.1 million. The share of PAYE and Basic Tax to Employee Compensation was 7.5 percent and could be used to estimate direct income tax contribution of the 58 concession firms. With employee compensation at F$4.783 million for the concession firms in 1973, estimated direct tax contribution is F$358,725.

In terms of the estimated net revenue effect on the Budget, the position is as follows for the 58 concession firms in 1973:

		(F$ '000)	
1.	Tax Loss		
	(a) Income	119	
	(b) Fiscal	2215	2434
2.	Tax Receipts		
	(a) PAYE and Basic	359	
	(b) Income (Company)	1468	
	(c) Fiscal	357	
	(d) Customs	1014	3190
	Net Tax Gain		756
3.	Contribution to Fiji National Provident Fund	574	
	Less. 2.5% Interest cost (average for year)	14	560
	Adjusted Total Net Gain :		1,316

As pointed out, the value of imported raw material does not necessarily agree with that shown by the Customs Department and the estimated contribution of F$1.04 million could be overstated. However, from information supplied by the Comptroller of Customs, fiscal and customs duty collected from the concession firms in 1975 was approximately F$1.0 million, of which customs was approximately F$0.6 million. Even if the estimated figures for customs were reduced in 1973 to one-half the figure for 1975, the net tax gain would still be positive.

Even with the qualifications stated above, two main conclusions can be drawn:

(a) Fiji's tax incentive programme has not led to the degree of tax sacrifice experienced by many other countries with tax concession programmes; and

(b) unlike other countries (e.g. Jamaica[1]) the Fiji Government has managed to obtain net tax benefits from its incentive programme with a tax benefit/cost ratio of 1.31 (before contribution to the FNPF) and 1.53, after including the FNPF contribution, which can be considered as a "quasi-tax".

The question of whether tax revenue foregone is necessary to attract industries has always been one of the contentious points in the literature on tax incentives. The findings in most countries suggest that there is little justification for granting tax incentives to industries with a low local value added and operating within a protected market. In Fiji, from the interviews conducted it does not appear that Income tax concession is considered as an important incentive to invest.

Import duty concession is necessary for industry. With the heavy dependence on imported raw materials it would be reasonable to assume that such concessions are needed and cannot realistically be regarded as unnecessary revenue foregone. Furthermore, with most concession firms not operating under any heavy protective barriers, it would seem very necessary to grant import duty concessions to place them in a position to compete with imports, especially from New Zealand and Australian based companies.

Important factors, as cited by interviewees which are serving as a disincentive to invest are:

- "Government Bureaucracy" and the absence of a central body to deal with investors.
- Difficulty in obtaining work permits and their duration especially with the serious shortage of skilled technicians and management personnel.
- Administrative obstacles to foreign investment despite expressed Government policy favouring such investment.
- Lack of detailed information on industries eligible for concessions.
- Unnecessary duplication of plant capacity by the indiscriminate award of incentives under a "survival of the fittest" policy which has led to excess capacity in certain industries.
- Complicated requirements to obtain export incentives to the extent that it is not "worth the cost and time" of completing the required forms to seek the incentives.

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(1) Over the period 1953-1962, there was a net tax cost to the Government of F$2.384 million. In 1962, the net tax cost to Government was F$1.027 million with a tax benefit/costratio of 0.15. See Paul L. Chen-Young, "A Study of Tax Incentives in Jamaica", National Tax Journal (September, 1967).

Inability to compete with New Zealand and Australia in export market because of generous incentives offered by those countries to exporters.

Inadequate finance and technical advice to assist local investors.

Tax treatment of dividends to shareholders of local companies being "too high" when included as part of personal income.

Land tenure.

From the foregoing, there are practical problems facing investors which are not strictly of a tax incentive nature. Also, despite the fact that there are net tax benefits to Government from its incentive programme, clear guidelines on qualifying criteria and benefits are missing, resulting in the award of concessions which do not always refelect a consistent approach in accordance with overall industrial policy objectives. The concessions now offered to emphasize the tax incentive aspect are not adequate for dealing with the problems facing local investors. Also, while it is the policy to award concessions to industries based on their economic contribution, this is not clearly reflected in the approach used to grant concessions.

In considering the type of changes which could be examined in restructuring the tax incentive programme, emphasis should not be on fiscal incentives. An appropriate strategy should be one aimed at removing the disincentives to investment while broadening the non-fiscal incentives to assist and to encourage nationals to invest in manufacturing/processing. This approach is in keeping with Government thinking, as shown in many confidential and public documents.

F. RECOMMENDATIONS

According to Fiji's Sixth Development Plan 1971-1975 it "is of major importance that a consistent set of rules be established and applied if concessions are to be an effective instrument of development policy". It is clear from various published and confidential documents that the Fiji Government has tried to implement its industrial incentive programme on the basis of this criteria. Nevertheless, there is always scope for improvement and the recommendations which follow are intended to suggest: (a) a more precise and objective basis for awarding concessions; (b) the structure of concessions which would seem appropriate for Fiji, given its industrial policies; and (c) the administrative framework within which the incentive scheme could be implemented. Following are the recommendations:

1. Concessions awarded should be related to the economic contribution of enterprises manufacturing or processing products/industries which make some minimum economic contribution.
2. Products or industries depending on their complexity for classification purposes, should be designated as "approved" if they are able to meet the minimum economic contribution specified as the qualifying criteria. Any list prepared should be regarded as "indicative" subject to an enterprise justifying that it will be able to manufacture/process a product to meet the minimum economic contribution. Other products or industries may be added from time to time subject to such products or industries meeting the minimum economic contribution criteria. Where an "industry" comprising many products is designated as approved, the specific product should be listed.
3. Enterprises manufacturing, processing or assembling products would be required to meet minimum economic contribution criteria to be eligible for seeking concessions as an "approved enterprise" for manufacturing an "approved product".
4. In keeping with Government's policy to increase employment, local ownership and greater use of local resources, it is proposed that the concept of "local value added" be used as the basis for measuring economic contribution.

5. "Local value added" is defined as the amount (expressed as a percentage of total sales of the "approved product" or industry) by which the amount realized from the sales of an approved product (in respect of a continuous period of twelve months) exceeds the aggregate amount of the following:

   (a) the value of imported raw materials, components and parts of components, fuels and services;

   (b) wages and salaries paid during the period to persons who are not nationals of Fiji;

   (c) profits earned directly or indirectly to persons (including companies) who are not resident of Fiji (as defined on page 17);

   (d) interest, management charges and other income payments accruing directly or indirectly to persons (including companies) not resident in Fiji;

   (e) depreciation of imported plant, machinery and equipment.

   This formula could be further refined to place greater emphasis on employment (as is done in the Caribbean Common Market) by the equation : $V \frac{(100 + W)}{100}$ where "V" is the local value added expressed as a percentage of total sales of the approved product; and "W" is the wages and salaries paid to nationals of Fiji expressed as a percentage of total sales of the approved product.

Consideration should be given for materials purchased locally which have an import content

In using the local value added criteria a proper basis is being used to encourage these industries which will make a greater national economic contribution by using more local raw materials, the processing of agricultural goods, and increasing employment.

6. On the principle that concessions should be related to local value added, it is proposed that two minimum percentage contributions be specified for which approved enterprises would be awarded a package of incentives. The present qualifying criteria for export incentives require a minimum local value added of 30 percent. Value added to output for concession firms in 1973 was approximately 50 percent and one-third for the manufacturing sector. It should therefore be realistic to specify 30% local value added as the minimum for "approved products" obtaining one package of in-

[illegible]centives (including export incentive) and [illegible]% for other "approved products" obtaining a more liberal tax concession package.

7. "<u>Incentive Package A</u>" would be offered to enterprises with the 30% value added and would be aimed essentially at locally owned enterprises with net asset value not exceeding a maximum figure (say F$70,000, which would be varied by Regulation). The proposed packages would be a combination of technical, financial and fiscal assistance in recognition of the special needs of local investors.

(a) <u>Technical assistance</u>: preparation of "industry profiles" with vital economic (e.g. import and market size), technical (e.g. type of equipment), and financial (e.g. project cost with basic financial analysis) information. Industry profiles are available from UNIDO and other institutions but require additional local input, especially data on market size/imports. While such information would be made available to all potential investors, it is less important to overseas investors but vital to local investors. Technical assistance to help establish local enterprises, as is now being done under the UNDP financed programme, would also be provided and would be of particular value in assisting small businesses, <u>including those which might not necessarily be seeking any concessions</u>.

(b) <u>Financial assistance</u>: insufficient equity and working capital are common problems facing local investors in nearly all developing countries, including Fiji. Along with technical advice, financial assistance is a powerful stimulus to encourage local investors into new manufacturing activities and to expand existing enterprises.

