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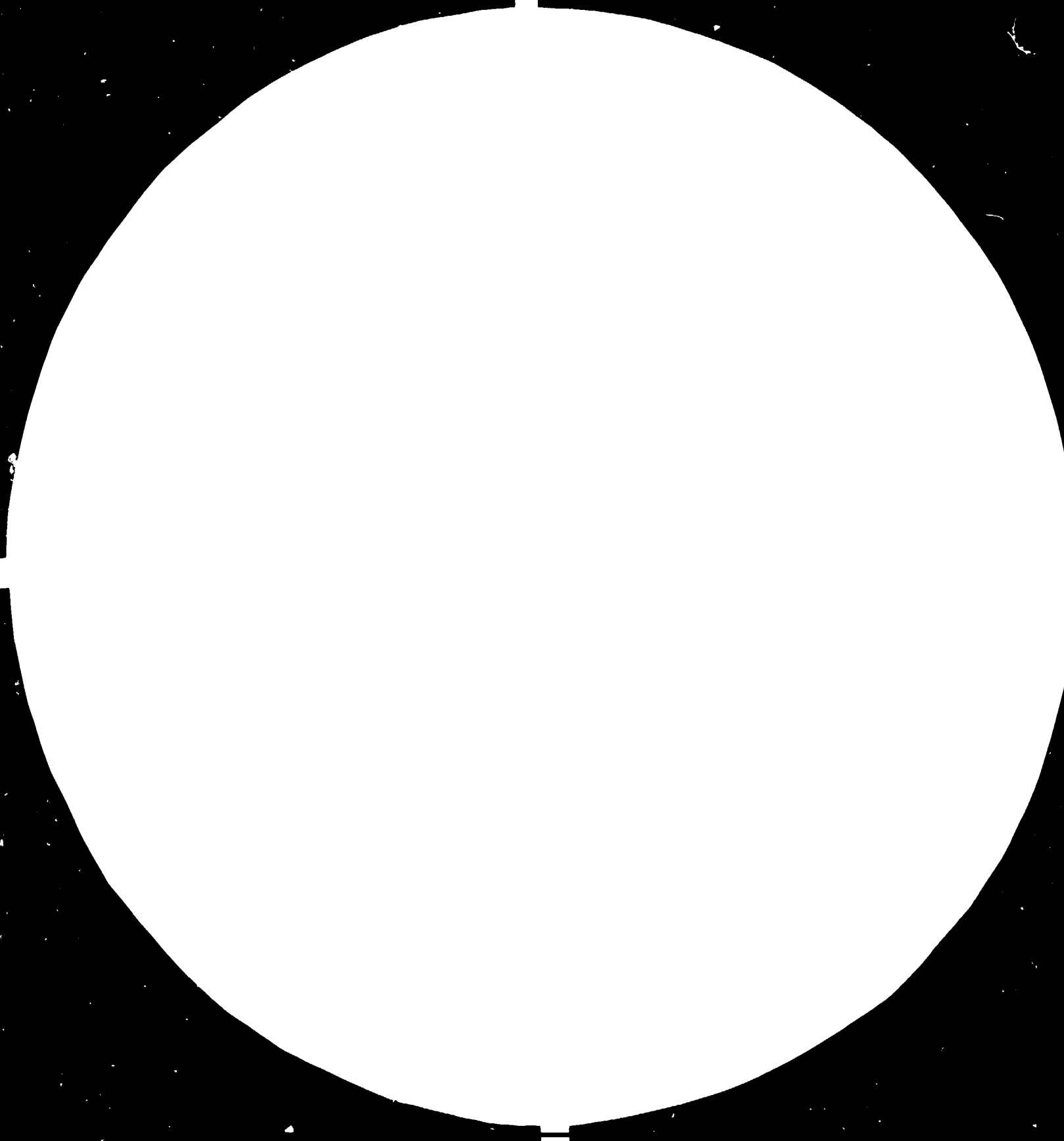
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INDUSTRIAL PROMOTION

AND DEVELOPMENT

DP/FIJ/80/00P

FILJI

Terminal Report

Prepared for the Government of Fiji
by the United Nations Industrial Development Organization
executing agency for the United Nations Development Programme

Based on the work of Ms. E. Guenther-Berger
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United Nations Industrial Development Organization
Vienna

This report has not been cleared with the United Nations Industrial Development Organization which does not, therefore, necessarily share the views presented.

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0. PREFACE

This Final Report is mainly an activity report and is not intended to replace or amend the project's Terminal Report, which had been compiled by the Chief Technical Advisor in August, 1982.

1.0 INTRODUCTION

1.1 Background of the Project

The Government of Fiji has been recognizing the importance and need for private investment to reach her development objectives. Consequently, the Government has adopted policies favouring an accelerated growth of the manufacturing sector. This includes a liberal attitude towards private sector investment, ease of repatriation of profits and capital, tax and duty concessions and provision of industrial infrastructure like industrial estates and training institutes.

Between 1977 and 1982, the manufacturing sector's contribution to the Gross Domestic Product has grown by 25% in real terms, which under economically depressed conditions worldwide, is a remarkable growth rate. Yet, percentagewise, the contribution has remained relatively stable at around 12%. Though the development has shown an upward trend, the proportion is certainly still very small and further active stimulation is needed.

The project was originally attached to the Industrial Promotion Division of the Ministry of Commerce and Industry. In October 1981, the Division, and with it the project were transferred to the Economic Development Board (EDB).