It is therefore proposed that:

(i) an equity window be established at the Fiji Development Bank to assist new and struggling - but financially viable - locally owned enterprises in manufacturing. A subsidiary company of the FDB could be created for this purpose. The scheme would have to be funded by Government, given the present financial position of the Bank and the riskiness of such investments. However, the FDB could make loans to complement equity contributions to such enterprises from its own resources.

If the equity scheme were funded with F$1.0 million, at least 160 enterprises could benefit, assuming total project cost of F$100,000 (which is a high figure for many local businesses) and equity of $25,000, of which the FDB could contribute 25% or F$ .250.

(ii) additional working capital assistance under a limited guarantee scheme be provided to existing enterprises. Under this scheme, a locally owned enterprise which has reached its credit limit with its commercial bank could obtain additional credit (e.g. for export orders or the purchase of raw materials), subject to some maximum limit as established by Government, <u>without any extra security requirement</u>, provided that the bank is satisfied that the financing is needed and the loan will be repaid. Of the additional working capital provided, the commercial bank would take 50% of the risk, with a Government Agency guaranteeing the other 50%, subject to an overall total amount under the scheme. Thus, if as little as 2% of total commercial bank advance were set the overall total (i.e. F$2.0 million with the guarantee exposure at F$1.0 million and the maximum to be advanced to any one were set at F$10,000) 200 Fijian businesses (meeting the minimum local value added criterion) would have ready access to new injection of capital. Strong interest has been expressed in this scheme by Fijian businessmen, commercial banks and the development bank, although there appears to be some reservation to it on the part of the Central Monetary Authority. (A similar scheme is now operating in Jamaica with the guarantee being provided by the Central Bank.) Besides providing the working capital assistance, the scheme has merits as an attempt to direct commercial bank lending more towards productive activities.

(iii) To assist in pre-feasibility assistance, Government should consider approaching institutions like the ADB and IBRD, and the EEC Development Fund, to obtain financial assistance to underwrite a pre-feasibility investment programme. Such a programme could be administered under the re-organized Industrial Promotion Division of the Ministry of Commerce, Industry and Co-operatives which is being proposed.

(iv) The provision of inexpensive industrial buildings could also be considered as a concession falling under financial assistance to local investors. It is a programme which should be expanded but requires carefully selected areas with an "economic base" (i.e. near to population centres or resources) to effectively utilize the facility. Given the relatively low rent being charged under the scheme, the right to acquire premises after a 3-year period, to which rental paid can be applied, seems over-generous. Futhermore, such a right could be exercised and the premises or company sold to obtain the benefit of capital appreciation, which would be contrary to the content and purpose of providing the facility.

It is not clear that Government has formulated any detailed policy for the development of industrial estates. For example, from a visit to the Vatakoula industrial estates, it appears that the area has been designated as an industrial estate without due regard to the economics of industrial location. Cognizant of the need to "do something" for the people in the area whose livelihood would be seriously affected by any closure of the gold mine, it is understandable that Government must take a serious interest in developing the area. However, apart from allied industrial/processing activities linked to timber, valid questions can be raised on the economic feasibility of trying to develop the area as an "industrial estate". Furthermore, given the dependence on the gold mine for basic services, such as electricity, it is difficult to envisage private enterprise investing in the industrial estate with the future of the gold mine problematic.

Also, if Government were to invest in projects in this industrial estate with the dependence on the services of the gold mines, it could find itself in an intractable and weaker negotiating position in negotiating with the gold mine should it decide to close. A careful assessment of Government's policy on industrial estates and the criteria for establishing such estates is recommended and technical assistance should be sought.

(c) Fiscal concessions: No income tax concession is recommended for enterprises in "Incentive Package A". But it is proposed that all approved new enterprises should enjoy:

(i) 5-year exemption from fiscal duty on plant and equipment and raw materials defined [1] as "goods which are required for use in local manufacture or for local working or processing to turn out products on an industrial scale". The term "working or processing" is extended to include in certain cases simple mixing of products (e g. tea) and assembly of components to constitute a complete article (e.g. water heater). It does not include service type operations (e.g. repairs and reconditioning).

(ii) Accelerated depreciation (using the existing provision of 5 out of 8 years) in order to improve a company's cash flow.

(iii) Partial tariff protection (on an industry/product basis, when deemed necessary).

8 "Incentive Package B" would be offered to new enterprises manufacturing approved products with a minimum local value added of 50% and would be aimed mainly at the overseas investor processing local raw materials with substantial capital outlay. The concession package being proposed to all approved enterprises is:

(a) 5-year income tax concession period or 8 years if located outside "designated areas", and conditional on tax benefits not being subject to tax in home country when profits are repatriated;

(b) accelerated depreciation for any 5 out of 8 years to be taken during the tax concession period;

(c) 5-year exemption from fiscal duty on plant and equipment and raw materials;

1) I am grateful to the Comptroller of Customs who would decide what constitutes raw materials for approved products/industries, for suggesting this definition.

(d) tax exemption on interest paid on funds borrowed from abroad and approved by the Central Monetary Authority for a specific purpose and period, conditional to tax benefits not being subject to tax; and

(e) partial tariff protection (when deemed necessary).

9. Where tariff protection is granted, the effective rate of protection should be used instead of the normal rates. In computing the effective rate of protection, this simple formula of $e = \frac{n-mi}{v}$ could be used, where e = the effective rate of duty; n = the nominal rate of duty on final product; m = nominal rate of duty on raw material input; i = coefficient of material input; and v = proportion of final output accounted for by the value added. Thus, for example, if the nominal duty is 5% on an imported material which accounts for 80% of manufacturing costs of the finished product on which a nominal duty of 10% is charged, the effective rate of protection would be 30%, with v = 20%. (See for example; Wells, Sidney J. International Economics, George Allen Unwin Ltd (1971); and Helleiner, O.K., International Trade and Economic Development, Penguin Books, 1972).

10. Subject to a 30% minimum local value added being met, it is proposed that the export incentive scheme be modified by:

(a) discontinuing the present requirement of firms having to indicate export intention within three months of the beginning of a company's financial year;

(b) approving an industry and specify the products which should meet the minimum local value added criterion. The present requirement of granting concession on a product and on export profits is unnecessarily restrictive since most multi-product firms do not prepare costings for each individual product and frequently export on a marginal cost basis;

(c) maintaining the existing minimum export value performance criterion, but grant a five-year tax holiday on the overall profits of enterprise in the same proportion as its exports to total sales, provided that some minimum percentage increase in exports be specified.

(d) ensuring that protective measures for enterprises enjoying export incentives are not prohibitive and that only in the very exceptional cases (e.g. high local value added with local prices not in excess of c.i.f. import price) should such enterprises enjoy protection with quantitative restrictions;

(e) expanding the present drawback scheme (which is hardly used) from the existing nine products to cover all enterprises meeting the minimum local value added criterion. Given the cumbersome and costly nature of administering drawbacks, the system could be simplified by negotiating technical import output co-efficients for industries and exempting the raw materials used in exports from fiscal duty. Fiscal adjustments could be made annually using audited statements to show exports and cost of sales with import content. Given the liberal export incentive programme given to firms in New Zealand and Australia and the need for Fiji to increase exports, especially to its neighbouring countries in the Pacific, the liberalization of the export incentive scheme is fully justified.

11. It is proposed that a list of "approved products" (or industries, depending on the complexity) should be publicised along with the fiscal and non-fiscal concessions. In order to invite comments - or objections - no new enterprise should be approved without publishing such intention in a local newspaper. All approved enterprises with their products and fiscal concessions should be Gazetted.

12. Concessions granted should be utilized within a specific period (say 12 months) failing which they should be automatically cancelled to correct the present situation where the Ministry of Commerce, Industry and Co-operatives has no accurate up-to-date record showing which enterprises benefitting from concessions are in production. All enterprises receiving concessions should be obliged to furnish information on an annual basis to the Ministry of Commerce, Industry and Co-operatives.

13. In order to minimize duplication of plant capacity; avoid waste of valuable foreign exchange; foster the financial viability of approved enterprises (especially smaller firms); and to encourage investors by providing some assurance that there would not be unnecessary duplication of investments, no new enterprises should be awarded concessions where the market is (or is about to be) adequately serviced by plants in Fiji. It is suggested that 60% of the market share be used to determine whether the market is being "adequately serviced" but this could be varied in exceptional cases where the product/industry and existing capacity is of such a nature as to justify additional investment. In addition to not granting concessions to enterprises when the market is being "adequately serviced", it is necessary to introduce an import licensing system whereby all plant, machinery and equipment to be imported would require an import licence to be issued by the Ministry of Commerce, Industry and Co-operatives. This has the advantage of not only safeguarding against duplication but also to be used as an instrument for ensuring that certain types of economic activities can be reserved for nationals.

14. Under the Income Tax Law, a concession/incentive firm can dispose of up to 70% of its equity without obtaining any Ministerial approval. To avoid profitable non-concession firms acquiring a controlling interest in concession firms to obtain the tax advantages, it is proposed that a concession firm should not dispose of more than 49% of its equity without Ministerial approval, if it is to continue to enjoy tax concessions.

15. To provide the technical and economic services needed and to have a central body with which investors would deal - in a manner similar to an Industrial Development Corporation - the Industrial Promotion Division of the Ministry of Commerce should be upgraded. Serious consideration should be given to integrating the Secretariat to the Business and Industrial Committee (which has posts for one Industrial Economist; two Economists; one Industrial Engineer; one Accountant and one Senior Administrative Officer) and the UNDP Urban Rural Support Services (which has posts for one Project Manager;

two Industrial Engineers; one Administrative Officer; and one Assistant Accountant). With a strengthened Industrial Promotion Division, it would be better able to:

(a) offer more technical, economic, and financial services to investors;

(b) liaise on behalf of investors with all relevant Government Ministries/Departments, thereby correcting one of the more serious disincentives to invest;

(c) examine all proposals and prepare submissions to the existing Committee of Officials, which would make recommendations to the Minister of Commerce, Industry and Co-operatives or the Minister of Finance, depending on the concession. The Committee of Officials would have clear guidelines within which to act and make recommendations, thereby obviating the need for the present Committee of Ministers. Special projects of over-riding national importance could be presented to Cabinet by the relevant Minister. By acting under policy established by the Ministers/Cabinet, it would be expected that recommendations made by the Committee of Officials would normally be followed by the Minister responsible. To reduce the amount of detailed administrative work of the Minister, consideration should be given to delegating certain authority to the Committee of Officials, where it would be expedient to do so and would expedite decision-making;

(d) greater co-ordination is needed between the Industrial Promotion Division and the Fiji Development Bank, as well as with the Native Land Trust Board, especially the Native Land Development Corporation. Preliminary proposals which show promise should be sent to the FDB and to the Board (where it might be involved) to obtain comments. Preparatory work with other relevant Ministries/Departments/Institutions, should be done on all proposals on submissions being made to the Committee of Officials;

(e) the Industrial Promotion Division should ensure that a system of regular reporting by the concession firms is done on a current basis. The Division would have the overall responsibility for policing - and assisting - such firms.

16. Work permit approvals should be streamlined for dealing with *bona fide* applicants by identifying in advance those skills which are in short supply in Fiji. To meet the problem of emergency needs, such as machinery breakdown or illness of key personnel whose skills are not readily available, a special arrangement could be introduced whereby non-renewable permits within a 12-months period are granted to short-term (not to exceed 60 days) technicians/ specialists, but with no single enterprise being able to use this special arrangement for more than three times per annum. As a matter of priority, proper criteria should be established for the processing and award of work permits with due regard being given to the amount of capital investment.

17. With industry experiencing real problems from the shortage of skilled manpower, every effort should be made to accelerate and expand the existing training programmes.

18. In order to reduce delays in approvals for lands which might be needed for commercial/industrial use, the preparation of a detailed national physical/land use Plan is recommended.

19. In view of Government's expressed policy, as stated in DP VII, to promote greater regional understanding and co-operation it is recommended that practical steps be taken to bring about more co-ordinated investment and industrial incentive policies.

The recommendations made are intended to streamline the present industrial incentive programme and reflect, to a large degree, many of the policy issues now being contemplated by Government. Apart from the proposed change in the export incentive, the recommendations do not necessarily suggest a more liberal industrial incentive programme. Viewed in its broader perspective, incentives/concessions are indicative of the type of investment climate being fostered by Government. Nevertheless, it is important to specify, as precisely as is practicable, clear guidelines for an industrial incentive programme in order to minimize possible charges of arbitrariness and to discourage spurious applications for concessions. The industrial incentive programme proposed seeks to satisfy such objectives and to relate the programme more closely to the overall policy objectives of the Government of Fiji.

APPENDIX I

[illegible] RMS [illegible] R VED FOR [illegible] ONCESSIONS AND TYPE OF [illegible]

	Industry	No. of Firms	Fiscal and Customs for Machinery	Fiscal and Customs for Materials	Income Tax	Accelerated Depreciation	Export Incentive
1	Tyre Retreading	1				x	
2	Motor [illegible] i.e. assembly of steel	2					
		Firm A		x			
		Firm B		x			
3	Glassware i.e. glass bottles and containers	3					
		Firm [illegible]		x	x	x	
		Firm A		x	x	x	
		Firm [illegible]		x	x		
4	Matches			x			
5	Footwear i.e. feather filled booties and jackets	1	x	x	x		
6	Hairpiece	1		x			
7	Wrapping Papers i.e. commercial and domestic plain and decorative wrappings	1		x			
8	Cardboard [illegible]	2					
		Firm A	x				
		Firm B	x				
9	[illegible] and [illegible] tissue						
10	Paperba[illegible]						

	Industry	No. of Firms	Fiscal and Customs for Machinery	Fiscal and Customs for Materials	Income Tax	Accelerated Depreciation	Export Incentives
11.	Paper Napkins (printed and plain)	2					
		Firm A		x			
		Firm B		x			
12	Laundry Bag		x	x			
13	Lunch Wraps			x			
14	Exercise Books and Account Books						
		Firm A	x	x	x		
		Firm B	x	x	x		
15	Detergents						
		Firm A		x			
		Firm B		x			
16.	Concrete Products - Block Making						
		Firm A	x				
		Firm B	x				
		[illegible]	x				
		[illegible]	x				
		[illegible]	x			x	
		[illegible]	x				
		[illegible]	x				
17	Cement		x	x			
18	Candles	1		x			
19	Acetylene	1		x			
20	Adhesives	1		x			
21	Foam		x	x			
22	Industrial Gas		x	x			

	Industry	No. of Firms		Fiscal and Customs for Machinery	Fiscal and Customs for Materials	Income Tax	Accelerated Depreciation	[illegible] Incentives
3	Pharmaceutical Products	[illegible]		x	x	x	Pharmaceutical	
4	Paints & Varnishes	4	Firm A		x			
			B		x			
			C		x			
			D	x	x	x	x	
5	Polyester Fillers	[illegible]		x	x			
6	Dental Cream	[illegible]	Firm A	x	x		x	
			B		x	x		
[illegible]	Blister Pearls			x	x			
8	Screen Printing	[illegible]		x	x			
9	Lead and Coloured Pencils	[illegible]		x	x	x		
[illegible]	Blackboard Dusters			x				
[illegible]	Timber	[illegible]		x		x	x	
	Veneer and Plywood	[illegible]		x	x	x		
[illegible]	Insulated Building Boards	[illegible]			x			
	Mattress Bases and Spring Interior Mattresses	[illegible]			x			
[illegible]	Footwear Industry		Firm A			x		
			B	x	x	x		
			C	x	x	[illegible]		
			D	x	x			
[illegible]	[illegible] Chairs and Tables				x			

	Industry	No. of Firms		Fiscal and Customs for Machinery	Fiscal and Customs for Materials	Income Tax	Accelerated Depreciation	Export Incentives
37	Furniture	7	Firm A		x			x
			B		x			
			C		x			
			D		x			
			E		x			
			F		x			
			G		x			
38	Fibre glass boats and furniture	1			x	x		
39	Upholstery (Furniture)	1			x			Upholstery
40	Assembly of Gas Stoves	2			x			
41	Solar water Heaters	1			x			
42	Assembly of VHF Radio Telephone Equip	2	Firm A		x			
			B		x			
43	Assembly for Gas and Electric Water Heaters	1			x			
44	Assembly of Fluorescent	2	Firm A		x		Fluorescent Parts	
			B		x			
45	Assembly of Domestic Electrical Appliances	1		x	x	x	x	
46	Assembly of Fluorescent Lights	2	Firm A		x			
			B		x			
47	Electrical Switchboards and Switch Gears	2	Firm A		x			
			B					

Industry	No. of Firms	Fiscal and Customs for Machinery	Fiscal and Customs for Materials	Income Tax	Accelerated Depreciation	Export Incentives
48 Telecommunication Equipment (including automatic telephone alarm dealing machine and other telephone equipment)	1		x	x		
49 Tables and Wall lamps (including accessories and pottery)	1		x	x		
50 Welding Electrodes	1	x		x		
51 Buttons (nylon & Plastic)	1	x	x	x	x	(Nylon & Plastic)
52 Polypropylene Bags	1	x	x	x	x	
53 P.V.C. Pipes	1	x	x			
54 Plastic Bottles and Containers	1	x	x			
55 P.V.C. Bottles	1	x	x			
56 Movie Films	[illegible]	x		x		
57 Film Processing (Kodak and AGFA film)	2 Firm A	x	x			
	B	x	x			
58 Cellulose Film Packaging Materials (Printed and Plain) Disposable Paper Goods	Firm A	x		x		
	B			x		
59 Cassettes (Assembly and Recording)	2 Firm A		x			[illegible]
	B		x			