The Board was created under Bill No. 8 of 1980, and is a statutory body with representation from Government, the private sector employers, the trade unions and from the rural sector.

The Board has been assigned responsibility to promote, stimulate and facilitate the economic development of Fiji, and has power :

- a) to promote investment in, and development of industries, ventures or enterprises that enhance employment opportunities, increase exports, reduce imports, or are otherwise beneficial to the economy of Fiji;
- b) to assist other persons or bodies in the establishment or expansion of any such activities;
- c) to undertake product and market development and research either alone or jointly with any other person;
- d) to act as the agent for the Government on such matters as may be delegated to it;
- e) to advice on policies that would further the economic development of Fiji;
- f) to advise the Minister on appropriate administrative machinery to facilitate economic development;
- g) to make grants for purposes related to the discharge of its functions under this Act;

- h) generally to do all such things as may be incidental to or consequential upon the exercise of its powers or functions under this Act."

The Board first reported directly to the Prime Minister, and since July 1982 has come under the new Ministry of Economic Planning and Development.

The Director and first staff were appointed in June 1981, but the Board became fully operational only with the above-mentioned transfer of the Industrial Promotion Division of the Ministry of Commerce and Industry.

1.2 Objectives of the Project

The Development Objectives as outlined in the Project Document were as follows:

- a) To promote, improve and expand industrial supporting activities;
- b) To create more import substitution industries and provide more job opportunities;
- c) To diversify the industries from traditional locations and products.

Two objectives were added:

- d) To assist the Government of Fiji in developing a system of attracting export-oriented industries to Fiji, which would create employment principally for school leavers;
- e) To design such an investment promotion system which would show a long-term economic benefit to Fiji by creating employment, increasing exports and utilising local national resources.

The immediate objectives were:

- a) To provide more effective advisory services in order to assist and guide existing and potential investors and entrepreneurs and to create more local interest also among the indigenous population to invest in manufacturing businesses;
- b) To evaluate and review the overall investment incentives currently available to industries;
- c) To evaluate and review the ways, means, speed and effectiveness of appraising investment applications;
- d) To evaluate the performance of industries presently assisted by the Government;
- e) To encourage the development of agro-based industries;
- f) To train local counterparts with the long term view of localising the Industrial Promotion Division.

Two immediate objectives were added:

- g) To recommend the ways and means to handle potential investors, to analyse project proposals and promote overseas the new incentive laws;
- h) To identify what industries are most likely to be attracted to Fiji and what industries are most suitable for new development in Fiji.

1.3 Responsibilities of the Associate Expert

Besides the Industrial Economist/Chief Technical Advisor, provision for two Associate Experts (Economist and Accountant) was made.

The Associate Expert/Economist was to assist the Chief Technical Advisor in all activities but was specifically expected to:

- a) Carry out research work on local information, commercial or economic, and on various financial data relating to feasibility studies;
- b) Assist in the preparation of techno-economic studies of industrial projects : market surveys, cost analysis, conditions of production;
- c) Formulate industrial projects and, more specifically, industrial projects valorising local natural resources;
- d) Evaluate industrial projects from a commercial as well as the national economy's standpoint;
- e) Train national counterparts, during the execution of the preceding activities.

1.4 Development of the Project

The project started with the arrival of the Chief Technical Advisor (CTA) in January 1981 and was first attached to the Ministry of Commerce and Industry.

A few days before the Associate Expert (Ass. Ex.)/Economist arrived, the project was transferred to the Economic Development Board, to its Project Division.

About a year later, this Division was divided into the Industries and into the Research and Information Division and the project was assigned to the latter.

Early November, 1982, the CTA departed, which left the Ass.Ex./Economist as the only project staff. The Associate Expert/Accountant could never be recruited.

Apart from some time during the attachment to the Ministry, no official counterparts were nominated. As far as possible, experience was communicated through the daily work, through discussions, and in meetings.

2.0 Activities

As regards the activities of the project, most were ongoing ones, and were of a direct support nature. The review of incentives was finalized before the Ass. Ex. left. Details are contained in part 5.

The activities of the Associate Expert concentrated on:

- a) Advice and studies on policy matters relating to investment, especially to revision of industrial incentives;
- b) Identification of viable investment projects and related research;
- c) Advice to investors, and to the Business and Industrial Development Committee (BIDC), granting concessions and approving projects with overseas participation.

2.1 Policy Matters Relating to Investment

2.1.1 Industrial Incentive Scheme

Activities mainly related to the revision of the present scheme, which took a considerable part of the Ass. Ex's time and stretched over the whole working period.

Work comprised of the description and criticism of the present system, the objectives of the review, the evaluation of the present scheme, criteria and alternatives for the new scheme and recommendations.

The evaluation of the present scheme included theoretical observations on the incentives presently used, a statistical study on the structure and development of the manufacturing sector, a survey of concessionary industries, a listing of development constraints and indications on the use and cost of concessions.

A separate study was carried out for export incentives, as these were attributed priority.

The studies and recommendations were discussed by the Board, with relevant Governmental bodies, and with manufacturers' representatives.

The revised recommendations are expected to be included in the annual Budget in November.

Following the discussions on the review of incentives, a paper on monitoring and withdrawing of concessions was prepared. This mainly related to duty concessions, which until recently had been granted for an unlimited period. The paper discussed objectives, methods, problems of such an exercise as well as possible cut-off points. The paper, furthermore, gave indications on revenue foregone and on the impact of duty concessions on the profitability of firms.

In addition to the review of the incentives scheme, a one-page information leaflet on Fiji's investment policy and incentives was compiled.

Comments were made on a proposed incentive scheme for Palau.

2.1.2 Other Policy Matters

Preliminary studies were carried out regarding duplication of industries, which has been causing problems at times due to the smallness of the economy, and on possible policy means that could be employed.

Research was done on the Fiji situation via a small survey amongst the plastic industry, via studies of the census of industries, the trade report and of various company files.

This has led to the request of a consultant to do a comprehensive survey of the manufacturing sector, that could also be used as a basis for the other activities of the Board. Special emphasis should be given to duplication of industries and to possible policy means.

A Board paper on "How Free Is Fiji's Economy?" was written, complemented by consideration on the (non-)desirability of more Government control.

2.2 Project Identification

Together with the review of incentives, project identification constituted the main activity of the Associate Expert.

Some "ground-work" was done by assisting in compilation of a list of industrial feasibility studies done for Fiji, which was expanded by available profiles, areas where preliminary research had been carried out and by project ideas. A list of major import areas and a booklet on Fiji's resources (Investment Opportunities) was drawn up and, lately, revised.

Industrial profiles were prepared on:

- a) Switches, plugs, sockets, etc., by injection moulding (up-dated version);
- b) Small scale paper production and manufacture of speciality paper;

- c) Canning of corned beef and mutton;
- d) Sanitary ware by cold process;
- e) ceramic ware (in collaboration with UNIDO-project Fij/80/005);
- f) Essential oils and perfumes.

More or less extensive research has been carried out for nearly 30 other project areas (see Appendix III), the majority of which was done on request of investors, and assistance was given to several consultants.

Articles were written for the EDB Bulletin and for the EDB Trade and Investment News. An interview on "How to do an Economic Project Analysis?" was given for a youth programme of the Fiji Broadcasting Commission. This was aimed at youth clubs as they increasingly have started agricultural and industrial projects.

2.3 Basic Investment Data and Industrial Survey and Inventory

Basic investment data were collected and distributed on:

- a) GDP and inflation
- b) Population
- c) Employment
- d) Labour cost
- e) Banking and local finance.

These were later used when revising the Fiji Investment Guide.

Work on an industry file was started, but was not finalized due to the low priority given to the project. Project cards, designed by the CTA, were filled for a number of newly established firms.

Assistance was given in designing questionnaires for partial surveys of the garment, plastic and tyre retreading sector. A small survey in relation with duplication of industries was done amongst plastic manufacturers.

2.4 Assistance to Investors and to BIDC

Advice was given to about 150 investors, most of which sought assistance in the second year. This can be attributed to the increased publicity of the EDB and of its Research Division, in particular.

Advice was given on investment opportunities and on specific projects, on incentives, approval of projects and on investment policies and regulations in general. Assistance was, furthermore, provided with the identification of joint venture partners.

Visits were paid to about 20 firms.

Assistance to B IDC originally consisted of comments on applications received, attendance of the Project Division discussing proposals and of the B IDC (officials) meetings.

As from December 1982, the Research Division has been preparing B IDC papers for new project proposals and the Associate Expert also got involved in this activity and 20 papers were prepared.

3.0 ACHIEVEMENTS

3.1 Achievements and Utilization of Output

Activities carried out largely corresponded to the job description, but modifications were made resulting from EDB's specific needs.

The project in general ran smoothly and did not face any major problems, as already stated by the CTA in his Terminal Report.

The major output were the recommendations on the revision of the incentives scheme which, with modifications, is expected to be implemented in November this year.

A number of industrial profiles have been prepared. For two of these (small scale paper production, electrical switches, plugs, etc) full feasibility studies were later prepared by a CFTC team. These two and the sanitary ware project have been granted concessions by B IDC, but have not yet been implemented. Research on other viable projects are still in its preliminary stage, eg., pencil, lime, yeast, PVC tiles production, as often collection of information has taken a considerable time.

Much of the other output was of a direct support nature and used immediately:

- a) Compilation and, later, revision of an inventory of resources (Investment Opportunities), revision of the Investment Guide, and other promotional literature;
- b) B IDC papers
- c) Advice to investors on all aspects of a project as well as on investment policy.

3.2 Problems

The major problem was the lack of staff, both local and project staff. Due to shortage of local staff, especially during the first period of the contract, no local counterparts were nominated, and both the CTA and the Ass. Ex worked more on an operational basis, rather than as advisers.

Lack of project staff affected the work in the second year of contract, when the Ass.Ex., after the departure of the CTA, was the only project staff.

More particularly, the revision of incentives was held up by the survey carried out amongst concessionary industries, the participation of many agencies, and, the amount of day to day work, especially immediately after the CTA's departure.

Project identification was impeded by various factors:

- a) Due to the smallness of the market and due to industrialization efforts in the last decade, potential for further profitable investment for the local market is limited;
- b) As for investment geared at the export market information on the export market has been insufficient, and even for the local market information has partly been difficult to obtain;
- c) Lack of technical know-how, however, has been the major impeding factor; writing off for information is often very time-consuming due to non-replies or inappropriate replies; adaptation of profiles to specific local conditions has also proven to be difficult without technical expertise.
- d) Lack of basic information on already existing firms.