	Industry	No. of Firms	Fiscal and Customs for Machinery	Fiscal and Customs for Materials	Income Tax	Accelerated Depreciation	Export Incentives
60	Electrical Switches and Related Accessories	1	x	x			
61	Emulsion Bitumen Sealing	1	x	x	x	x	
62	Polythene Bags and Sheets	2 Firm A	x	x			
		B	x	x			
63	Cattl Ticks	1		x			[illegible]
64	Coconut oil and Edible oils Margarines and other allied Food Products.	1	x	x	x		
65	Curry Powder	1		x			
66.	Commercial Fishing	1	x				
67	Baking Powder	1		x	x		
68	Tea Blending and Packaging Industry	6 Firm A	x	x	x		
		B		x			
		C Nil					
		D		x			
		F Nil					
		F Nil					
69	Shock and Honey	1	x	x			[illegible]
70	Salt	1			x	x	
71	Snack Foods	3 Firm A	x	x	x		
		B	x	x	x		
		C	x	x	x		
72	Pickles and Sauces	1	x	x	x		
73	P[illegible]ry Products	6 Firm A Nil					
		B	x				
			x				

	Industry	No	Firms	Fiscal and Customs for Machinery	Fiscal and Customs For Materials	Income Tax	Accelerated Depreciation	Export Incentives
73	Poultry Products (Cont'd)		D	x				
			E	x				
			F		x		x	
74	Jelly Crystal	1		x	x			
75	Ginger Processing	1			x	x	x	
76	Biscuits	2 Firms	A		x			
			B	x	x			
77	Dairy Products (Butter, Milk Cream, Flavoured Milk beverages)	1		x	x			
78	Feed Meal (Poultry Feed, Pig Feed and Cattle Feed)	3 Firms	A		x		x	
			B		x			
			C	x	x			
79	Wire Drawing	4 Firms	A	x	x	x		
			B	x	x	x		
			C	x	x	x		
			D	x	x	x		
80	Assembly of Batteries	2 Firms	A	x	x	x		
			B	x	x			
81	Aluminium Utensils	1		x	x	x		
82	Bolts and Nuts	4 Firms	A	x	x	x		
			B	x	x	x		
			C	x	x	x		
			D	x	x	x		
83	T[illegible] brushes and Twisted [illegible]ire brushes	1			x			

Industry	No. of Firms	Fiscal and Customs for Machinery	Fiscal and Customs for Materials	Income Tax	Accelerated Depreciation	Export Incentives
84. Filing Cabinets	1		x			
85. Gutterings	1			x		
86 Lead Washers	1			x		
87. Louvre Frames	1		x			
88. Down Pipes	1			x		
89. Muffler	2 Firm A		x	x		
	B		x	x		
90. Metal Cans and Drums	1		x	x	x	
91 Nails	5 Firm A		x	x		
	B		x	x		
	C Nil					
	D		x			
	E		x			
92. Panels for Freezers and cold storage	1	x	x	x		
93. Riverts	1	x	x	x		Riverts
94 Roofing Iron	5 Firm A		x			
	B		x			
	C		x			
	D		x			
	E		x			
	F		x			
95. Ridging	1			x		
96. Steel Rolling	2 Firm A	x	x	x		
	B	x	x	x		

	Industry	No. of Firms		Fiscal and Customs for Machinery	Fiscal and Customs for Materials	Income Tax	Accelerated Depreciation	Export Incentives
97	Strappings	[illegible]				x		
98	Steel Vessel	[illegible]		x		x		
99	Winch Trailers	2 Firm	A		x			
			B		x			
100	Adding Machine Rolls	[illegible]			x			
	TOTAL	1[illegible]2		7[illegible]	133	64	16	2

APPENDIX II

LIST OF PERSONS INTERVIEWED IN FIJI

Mr. Gyan Singh	- Permanent Secretary, Ministry of Commerce, Industry and Co-operatives.
Mr P. Gounder	- Principal Assistant Secretary, Ministry of Commerce Industry and Co-operatives.
Mrs. Gurmej Rup	- Economist, Ministry of Commerce, Industry and Co-operatives
Mr Arvind Rao	- Economist, Ministry of Commerce, Industry and Co-operatives.
Miss Ema Vakalala	- Ministry of Commerce, Industry and Co-operatives.
Mr Savenaca Siwatibau	- Permanent Secretary, Ministry of Finance.
Mr Surendra Singh	- Commissioner of Inland Revenue.
Mr Ragubir	- Deputy Commissioner, Inland Revenue
Mr L.J. Gardiner	- Comptroller of Customs
Mr David Woodward	- Chief Planning Officer, Central Planning Office.
Mr Kevin Barney	- Planning Officer, Central Planning Office
Mr H.J. Tomkins	- General Manager, Central Monetary Authority
Mr Lloyd Guthrey	- Managing Director, Fiji Development Bank
Mr D.F. Godfrey	- Administrator General
Mr Tulsi Ram	- Senior Statistician, Bureau of Statistics
Mr Joe Kamikamica	- General Manager, Native Land Trust Board.
Mr Rod Gates	- Deputy Director, South Pacific Bureau of Economic Co-operation
Mr Ron Morgan	- Trade Marketing Officer "
Mr Francis Hong Tiy	- Asst. Research Officer, "
Mr Tamarii Pierre	- " " " "
Mr Jim Tallen	- " " " "
Mr John Neas	- New Zealand Government Trade Commissioner.

Mr Paul Madrial	- Assistant Trade Commissioner, Australian High Commission.
Mr Martin Penrose	- Assistant Manager, Planning & Control/Marketing Bank of New Zealand.
Mr. I. Hreish	- Manager, National Bank of Fiji.
Mr E.J. Slaven	- Assistant Manager, Bank of New South Wales.
Mr J.C. Patel	- President, Indian Chamber of Commerce.
Mr Tom Hill	- Secretary, Suva Chamber of Commerce.
Mr. Mark Israel	- President, Manufacturers Association.
Mr Don Aidney	- Trustee, Fiji Employees Consultative Association.
Mr Ian Milligam	- Group Business Planner, Cope Allman Intl.
Mr R.J. Chester	- Director, Cope Allman International.
Mr Tom Copley	- Executive Director, Carpenters Fiji Ltd.
Mr Mosese Qionibaravi	- General Manager, Naviti Investment.
Mr D.H. Bishop	- Manager, Price Waterhouse & Co.

APPENDIX III

INDUSTRIAL CLASSIFICATION

		ISIC	INDUSTRY
		3111	Butchering and Meat Packing
	3115	3118	Sugar and Coconut Oil
		3116	Rice Milling
		3117	Bakery Products
	3133	3140	Beer and Tobacco
		3134	Non-Alcoholic Drinks
3112	3113	3114	Dairy, Fruit & Fish
3119	3121	3122	Miscellaneous Food Products
		3220	Textiles and Clothes
		3240	Footwear
		3311	Sawmilling
		3319	Curios and artifacts
		3320	Furniture and upholstering
	3418	3420	Printing and Publishing
		3521	Paint
		3525	Soap
		3558	Retreading and Flip-flops
		3560	Plastics
		3698	Concrete Products
	3812	3818	Structural metal products
		3822	Agricultural Machinery
		3828	Office Machines
		3838	Electrical equipment
		3841	Boat Building
		3843	Bus Building
		3908	Miscellaneous Products

WESTERN SAMOA

A. INTRODUCTION TO THE ECONOMY OF WESTERN SAMOA

Western Samoa became an Independant State on January 1,1962. Its land area is 1,097 square miles, comprising mainly two large islands - Savaii with 622 square miles and Upolu with 433 square miles. In 1974, its population totalled 151,251 and has tapered off from an annual increase of 2.4% in 1972 to 0.57% in 1973 and 0.2% in 1974. This is due principally to an increase in net emigration from 1,144 in 1972; 3,778 in 1973; and 4,244 in 1974.