Due to shortage of staff, project identification has often been re-active, i.e., has been carried out on request of investors, rather than identifying projects to be promoted later to investors.

4.0 FINDINGS AND RECOMMENDATIONS

4.1 Findings and Recommendations of the Project's Terminal Report

Findings and recommendations of the project are dealt with extensively in the project's Terminal Report, prepared by the CTA. These are still valid, in general agreed to by the Ass. Ex. and are summarized below:

a) Findings

- UNDP input in terms of experts less than planned;
- nomination of an official counterpart for a short period only;
- an assessment of actual output in relation to the

projected output, concluding that outputs were produced according to expectations, given the size of the project and the short time of implementation;

- summary of advice given on investment proposals, feasibility studies, incentives, import-substitution areas, advice to promoters/investors, entrepreneurs, the Ministry of Commerce and Industry and to EDB;
- factors facilitating implementation: quality, dedication and co-operative spirit of some senior staff members and of EDB's management, dynamism of the Board's management;
- factors impeding implementation: shortage of staff in the project and counterpart agencies; transfer of the project; no clear delimitation of functions and responsibilities between the Ministry of Commerce and Industry and the EDB; objectives, outputs and activities of the project too general and too wide; functions and activities of EDB too wide, given the staff available;
- majority of project results already utilized as many activities were operational and of direct support nature; in other cases, like project identification a longer gestation period is involved.

b) Conclusion

The Terminal Report concludes that:

- Fiji industry does not fare bad, but is limited by high wages, low productivity, insufficient management skills, duplication of activities, low capacity utilization;
- another major constraint is the non-availability of industrial land;
- more information is required on industry and on markets;
- the incentive scheme needs streamlining and refinement only, which should provide clear guidelines and be based on DP8 objectives;
- assistance to small scale industry seems insufficient;
- industrialization should not be relied upon too heavily for employment creation, but services should also be encouraged;
- encouragement of import-substitution industries and protection should pay more attention to the cost structure of locally manufactured products;
- Fiji Government's liberal attitude to private investment limits the project identification exercise as the final decision on investment and the risk has to be taken by private investors.

c) Recommendation

The Terminal Report points out that Fiji authorities are well aware of problems and constraints facing industry and approves of the industrial development objectives, strategies and policies as expressed in DP8, but emphasized the following:

- necessity of an export-oriented strategy and restriction of protection;
- the need to systematically identify new products, especially with export-potential;
- wages are relatively high and should be contained, mostly for unionized labour;
- industrial development should be more closely monitored, through an up-to-date industrial file and possibly through a licensing system;
- existing industry should be strengthened, by upgrading of productivity and of management skills;
- the incentives review should provide a proper set of criteria, preferably based on local value added; cost of concessions should be calculated for each project; incentives should be more discriminatory;
- the necessity of strengthening and structuring the EDB (including various models), and the necessity of a stronger and more dynamic information system and of integrated and adequate premises;
- improved assistance to small-scale industries, especially with regard to manpower and management training and with regard to extension services;
- the need for constant adaptation of export commodities as well as for stronger assistance via incentives and stronger institutional aid;
- the need for stabilization of local resource prices;
- the need for more detailed statistics for market information;
- the necessity of an improved and speedier mechanism for industrial land allocation.

4.2 Economic Development and Policy Matters, in particular, Industrial Incentives

Most of the findings and recommendations have been compiled in relation to the review of incentives. The summaries of the final discussion papers on export and on the other incentives are reproduced in Appendices IIA/B.

As already mentioned in the Terminal Report, it must be stressed that Fiji's authorities are well aware of the problems and that DP8 industrial objectives and priorities can only be approved of.

However, it is felt that more emphasis should be put on the development of trade skills and of more sophisticated, speciality products (eg., health food and other health products).

In view of the already high level of education this is felt to be one way of over-coming the problem of the relatively high wages, rather than trying to keep wages low, the general level of skills should be up-graded, justifying a higher wage level.

4.3 Project Identification

Project identification and related research as carried out by the Economic Development Board has to-date been characterized by:

- a) Being reactive, ie., initiated by requests from investors, as a consequence;
- b) Focusing on import-substitution products; and
- c) Focusing on urban industries.

This clearly is contrary to the DP8 objectives of stimulating resource-based, export-oriented and rural industries, and a more "active" approach by EDB is certainly desirable.

Factors impeding project identification have been discussed above (see 3.2). Shortage of local staff has been a major problem despite of a considerable increase of research staff. This simply does not leave much "spare" time to identify and carry out research on investment opportunities other than those requested by investors.

Lack of specialized staff, mainly a mechanical engineer, a chemist (or similar) and additional marketing staff necessitate time-consuming studies of the present research staff who are predominantly economists, in order to become familiar with technical aspects of a project. And even then, quite a number of uncertainties may remain. This may cause interruption of study in one field or preparation of profiles with incorrect information. A mechanical engineer is also important for the increasing number of enquiries on machinery received by EDB.

Additional marketing research officers are essential, if active identification of overseas markets is to be taken seriously. This cannot be done by one officer alone, who also is responsible for studies on the local market.

An "active" project identification, furthermore, requires constant collaboration with other agencies, like the Ministry of Agriculture and Fisheries, the National Marketing Authority. A start has been made with the Agricultural Commodity Development Committee (ACDC), a sub-committee of the Board.

As for rural industries, extension services, in the long run, will probably be the best solution. As for the time being close collaboration with the Ministry of Fijian Affairs and Rural Development, Commissioners and District Officers as well as with non-Governmental organizations engaged in rural areas, like the YWCA/YMCA may be a first step.

Project identification is a very vital area in promoting Fiji as an investment place. A great number of inquiries have been received by investors, both local and overseas, who have funds but are looking for a profitable project to invest.

The need to strengthen this area, in particular, cannot be over-emphasized.

4.4 Basic Data

The need for basic data has been more and more recognized by the EDB.

Apart from basic data for investors (eg., wage rates, cost of land, legislation), this mainly refers to an up-to-date industrial file. Such data are at present not available to EDB on an individual-firm-basis, as other agencies like the Bureau of Statistics are not allowed to release such data.

Such data are useful and necessary for:

- a) Monitoring industrial development, eg., duplication of industries; also
- b) Feedback and monitoring of approved projects;
- c) Monitoring of concessions granted and the benefits accrued to the country;
- d) Project identification;
- e) Identification of excess capacities that could be used for export-oriented production;
- f) Identification of specific weaknesses and strengthening of existing industries.

Work on such a file had been started by the project, mainly by designing Project Cards and by filling them in for newly approved projects. This, however, was not followed up due to low priority attributed and due to other day-to-day work.

4.5 Economic Development Board

The Terminal Report already mentioned the quality and dedication of the EDB staff and of EDB's management and the dynamism of the Board's management.

The EDB's organization has been structured based on the advice of an EEC consultant which largely coincides with the structure proposed in the Terminal Report (Alternative II).

This exercise did, however, not include detailed job descriptions, and some 'fine-tuning' may, therefore, still be needed in future. It is felt that certain duties have been assigned to the person/officer rather than to the post. This, in cases has lead to research officer specializing on resource-based industries, dealing with projects/products based on imported materials, etc.

Understaffing has remained a problem, due to an increasing work-load. This is felt to be most pronounced in the Industries Division responsible for promotion which often had to rely on two staff members only. This division also acts as Business and Industrial Development Committee (BIDC) Secretariat, which further cuts on the limited resources for promotion, like organization of investment seminars. The Trade Division, concentrating on trade promotion eg., organization of trade fairs, at the same time disposes of four staff.

Another problem is the lack of senior, experienced staff which to-date could not be filled locally.

The number of staff will have to be increased further, with emphasis on the Industries Division and on project identification.

Vacancies of senior, experienced staff may have to be filled from overseas or from aid sources.

APPENDIX I

PAPERS BY THE ASSOCIATE EXPERT

(In chronological order)

1. Preliminary Report to UNIDO
2. (Draft) Questionnaire for the Review of Incentives
3. Discussion Paper for the Review of Incentives (3 papers for Board and Government Committee)
4. Preparatory Study of Potential Fields of Import-Substitution
5. Project Identification (for EDB-Bulletin)
6. Investment and Incentives Guide (one page guide)
7. Technical Aspects of Small Scale Paper Making (Industrial Profile)
8. Reports/Minutes of Meetings of CFTC Project Identification Team
9. Statistical Study on the Development of the Manufacturing Sector 1970 - 80
10. Discussion Paper on Export Incentives (3 papers for Board and Government Committee)
11. Export Incentives to Food Processors Based on Sugar Equivalent Exported (Board Paper)
12. Progress in Project Identification (Board Paper)
13. Duty Concessions for Agricultural Implements (BIDC Paper)
14. Duty Concessions for Laboratory Equipment (BIDC Paper)
15. Market for Sanitary Napkins
16. Manufacturing of Electrical Switches, Plugs, Sockets, etc., by Injection Moulding (Industrial Profile/updating)
17. Sale of Property by Non-Residents (Board Paper)
18. Electrical Accessories (2 BIDC Papers)
19. Footwear Industry (BIDC Paper)
20. Investment Opportunities (Resource-Guide, also Revision)
21. List of Feasibility Studies, etc., and Identified Projects
22. Research Institutes
23. Priority Research Areas
24. Corned Beef and Mutton (Industrial Profile)

25. Basic Investment Data:
 - Population
 - GDP/Inflation
 - Labour Force
 - Wages
 - Banking/Local Finance
 - Major Import Groups
26. A New Section (Draft Article for EDB Bulletin)
27. Information and Research Division (Draft Press Release)
28. Information and Research Division (Draft Radio Interview for Director, EDB)
29. Immediate Duties of the Reserach Division
30. Format for Weekly Activity Report
31. Proposal on Filing System
32. Job Descriptions for Information and Research Division
33. EDB Investment Activities (for Worldbank Team)
34. Investment Scenario 1982 (for Fiji Investment Forum 1983/UNIDO)
35. (Revised) Recommendations on the Incentives Scheme (for Board and Government Committee)
36. Duty Concessions for Expansion and Diversification (Draft Board Paper)
37. Duplication of Industries (3 Board and Cabinet Papers)
38. Tourism Development in Monasavu (Board Paper)
39. Government Assistance to Fiji Exporters
40. Monitoring of BIDD Decisions (for Board and Government Committee)
41. Shell Buttons (3 BIDD papers)
42. Heavy Duty Plasticware (BIDD Paper)
43. Electrical Accessories (BIDD Paper)
44. Cordial Essences (BIDD Paper)
45. Drilling and Blasting (BIDD Paper)
46. Meat Canning (BIDD Paper)
47. Zip Fasteners (BIDD Paper)
48. Inks (BIDD Paper)
49. Tyre Retreading (2 BIDD Papers)