No accurate estimates of Gross Domestic Product exists but an indication of sectoral contribution, subject "to large margins of error" is shown in the Third Five Years Development Plan : 1975-1979 as follows :

	Value added for 1972 (WS$000)*	Employment 1971	Value Added per Employee (WS$)
Agriculture, Forestry & Fisheries	14,950	25,400	589
Manufacturing, Quarrying & Construction	3,402	2,400	1,418
Wholesale, Retail Trade, Restaurants & Hotels	3,210	2,400	1,338
Transport , Communication	1,232	1,300	948
Services & Government	4,972	6,200	802
	27,766	37,700	736

* US$.76 = WS$1.00

While there has been growth in the non-agricultural sector, the country still remains basically an agricultural economy and it is this sector which is being actively catered to in the Third Five Year Plan, especially, through the Village Development Programme, which relies heavily on the traditional societal structure. According to the Plan, the success of the Programme will depend "upon the enthusiastic support of the village matais (chiefs) - both in the fono (village councils) and individually as heads of aigas (family groups) - and within the framework of leadership they provide".

In the agricultural sector, two crops account for over 90% of total exports. The value of exports in 1975 was WS$4.541 million, of which cocoa was WS$1.180 million and copra WS$2.612 million while, for 1977, the forecasted figures are WS$7.000 for total exports with cocoa at WS$3.000 million and copra at WS$3.250 million. Other exports are bananas; hardwood timber; and miscellaneous products. While mechandise exports have shown no steady growth, imports have been increasing at a rapid rate from WS$14.367 million in 1973 to an estimated WS$24.000 million in 1976, with deficits for the respective years being WS$10.242 million and WS$18.000 million.

Foreign exchange receipts in 1973 and 1976 were as follows:

	1973 (WS$000)	1976 (Estimated) (WS$000)
Exports	4,125	6,000
Travel	2,394	3,100
Other Government & Private Services	368	1,000
Pensions & Personal Remittances	3,873	4,700
Government Unrequited Transfers	2,669	4,000
	13,429	18,240

Because of earnings from tourism and other foreign exchange receipts, Western Samoa has just managed to hold its level of international reserves at the end of 1976 at the same level as 1973, with the respective figures being WS$4.921 million and WS$4.754 million. This was achieved despite a near doubling in imports from WS$13.044 million and WS$23.627 million. Cognizant of this unsatisfactory situation, Government has decided to curb imports by introducing a form of "foreign exchange budgeting".

Its Annual Development Plan 1977 states that :

> "As foreign exchange, or foreign bank deposits, are received by Western Samoa for development purposes, they could be immediately set aside in a separate account with the Bank of Western Samoa, under the direct control of the Monetary Board, or the Treasury. This would include foreign exchanges received from hard-term and soft-term foreign loans and grant, obtained specifically for funding development. Those funds would then be made available only to finance development expenditures which require foreign exchange. This foreign exchange would not enter into the country's general foreign exchange account, where it would run the risk of being used to pay for commercial imports or non-development government expenditures ...... If a growing shortage of foreign exchange available for commercial and private imports continues to be a problem ... a new system of allocation of foreign exchange to commercial importers might be introduced, if it is felt that the present system is outmoded."

Among the additional possible measures, government sees a reduction in the quantity and value of "imports of the type that can be produced, or substituted for within Western Samoa, such as foods and beverages" as one strategy to be actively pursued. With its relatively low wage rates (e.g. WS$10.00 per week for general labourers and factory workers ; WS$10.15 per week for carpenters and mechanics; and WS$800 per annum for book-keeping clerks), Western Samoa has a pool of inexpensive labour readily available for developing labour intensive industries.

B. INDUSTRIAL DEVELOPMENT STRATEGY

The three main source documents describing Government's industrial development strategy are the Government publications 'the Third Five Year Development Plan 1975-1979 '(Nov. 1975); Investment in Western Samoa (April 1977) and Annual Development Plan 1977.

In addition, industrial policy issues are discussed in the confidential Government document "A Note on the Industrial Investment Climate and Policy of Western Samoa" prepared by the Department of Economic Development (1976). Listed below are the main points describing

Government's industrial development strategy:

- Even if financed with foreign aid, including grants, projects must "measure up to hard economic criteria".
- The encouragement of private, domestic and foreign enterprise is a "basic policy of the Third Plan" although joint ventures with Government participation will be encouraged through long term loans or equity or both.
- The greatest encouragement for industrial development will be to give support to "those proposals which are most likely to increase the value of locally produced commodities, like coconuts and fish, especially when they are processed for overseas markets".
- "Although investment capital is considered a scarce resource, it cannot be considered the scarcest of resources for industrial development in Western Samoa. Rather the resource that the country must husband most carefully..... is management and technical talent at the upper and middle level".
- Relatively small enterprises which have been developed by local investors "with a minimum of Government assistance .... represent a type of economic diversification which will receive continuing encouragement".
- A policy of granting duty-free import privilege for all equipment intended for industrial use is favoured by Government and is being contemplated.
- More careful planning is needed to avoid the over concentration of industrial development in Apia and to avoid "excessive demands on area - specific services and potential adverse environmental effects".

- While foreign capital that brings with it technical knowledge, skill and modern methods which will assist Western Samoa's development is especially welcomed, Government would like to see more public or private Western Samoan participation in the equity capital of overseas companies.
- A list of "priority" sectors which seem to justify a high local equity content includes "light" industries not requiring sophisticated technical skills and know-how; natural resources at both the primary and processing levels; tourism; and transportation.

C. THE INDUSTRIAL INCENTIVE PROGRAMME

The company tax rate in Western Samoa is higher then in Fiji, being 42% for a resident company and 48% for a non-resident company as compared with 33 1/3% and 40% in Fiji. But under the "diminishing value basis" for depreciation, Western Samoa has a more liberal scheme which permits "temporary buildings","cars" and "machinery and equipment" to be depreciated at 20% per annum.

1. Fiscal Concessions

Fiscal concessions are awarded under the provisions of the Enterprises Incentives Act 1965. In its Schedule, enterprises benefitting from concessions are deemed to commence enjoying the concessions for varying periods after the date of initial approval as follows :

Types of Enterprises	Date of Production
Factory for the processing of any of the following primary agricultural or pastoral products :	
(a) Fruit crops, such as bananas, pineapples and pawpaws	2 years
(b) Short-term industrial crops, such as coffee	

(c)	Pulse and grain crops, such as rice beans and corn	2 years
(d)	Minor livestock, such as poultry and pigs	2 years
(e)	Fruit tree crops, such as avocado, citrus and cashew	5 years
(f)	Long-term and industrial crops: macadonia and coconuts , and	10 years
	cocoa	5 years
(g)	Major livestock, such as cattle	5 years
Factory of any other description		1 1/2 years
Hotel and visitor support facilities		2 years
Fisheries and fisheries development		2 years
Afforestation		20 years
Research and research development		2 years

Applications for incentives are made through the Department of Economic Development. It analyses each application and makes submissions to a Board consisting of the Minister of Finance and Economic Development (Chairman); two other members of the Legislative Assembly; a member of the Chamber of Commerce of Samoa; a planter appointed by Cabinet. Non-voting ex-officio members are : the Director of the Department of Economic Development (Secretary to the Board); the Financial Secretary; the Commissioner of Inland Revenue; and the Collector of Customs.

After the Board has considered an application, recommendations are made to Cabinet, which has the ultimate authority to approve all applications. Cabinet is obliged under the Act, not to approve an enterprise if it will "unduly affect any existing efficient enterprise producing a similar product in Western Samoa". Such importance is attached to this clause that the Director, if he considers that an enterprise "may unduly affect an efficient existing enterprise in Western Samoa", shall issues of a newspaper ... the nature of the application which has been made ... and consider any objection which may have been received, pursuant to the notice".

As soon as convenient after Cabinet has made a decision on an application, the Director is obliged to publish "at least in the issue of a newspaper published in Apia, a copy of the approval order made, or a notice that Cabinet has refused to make such an order ".

Approved enterprises may obtain the following fiscal concessions:

(1) a tax holiday ending 5 years after the date of production or later as ordered under Section 17 of the Act but which may be extended for not more than a further 5 years ;

(2) relief throughout the tax holiday period to import "free of customs duty, or to purchase in Western Samoa with the benefit of refund of customs duty all sundry materials, plant, vehicles, machinery tools (other then hand tools), other apparatus, and any other items specified in the approval order, provided he satisfies the Collector that they are required for the establishment or expension of his approved enterprises, and not needing repairs thereto"; and

(3) exempting from paying any licence fees under the Business Licences Ordinance (1960)

The Board "may recommend and Cabinet may by order exempt any raw materials imported for use in an approved enterprise from payment of customs duty, or provide for refund of customs duty therein on such terms and conditions as may be stated in the order ".

Dividends on profits paid to the shareholders of a company during the tax holiday period or within 2 years after the expiration, are exempt from taxes on the chargeable income of the shareholder, provided :

a) dividends or profits paid to the shareholder do not "exceed the total amount invested by the shareholding in the approved enterprise up to the end of the tax holiday period" ; and

b) the exemption does not apply to any shareholder who would become liable to pay additional tax "owing to the fact that the dividend he received from the profits of an approved enterprise was not subject to income tax in Western Samoa". However, this condition applies only to dividends and not to profits repatriated.