50. Assembly of Video Cassette Cleaners (BIDC Paper)
51. Assembly of Stoves (BIDC Paper)
52. Building Consultancy (BIDC Paper)
53. Waterized Confectionery (BIDC Paper)
54. Ceramic Ware (Industrial Profile)
55. Sanitary Ware (Industrial Profile)
56. Establishment of Coconut Mill in Savusavu (Information Paper for Cabinet)
57. Fiji Investment Guide (Revision)
58. How Free is Fiji's Economy? (Board Paper, also submitted to Prime Minister)
59. Should More Government Control be Introduced?
60. Notes on the Categorization (for Review of Incentives)
61. Assembly of Refrigerators, Air-Conditioners, etc. (BIDC Paper)
62. Sanitary Ware (BIDC Paper)
63. Leasing/Consultancy Services for Producer of Washing Powder (BIDC Paper)
64. Specialized Bakery (BIDC Paper)
65. Essential Oils and Perfumes (Industrial Profile)
66. How to Do an Economic Project Analysis (Radio Interview)
67. Revised Project Document

APPENDIX IIA

SUMMARY

1. The Present Situation

- a) Low percentage of export sales despite of considerable growth in the last decade (11% for the manufacturing sector excl. sugar and coconut oil industry in 1979);
- b) Nearly 80% of raw materials were imported in 1979 (Manufacturing sector excl. sugar and coconut oil industry);
- c) Criticism for the present system for being complicated and cumbersome;
- d) Strong export incentive schemes in Australia and New Zealand.

2. Alternative Export Incentives

- a) Main categories:
 - export performance incentive
 - export market development incentive
 - other input incentives incl. duty drawback.
- b) Possible format (performance and market development incentive):
 - tax format
 - grant format, or "soft" loans.

The first is less bureaucratic, payment only for past performance, ie., mostly viable ventures, amount to be received by investor is generally more accurately predictable; disadvantage for the investors are the late stage of reward and that it is not available in a loss situation. Vice-versa arguments apply for grants.

- c) Possible bases (performance and market development incentive):
 - total export sales (easily computed but no reference to local value added and possibility of "inflating" costs/transfer pricing);
 - local value added or total sales minus imported input (theoretically best means of rewarding net foreign exchange earned, but problems of computing the local content for the latter again problem of transfer pricing);
 - export profits (easily computed^{*}, no reference to net foreign exchange earned, no negative impact with transfer pricing).

* For the administration; use of simple formulas may be permitted for the private companies.

- d) Other input incentives:
- capital, labour/training, raw material, transport subsidy (problem of potentially financing uneconomic ventures);
 - accelerated depreciation
 - export credit insurance (sharing of risks, facilitating provision of export credits by commercial banks);
 - duty drawback or exemption (in order not to artificially inflate costs).
- e) Government marketing assistance and other services:
- collection and dissemination of foreign-market information and the implementation of foreign-market surveys;
 - export publicity and exhibition abroad;
 - training of export management;
 - assistance with design and packaging;
 - quality control of exported goods;
 - awards for export performance.

Very effective, especially for initial stages of exports.

3. Recommendations

3.1 The Framework

- a) A new export incentive scheme for Fiji should fulfill the following criteria to a maximum extent possible:
- the criteria and guidelines for granting the concessions should be as simple and concise as possible to be clearly understood by the investor;
 - the investor should be able to calculate in advance the amount he will receive;
 - the scheme should be easy to administer;
 - the scheme should be geared mainly at motivating manufacturers to export and assisting them in the starting period;
 - the scheme should reward use of local material to maximize the national benefits accruing from exports.
- b) Basic features of the new system:
- based on tax format;
 - use of three categories based on value added/DP8 priorities to simplify application and procedure.
- c) Categories used (also to be applied for other incentives):

Category A:

- local value added over 50%; or
- priority A industry
 - . industry based on local primary commodities;
 - . industry producing inputs required by primary and other sectors; or
- labour intensive industry (certain ratio of labour to initial fixed capital investment - threshold yet to be fixed); or
- cottage and small scale industry (4-5 employees; \$50 - 100,000 initial fixed capital investment).

Category B:

- local value added 30% - 50%; or
- priority B industry
 - . industry based on imported raw material producing essential items for domestic market (excl assembly-type industry, blending, etc.)
 - . export-oriented industry (over 50% of output);

Category C:

- priority C industry
 - . industry based on imported raw materials producing non-essential items.
- assembly type, blending industry.

3.2 Proposed Incentives

a) Export performance incentive:

A modification of present system is suggested: different company tax rates for the different categories:

Category A : Tax free
Category B : 5%
Category C : 25%

Duration : 8 years (at any time after the end of the tax holiday period).

Export profits are to be determined on the basis of total export sales divided by total sales of all products and by applying that fraction to total profits of sales.

Local value added should include the total value of locally produced goods regardless of their imported content to encourage use of local inputs.

Special relief for timber can be maintained.

b) Export market development incentive:

Tax credit of 75 cents out of each \$ of eligible expenditure for export promotion overseas:

- . overseas market research;
- . advertising or other means of soliciting business;
- . cost of brochures, pamphlets or similar produced primarily and principally for overseas distribution;
- . training in Fiji of independent overseas agents, buyers, or similar for the purpose of promoting export sales;
- . fares incurred on relevant overseas travel;
- . communication costs;
- . cost of establishing and maintaining a permanent overseas sales promotion representative.

In loss situation, a cost refund will be given.

Duration:

- Category A : 5 years
- Category B : 4 years
- Category C : 2 years.

- c) In combination with the above tax credit, a "soft" loan scheme should be introduced to be handled by FDB. Amounts received under this scheme will not be taken into account when calculating the tax credit. Applications should only be possible for the same period as the tax credits.
- d) Government marketing assistance should be expanded on the existing lines as and when the need arises, eg., installation of commercial attaches abroad.
- e) An award for good export performance should be introduced.
- f) Operation of an export payment insurance with the Australian or New Zealand scheme should be investigated.
- g) The duty drawback should be maintained in its present form.

NB

For the general review of concessions a training subsidy will be proposed available to all industries.

APPENDIX IIB

NOTE

Please note that the review of export incentives has been dealt with separately and only the recommendations on export incentives have been included in this paper.

0. SUMMARY

The Present Incentive Scheme

At present basically the following tax incentives and duty concessions are granted:-

- a) Income tax concession
- b) Carry-forward of losses
- c) Accelerated depreciation on plant and machinery
- d) Fuel economy investment allowance
- e) Export incentive
- f) Import duty concession on plant and machinery
- g) import duty concession on raw materials and components not available locally
- h) Duty draw-back on inputs re-exported after processing
- i) Protection through licensing and tariffs.

Additional incentives are available for certain agricultural projects, hotels, mining industries and industries in Vatukoula. A cash grant is available to hotels.

In addition, Government assistance has been given by developing industrial estates, infrastructure, training institutes, pilot industries, loans from the Fiji Development Bank and the establishment of the Economic Development Board.

Various criticism has been raised, as summarized in DP8:

"The package of incentives offered to date, however, hardly differentiates between different industrial sectors. Further, there were no quantitative criteria which differentiated between different levels of economic contributions made by various industries. The lack of any quantitative criteria for evaluating submissions for incentives introduces three particular problems. First, investors have no way of knowing whether they are eligible for incentives and if so, which particular incentives; second, the procedure of consideration for incentives results in inefficient and inconsistent implementation of the incentive scheme; and third there is no incentive within the scheme for increasing contribution in terms of value added, regional dispersal or increasing local participation".

Objectives of the Review of Incentives

From the above and from other DP8 statements the following objectives emerge:

- a) Reformulate the structure of incentives in view of the need to guide the pattern of industrial development along desirable lines, ie., DP8 objectives, and to assist industries in initial stages of establishment; main industrial DP8 objectives are employment creation, encouragement of resource-based and export-oriented industries, decentralisation.
- b) Formulate clear guidelines, preferably quantitative criteria to determine the quantity and type of Government assistance to be given; this should remove problems in the decision-making process, ensure consistency in the implementation and facilitate private sector investment.

Evaluation of the Effectiveness of the Present Incentive Scheme

From the theoretical observation on concessions it appears that:

- a) Fiscal incentives have only a limited effectiveness in attracting overseas capital and in channelling investment according to national objectives, incl. regional decentralisation. Fiscal incentives should, therefore, preferably be restricted in favour of non-fiscal incentives; fiscal incentives should at least not be extended.
- b) The tax concession scheme has more advantages than a grant and loan scheme and should, therefore, in general be adhered to in Fiji. In some cases where assistance is needed for pre-investment stages and high priority areas, a Government-backed loan scheme may be justified; these loans can be converted into grants at a later stage provided certain criteria are met.
- c) Concessions should be restricted to the starting period wherever possible.
- d) The present income tax concession, the accelerated depreciation and the import duty concessions on machinery tend to favour capital-intensive projects; more emphasis should be put on employment creation.
- e) The present tariff structure is of a protective nature by levying higher rates on finished products as compared to inputs.

The development of the manufacturing sector shows that:

- a) GDP and employment share of the manufacturing sector in relation to the whole economy has not increased for at least one decade, while unemployment has been increasing; further stimulation of the manufacturing sector is, therefore, needed.
- b) The scope for import-substitution industries is decreasing; opportunities still exist, but mainly for smaller ventures. Export sales are low but have shown first encouraging results; dependency on foreign raw materials, however, has increased and the local value added has decreased. Use of local material/resource-based industries should be encouraged, but the high dependency on foreign inputs can be changed to a limited extent only. Duty concessions are, therefore, likely to be necessary for at least some of the existing industries.
- c) The Fijian industry is relatively capital intensive; labour has a high educational standard but lacks trade skills: in addition labour costs are high.

Trade skills should be upgraded to improve international competitiveness and to enable penetration into specialized, high quality markets. A relatively high capital intensity is required in particular, for export-oriented industries to ensure international competitiveness but labour-intensive industries should also be encouraged.

Main problems stated by the investors are:

- a) The small domestic market, strong foreign competition and insufficient Government protection. Export has to be encouraged further, and effectiveness and competitiveness must be ensured.
- b) Energy cost; alternative energy sources should be investigated continuously.
- c) Lack of skilled labour and high wages. Required trade skills have to be improved and relative capital intensive equipment is needed, especially for the export market.
- d) Duty rates; duty concessions can, consequently be cut down to a limited extent only.