During the tax holiday period the assets of an approved enterprise are to be depreciated at the rates allowed under the Income Tax Ordinance 1955 for wear and tear. For reporting purposes, the approved enterprise is obliged to submit an annual report to the Department of Economic Development and to the Commissioner of Income Tax.

2. The Industrial Free Zone/Estate

In 1973, a UNIDO mission, headed by Dr. Te'o Ian Fairbairn, prepared a report entitled A Survey of Industry and Its Potential in Western Samoa. Among the recommendations of the report was the establishment of an "export processing zone". In 1974, an Industrial Free Zone Act was passed and authorized the formation of an Industrial Free Zone Corporation. It would be empowered to grant a licence to any export enterprise which was new and whose principal object "is or will be manufacturing, processing, or assembling products for export from Western Samoa". The main benefits to enterprises would be exemption from customs duty on building materials, plant, machinery, equipment, commercial vehicles, components parts or raw materials required for the establishment and operation of the licencee's business. In addition, there would be a 5 year income tax holiday on profits and dividends, provided that any dividend or profits received by shareholders do not exceed the total amount of money invested by the shareholder.

The concept of the Free Zone has now been broadened and integrated with an industrial estate programme. In areas designated as industrial estates, where basic services are supplied by Government, an industry approved under the Enterprise or Free Zone Acts may be established. Government is now planning to build basic factory shells to assist in the provision of relatively inexpensive factory space at the industrial estates.

3. Financial Assistance

Financial assistance to industry is available from the Development Bank of Western Samoa (DBWS). In its first two years of operation the Bank approved 85 industrial loans totalling WS$532,870 of which 58 were "individual amounts of no more than WS$5,000, indicating the emphasis DBWS gives to cottage type industries". It is expected that 341 new jobs will be created from loan assistance to manufacturing, which represents about 25% of the Bank's portfolio.

D. SIGNIFICANCE OF THE CONCESSION FIRMS

1. Approval of Incentives

As at June 1976, 38 manufacturing firms had been approved under the Enterprises Incentives Act as shown in Table 1.

Table 1

Firms Approved Under The Enterprises Incentives Act

Industry	No.	Ownership	Income Tax Concession (No/Yrs)	Import Duty Concession to Firms on			
				Machinery	Vehicles	Building Material	Raw Material
. Clothing - Apparel	8	Local (6) Local/Foreign (1) Foreign (1)	0-5	All	3	2	All
. Manufacturing- (includes plastic products; furniture manufacturing paints gases; cocor... corrugated iron, lather bags & motor vehicle exhaust system)	10	Local (2) Local/Foreign (8)	0-5	All	6	4	5
. Food Processing	14	Local (7) Local/Foreign (6) Foreign(1)	0-5 2-5 0-5	7 5 1	6 5 1	3 4 -	2 1 -
. Fisheries	3	Local Local/For. Foreign	3-5	2	1	1	-
. Timber products	1	Local/For.	0-5	yes	yes	yes	no
. Airline factories	1	Local/For.	0-5	yes	-	-	-
. Floral Products	1	Local	0-2	No	Yes	Yes	No

SOURCE: Department of Economic Development

As shown, the incentives offered within industry groups are not identical for each firm. In the clothing and apparel industry for example, one firm received no tax holiday; four received 3-year tax holidays; and three received 5-year tax holidays. In the group classified as "Manufacturing" one firm did not receive a tax holiday; two received 2-years; one received

3-years; and six received 5-years tax holidays. Also, in certain cases, some firms received import duty concessions on vehicles; some received concessions on building materials; and some received concessions on raw materials.

While Government has adopted the policy of encouraging industries which will make a significant economic contribution, it appears that no clear guidelines exist for the award of incentives. Size for example, is not a determinant of the quantum of incentives granted, with two of the smaller firms in manufacturing receiving 5-year tax holidays. Also, in two cases requiring imported raw materials, one company received duty freee concession while the other did not.

Because of the present structure of the Enterprise Borad, the approval process, and the inadequate staffing of the Department of Economic Development, investors are experiencing problems in obtaining a decision on applications for incentives. To obtain a positive - or negative - answer within 6 months is considered the exception rather than the rule. The problems creating such delays are caused by the following:

(a) No clear guidelines exist specifying in any precise manner the qualifying criteria for incentives.

(b) With only one officer responsible for preparing submissions, not enough professional time is available for dealing with the administration of incentives. Furthermore, whenever the officer is absent there is no other staff available to deal with incentives - apart from the Director who has many other areas of responsibilities.

(c) Because of the composition of the Board, with three of the five voting members being from the political directorate, non-attendance frequently results in a lack of a quorum and inability of the Board to act. Moreover, there are no regularly scheduled meetings of the Board and meetings are arranged on an ad hoc basis to deal with submissions which have been prepared.

(d) After the Board has taken action on submissions for incentives, it then has to make its recommendation to Cabinet for a final decision. It is reported that there are usually more pressing national issues to be discussed by Cabinet and decision on applications are invariably held in abeyance - sometimes for months - before an application is acted upon by Cabinet.

Besides the problem of obtaining approvals under the present system of administering the incentives, there appears to be no special programme to broaden the entrepreneurial base. Although incentives are available and, local businessmen are being encouraged to invest, there is hardly any technical assistance programme to advise local investors. Thus, while it is Government's policy to encourage more nationals to enter into manufacturing/ processing, they face the problem of inadequate technical knowledge and guidance, along with problems of finance.

Three serious policy matters have to be faced by the industrial sector.Firstly,when the concession period on customs duty on raw materials expires, manufacturers are charged a duty similar to that charged on a finished product. For example :

(a) a manufacturer of galvanised roofing and nails enjoyed a concession rate of 7 1/2% on raw materials but now has to pay 45% duty (because of the expiration of the concession period), which is the same duty on imported finished products ;

and

(b) a textile printing company, with at least 50% of its output earning foreign exchange, was granted a 5% duty on raw materials not exceeding $25,000 for one year. This amount was fully utilized in 7-months and, unless the concession is extended, duty on raw materials will be 42% (cotton) and 58% (man-made fibres), with the rate on imported printed goods at 60%.

Secondly, is the case an enterprise ("pioneer") whose tax concessions have expired but now faces competition from another competing enterprise which is seeking concessions. If concessions are granted to the second enterprise, it is not inconceivable that the first could be "driven out of business" given the high import duties on raw materials.

Thirdly, under the present system of foreign exchange allocation, there is little or no protection for local enterprises. During the concession period, because of the duty concession on raw material, a local company is in a better position to compete with imports - even though protective tariffs are scarcely used. However , at the expiration of the concession period, a trading company may find it cheaper to buy finished goods from its foreign exchange allocation and undersell the local producer. A successful local manufacturing company could then experience serious financial problems.

Besides such operational problems which arise, Government officials have drawn attention to an ambiguity in the Enterprise Act. It is not clear under Section 21(1) whether the exemption from income tax applies to <u>all</u> income earned by an approved enterprise or whether the exemption is limited to specified activities of the enterprise. Moreover, in the absence of a double taxation agreement with tax sparing provisions, Western Samoa is giving away income tax concessions without any beneficial effect to the firm. Under Section 22(4), the clause pertaining to the right to income tax concession, if awarded, is restricted only in respect of dividends. There is no provision that foreign companies in Western Samoa whose repatriated tax free profits are subject to tax in the capital exporting country would not be entitled to the tax holiday. Under this loophole, the country is sacrificing tax unnecessarily to such companies.

2. Contribution of Concession Firms

In 1972, a survey of business activities was carried out with a coverage of 54% of business registered in the Census. The Survey revealed that there were 3,443 workers with a wage bill of WS$1.966 million and output of WS$9.404 million. Only three industry groups in manufacturing reported :

(a) Manufacture of food, beverages and tobacco ;

(b) Manufacture of wood and wood products; and

(c) Manufacture of textiles wearing apparel etc.

These industries showed employment of 328 persons; wage bill of WS$164,000 and value of output of WS$987,000.

While concession firms are obliged to submit annual returns to the Department of Economic Development, no up to date statistical information was available for these firms. A "Report on Enterprises under the Incentives Scheme" was prepared on 19 firms in 1977 but did not include information on employment, wage bill, output and income tax and customs duty foregone. With the cooperation of the Commissioner of Inland Revenue, information on 20 manufacturing firms was obtained and is shown in Appendix I. The Comptroller of the Customs also provided information on customs duty foregone on imports of raw materials, building materials, and plant and equipment for manufacturing firms as shown in Appendix II.

From the Inland Revenue report, the 20 firms showed the following in 1975:

	(WS$)
Paid up capital plus revenues	1,081,258
Sales	2,618,571
Taxable income	72,100
Wages and other benefits	389,112

Because of the lack of information on the entire manufacturing sector, no comparisons can be made. However, it would not be realistic to assume that the firms reported on account for most of the activity in the sector. Of the 20 firms shown, the rate of return of net worth was low, being 6.7% for all firms, and 11.3% for the profitable firms after excluding the 6 firms which operated at a loss. The ratio of sales (as a proxy for output) in relation to wages and salaries was 6.7 as compared with 7.3 in Fiji, and suggests that there is no major difference in productivity for concession firms in Western Samoa and in Fiji.

3. Net Tax Effect of the Concessions

On the direct tax benefit side, the estimated PAYE contribution in 1975 was WS$20,623, derived by applying the ratio (5.3) of total PAYE collected (WS$651,000) to total salaries and wages (WS$12.150 million) to the wage bill of the 20 firms. With a 10% contribution to the National Provident Fund, the contribution would be WS$38,912, giving a total direct tax benefit of WS$59,535.

On the tax loss side, Appendix II shows the value of imports for 1975 and 1976 and the customs duty foregone Duty foregone in 1976 is estimated at WS$15,731 for building materials; WS$37,517 for plant and equipment; and WS$40,435 for raw materials. Assuming that the normal rates shown for 1976 were the comparable rate applicable in 1975, when the preferential and non-preferential rates applied, customs duty foregone on raw materials in 1975 was WS$13,013. With income tax foregone at WS$72,100, the total direct tax loss (excluding customs duty on machinery and building materials, which are necessary concessions in the first year to commence operations) would be WS$85,103 and the net tax loss to the country in 1975 for the concession firms in manufacturing would then be WS$25,568.

In terms of the significance of the tax loss, the customs duty foregone on raw materials would represent less than 1/10% of 1% of the $7.693 million of customs duty collected in 1975. Income tax foregone would represent 5.8% of the WS$1.252 million of company tax collected in 1975. Based on the experience of other countries, the tax sacrifices on customs duty is close to zero (because of the high customs duties) and the overall tax sacrifice is comparatively low as shown below :

Country	Revenue Cost as % of Tax Revenue	Year
WESTERN SAMOA	1.7	1975
Fiji	3.4	1973
Costa Rica	8.5	1963
Mexico	2.8	1957
Panama	9.3	1961
Philippines	3.2	1963
Morocco	1.8	1965
Korea	2.2	1964
India	3.0	1961/2

SOURCE: George E. Lent, "Tax Incentives for Investment in Developing Countries", IMF Staff Papers (July 1967) except for Fiji and Western Samoa

The low overall tax sacrifice for Samoa may be explained by the small number of firms involved; the small size of the firms; and the low level of industrial development. It should be emphasized that this low level of overall tax sacrifice does not present a case for liberalizing the tax incentive programme since there is a net tax cost to Government. Where a liberal policy for both income and customs duty concession is adopted, the tax base will be eroded and it is hardly likely that PAYE - and National Provident Fund - contribution will offset the tax losses. Countries should therefore be cautious about granting liberal income and customs duty concessions, especially with protection.

F RECOMMENDATIONS

Following are the recommendations:

1. Concessions awarded should be related to the economic contribution of enterprises manufacturing or processing products/ industries which make some minimum economic contribution.

2. Products or industries, depending on their complexity for classification purposes, should be designated as "approved" if they are able to meet the minimum economic contribution specified as the qualifying criteria. Any list prepared should be regarded as "indicative" subject to an enterprise justifying that it will be able to manufacture/process a product to meet the minimum economic contribution. Other products or industries may be added from time to time subject to such products or industries meeting the minimum economic contribution criteria. Where an industry comprising many products is designated as approved, the specific product should be listed.

3. Enterprises manufacturing, processing or assembling products would be required to meet minimum economic contribution criteria to be eligible for seeking concessions as an "approved enterprise" for manufacturing an "approved product".

4. In keeping with Government's policy to increase employment, local ownership and greater use of local resources, it is proposed that the concept of "local value added" be used as the basis for measuring economic contribution.

5. Local value added is defined as the amount (expressed as a percentage of total sales of the "approved product" or industry) by which the amount realized from the sales of an approved product (in respect of a continuous period of twelve months) exceeds the aggregate amount of the following:

(a) the value of imported raw materials, components and parts of components, fuels and services;

(b) wages and salaries paid during the period to persons who are not nationals of Western Samoa;

(c) profits earned by persons (including companies) who are not nationals of Western Samoa ;

(d) interest, management changes and other income payments accruing directly or indirectly to persons (including companies) not resident in Western Samoa;

(e) depreciation of imported plant, machinery and equipment.

This formula could be further refined to place greater emphasis on employment (as is done in the Caribbean Common Market) by the equation : $V \cdot \frac{(100 + W)}{100}$ where "V" is the local value added expressed as a percentage of total sales of the approved product ; and "W" is the wages and salaries paid to nationals of Western Samoa expressed as a percentage of total sales of the approved product.

In using the local value added criteria a proper basis is being used to encourage those industries which will make a greater national economic contribution by using more local raw materials, the processing of agricultural goods, and increasing employment.

6. On the principle that concessions should be related to local value added, it is proposed that two minimum percentage contributions be specified for which approved enterprises would be awarded a package of incentives. Given the 25% minimum local value added stipulated as a basis for preferential duty under the previous customs tariff, it should be realistic to specify 25% local value added as the minimum for "approved products" obtaining one package of incentives (including export incentives) and 40% for other "approved products" obtaining a more liberal tax concession package.

7. "Incentive Package A" would be offered to enterprises with the 25% local value added and would be aimed essentially at locally owned enterprises. The proposed packages would be a combination of technical, financial and fiscal assistance in recognition of the special needs of local investors.

(a) Technical assistance: preparation of "industry profiles" with vital economic (e.g. import and market size), technical (e.g. type of equipment), and financial (e.g. project cost with basic financial analysis) information. Industry profiles are available from UNIDO and other institutions but require additional local input, especially data on market size/imports. While such information would be made available to all potential investors, it is less important to overseas investors but vital to local investors. Technical assistance to help establish local enterprises would also be provided and would be of particular value in assisting small businesses, including those which might not necessarily be seeking any concessions.

(b) Financial assistance: insufficient equity and working capital are common problems facing local investors in nearly all developing countries, including Western Samoa. Along with technical advice, financial assistance is a powerful stimulus to encourage local investors into new manufacturing activities and to expand existing enterprises. It is therefore proposed that :

(i) an equity window be established at the Western Samoa Development Bank to assist new and struggling - but financially viable - locally owned enterprises in manufacturing. A subsidiary company of the WSDB could be created for this purpose. The scheme would have to be funded by Government, but the Bank could make loans to complement equity contributions to such enterprises from its own resources. Initially, the scheme could start with a funding of WS$100,000 with participation in any enterprise not in excess of 25% of paid up equity.

(ii) additional working capital assistance under a limited guarantee scheme be provided to existing enterprises. Under this scheme, a locally owned enterprise which has reached its credit limit with its commercial bank could obtain additional credit for export orders or the purchase of raw materials, subject to some maximum limit, as established by Government, without any extra security requirement, provided that the bank is satisfied that the financing is needed and the loan will be repaid. Of the additional working capital provided the commercial bank would take 50% of the risk, with a Government Agency guaranteeing the other 50%, subject, to an overall total amount under the scheme.

(iii) The provision of inexpensive industrial buildings is a programme which should be expanded but requires carefully selected areas with an "economic base" (i.e. near to population centres or resources) to effectively utilize the facility.

(c) Fiscal concessions: No income tax concession is recommended for enterprises in "Incentive Package A". But it is proposed that all approved new enterprises should enjoy:

(i) 5-year exemption from fiscal duty on plant and equipment, building materials (if not available locally) and raw materials defined as "goods which are required for use in local manufacture or for local working or processing to turn out products on and industrial scale". The term "working or processing" is extended to include in certain cases sample mixing of products (e.g. tea) and assembly of components to constitute a complete article (e.g. water heater). It does not include service type operations (e.g. repairs and reconditioning).

(ii) Accelerated depreciation at 20% per annum, using the diminishing value basis for any of 5 out of 8 years in order to improve a company's cash flow.

8. "Incentive Package B" would be offered to new enterprises manufacturing approved products with a minimum local value added or 40% and would be aimed mainly at the overseas investor processing local raw materials with substantial capital outlay. The concession package being proposed to all approved enterprises is:

(a) 5-year income tax holiday period or 8 years if located outside "designated areas", and conditional on tax benefits not being subject to tax in home country when profits are repatriated ;

(b) notional depreciation to be taken during tax holiday period after which depreciation to be on the diminishing value basis on the written down value of assets ;

(c) 5-year exemption from customs duty on plant and equipment, building materials (if not available locally) and raw materials ;

(d) tax exemption on interest paid on funds borrowed from abroad and approved by the Minister of Finance for a specific purpose.

9. Approved products or industries under either Package "A" or "B" should be given partial protection, although less will be required for those under Package B since they would be local resource base being developed mainly for exports. With lower import duties on raw materials during the concession period, concession firms are enjoying some protection, the adequacy of which has to be examined on a case by case basis for each product/industry. At the end of the concession period, unless import duty concessions are continued, companies will find it extremely difficult to compete, with imports of finished goods, given the almost identical rates on raw materials

and finished products in most cases - a problem now being experienced by companies. It is therefore proposed that the import duty concession on raw materials be continued at the present rate with no adjustments in the tariff for protection purposes or, alternatively, the rate on raw material be increased to not more than 50% of the normal rate with an increase in customs duty on finished goods.

10. Where tariff protection is granted, the effective rate of protection should be used instead of the nominal rates. In computing the effective rate of protection, this simple formula of $e = \frac{n-mi}{v}$ could be used, where e = the effective rate of duty; n = the nominal rate of duty in final product, m = nominal rate of duty on raw material input; i = coefficient of material input; and v = proportion of final output accounted for by the value added. Thus, for example, if the nominal duty is 5% on an imported material which accounts for 80% of manufacturing costs of the finished product on which a nominal duty of 10% is charged, the effective rate of protection would be 30% with v=20%. (See for example, Wells, Sydney J., International Economics, George Allen Unwin Ltd (1971); and Helleiner, O.K., International Trade and Economic Development, Penguin Books, 1972).

11. Subject to a 30% minimum local value added being met, it is proposed that an export incentive scheme be introduced by granting income tax concession on profits based on the percentage of export sales to local sales, provided that there is a minimum percentage increase in exports over a specified period, say the average value over a 3 year period.

12. In order to minimize duplication of plant capacity; avoid waste of valuable foreign exchange; foster the financial viability of approved enterprises (especially smaller firms); and to encourage investors by providing some assurance that there would not be unnecessary duplication of investments, no new enterprises should be awarded concessions where the market is (or is about to be) ade ·ately serviced by plants in Western Samoa. It is suggested that 60% of the market share be used to determine whether the market is being "adequately serviced" but this could be varied in exceptional cases where the product/industry and existing capacity is of such a nature as to justify additional investment. In addition to not granting concessions to enterprises when the market is being "adequately serviced", it is necessary to introduce an import licensing system whereby all plant, machinery and equipment to be imported would require an import licence to be issued by the Department of Economic Development. This has the advantage of not only safeguarding against duplication but also to be used as an instrument for ensuring that certain types of economic activities can be reserved for nationals.

13. To provide the technical and economic services needed and to have a central body with which investors would deal - in a manner similar to a Industrial Development Corporation - the Department of Economic Development should be upgraded. Serious consideration should be given to obtaining the services of an industrial economist for a two year period through, perhaps, the auspices of UNIDO or CFTC to be responsible for industrial promotion, analysis and advice.

14. To reduce the present delays being experienced in obtaining concessions, it is recommended that, once the policy guidelines on eligibility criterion have been established, along with the allowable concessions, the present Board should be re-organized. In any case, since approvals have to be referred to Cabinet, the justification of having a political input at the Enterprise Board would appear to be unnecessary duplication. It is therefore proposed that the Board be restructured with only officials, as in the case of Fiji. Representation could be the most senior officers from the Prime Minister's Office and the Ministry of Finance, the Commissioner of Inland Revenue, the Comptroller of Customs, and the Director of Department of Economic Development (as Chairman). Recommendations of the Board would be submitted to the Minister for appropriate action. In cases of special national interest, the Minister would normally be expected to take the recommendations of the Board to Cabinet.

15. Prior to the award of concession to an enterprise, it would be desirable for the Department of Economic Development, through the Minister, to publish the intention of Government to award concessions so as to enable firms which might be affected to express their views. Also, valuable manpower and expense in the the private sector would be saved from conducting research into the possible manufacture of products which is to be undertaken. The present practice of publishing concessions awarded is supported.

16. Concessions granted should be utilized within a specific period (say 12 months) failing which they should be automatically cancelled to correct the present situation where the Department of Economic Development has no accurate up-to-date record showing which enterprises benefitting from concessions are in production.

All enterprises receiving concessions should be obliged to furnish information on an annual basis to the Department of Economic Development.

Interest has been expressed in increased economic cooperation among the three Pacific Islands (Western Samoa, Fiji and Tonga) visited during this study. Any incentive and industrial policy being formulated should take cognizance of this interest as a practical step towards closer harmonization.

APPENDIX I

LIST OF ENTERPRISES APPROVED INCENTIVES UNDER THE ENTERPRISES INCENTIVES ACT 1965 AS AT 1975

	Number	Paid up Capital plus Reserves	Sales	Taxable Income	Wages and Other Benefits
Firm	1	$ 25,627	$ 31,642	$ 2,511	$ 10,600
	2	148,058	257,745	32,705	24,027
	3	91,970	148,409	13,250	6,103
	4	57,227	36,026	(927)	5,452
	5.	32,980	53,988	9,116	9,721
	6.	187,271	222,862	(26,855)	87,168
	7.	55,412	210,096	25,551	40,730
	8	30,091	102,572	3,692	9,681
	9.	37,808	179,488	(15,448)	8,100
	10.	58,475	248,990	13,794	7,350
	11.	6,869	91,544	6,275	5,323
	12.	17,488	80,266	11,009	12,502
	13.	90,092	46,116	(30,258)	14,086
	14.	49.467	174,529	18,104	9,583
	15.	14,665	40,634	5,919	5,173
	16.	15,000	265,197	(33,025)	40,416
	17.	55,412	97,003	(2,008)	24,512
	18.	95,102	156,932	14,107	15,401
	19.	4,400	113,504	22,344.	39,057
	20.	7,844	61,028	2,244	14,127
		1,081,258	2,618,571	72,100	389,112

APPENDIX II

(1) VALUE OF IMPORTS OF RAW MATERIALS

FIRMS	1975	1976	Normal Rate 1976	Concession Rate 1976	Amount Collected Normal Rate 76 2 x 3	Amount collected concession Rate 1976 2 x 4	Customs Duty Foregone (5 - 6)
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Firm A	5181	4035.	42%	10%	1695	404	1291
B	1991	924	42%	10%	388	92	296
C		7595	42%	5%	3190	379	2811
D		21309	42%	Free	8949	-	8949
E		4496	42%	10%	1888	449	1439
F	10052		42%	7 1/2%			
G	6542	1223	42%	25%	514	306	208
H		2349	42%	Free	986	-	986
I	4305	57167	42%	Free	24010	-	24010
J	255	1060	42%	Free	445		445
					42065	1630	40435

(2) VALUE OF IMPORTS OF BUILDING MATERIALS

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Firm A	1331			Free			
B	3452	7943	42%	Free	3336		3336
C	13165		42%	10%	5529	1316	4213
D	9350		42%	Free	3927		3927
E		766	42%	Free	321		321
F	60045	8249	42%	Free	3463		3464
G	477		42%	Free	200		200
H	644		42%	Free	270		270
					17047	1316	15731

(3) VALUE OF IMPORTS OF PLANT & EQUIPMENT

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Firm A	639	6379	42%	Free	2679		2679
B	350	1788	42%	Free	751		751
C	13245	2455	42%	Free	1031		1031
D	138599	57790	42%	Free	24272		24272
E		60	42%	Free	25		25
F	238						
G	16130						
H		207	42%	Free	87		87
I	3064	20648	42%	Free	8672		8672
					37517		37517

APPENDIX III

LIST OF PERSONS INTERVIEWED IN WESTERN SAMOA

Mr. Hans Krause -	Director, Department of Economic Development
Mr. Joe Stanley -	Department of Economic Development
Mr. Francis Betham -	Government Statistician
Mr. Richard Mariner -	Senior Executive Officer, Customs
Mr. E. Forbes -	Commissioner of Inland Revenue
Mr. J. Retzlaff -	President, Chamber of Commerce
Mr. Nigel Burr -	Assistant Manager, Bank of Western Samoa
Mr. Alan Ogle -	Industrial Promotion Adviser
Mr. Alfred Metzler -	Manager, Samoa Iron and Steel Limited
Mr. Michael van Reiche	Manager, Coxon & Co Ltd.
Mr. William Keil -	Managing Director, Morris Hedstrom and also Member of the Enterprise Board
Mr. & Mrs R.F. Rankin -	Owner/Managers of Island Styles

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