Regarding the use and cost of concessions:

- a) Duty concessions have been used by far the most. This backs the above finding that they can be cut down to a limited extent only.
- b) Export incentives have been used to a limited extent only. With the thrust to exports, these should be made more attractive.
- c) Government revenue foregone is not extremely high, but customs revenue has relatively decreased and with 7% of revenue foregone has reached a level that might be considered critical. A substantial share of concessions is given for incentives favouring capital intensive projects, import substitution and hotel development which are not coinciding with DP8 objectives. Government revenue in general, especially on duty concessions for machinery and on accelerated depreciation should be contained; the system should be restructured to meet DP8 priorities.

The procedure and guidelines:

- a) Result in a majority of minor applications (mainly duty concessions for machinery) going through the BDC, which should be cut down in future.
- b) Leave considerable scope for discretion and involve the danger of inconsistent decisions and of eroding the system. Clear guidelines should be established and the scope for discretion should be minimized.

In some instances, especially regarding duty concessions and capital-intensity, a compromise between opposing needs has to be found.

Criteria for the New Incentive Scheme

General criteria for the incentive scheme:

- a) The incentive scheme should be consistent and simple.
- b) The scheme should be based on clear guidelines and minimize discretion.
- c) The scheme should involve a minimum of bureaucratic procedure, i.e., a high degree of automaticity.
- d) The system should be easy to administer.
- e) Incentives should be restricted at assisting in the starting period wherever feasible.
- f) The scheme should be attractive from a promotional point of view.

APPENDIX III

PROJECT IDENTIFICATION AREAS

- Cement
- Metal
- Tanning leather
- Shoes
- Pharmaceuticals (ointments, tinctures)
- Chemicals for seawater
- Rubber production (tubes, tyres)
- Used oil regen
- Plastic (re-cycling)
- Pencils
- Lime production
- Wooden toys
- Tourism in Monasavu
- Cocoa processing/Chocolate production
- Wine from Tropical fruits
- Yeast
- Animal feed from yeast
- Plastic stationery items
- Tents, sails, other canvas products
- Car number plates, street plates
- Small engineering workshop
- PVC tiles
- Cardboard
- Shell buttons
- Ship repair facilities
- Tooth brushes
- Glucose

More specific criteria should relate to DP8 objectives and to findings on the effectiveness of the present incentive scheme.

The main criterion should be:

Employment creation:

- a) Especially for young people.
- b) Encourage labour-intensive industry wherever feasible.
- c) Improve trade skills.

Other important criteria are:

- a) Increase of local value added:-
 - use of local resources/clear preference for priority A industries;
 - reduce dependency on foreign inputs, especially on raw materials and components.
- b) Ensurance of international competitiveness:-
 - provide assistance to acquire modern, if necessary capital-intensive equipment, especially for export-oriented industries;
 - reduce cost factors like duty and energy rates;
 - upgrade skills in order to relatively reduce wages.
- c) Creation and saving of foreign exchange:-
 - reduce import of inputs;
 - increase exports, especially for resource-based products and of production lines with over-capacity.
- d) Assistance to small scale industry:-
 - provide assistance especially suited to the needs of the small scale, and possibly the local industry.
- e) Government revenue and assistance:-
 - contain Government expenditure, especially on duty concessions and on accelerated depreciation;
 - increase non-fiscal concessions.

Compromises are needed for opposing criteria, especially regarding duty concessions and capital-intensive industries.

RECOMMENDATION

Criteria for Appraising Applications

A categorization based on DP8 industrial priorities combined with local value added and other important DP8 objectives is suggested:

Category A

- local value added 50% or more; or
- priority A industry:-
 - . industry based on local primary commodities;
 - . industry producing inputs required by primary and other sectors; or
- labour-intensive industry (up to \$4,000 initial investment for plant and machinery per employee); or
- cottage, and small scale industry (4 employees and up to \$50,000 initial fixed capital investment)
- hotels.

A sub-category A_s should be made for individuals (incl. unpaid family members) and co-operatives, engaged in priority A industries.

Category B

- local value added between 30% and 50%; or
- priority B industry:
 - . industry based on imported raw material producing essential items for domestic market;
 - . export-oriented industry (over 50% of output).

Category C

- priority C industry
 - . industry based on imported raw materials producing non-essential items
- assembly-type, blending industry, etc., (excluded from other categories).

The company can opt for the criterion most advantageous to it.

Concerning the computation of the local value added, this should include the total value of locally produced products regardless of their imported content to stimulate use of local products.

Prior approval by BIDC should be maintained, until the findings of the study on "Duplication of Industries" are available.

The Committee has to be satisfied that the project is viable, which includes, that the market is large enough to support the venture.

Incentives Proposed

The proposed incentives are basically a modification of the present system. The changes put more emphasis on employment, resource-based industries, export-oriented industries, small scale industries (which partly coincides with rural industries).

Assistance in the form of feasibility studies, training, infrastructure and finance for small ventures is also suggested.

a) Income Tax Concessions

A modification of the present income tax concession is proposed.

The concession should be maintained as an exemption on chargeable income from income tax being the equivalent of:

- 5% of gross wages paid for local employees and;
- 10% of approved training costs, and of gross wages paid for local employees of up to 24 years.

The duration will vary according to categories:

A : 5 years

B : 3 years

C : No income tax concession granted.

Category A will be given an exemption from income tax for 5 out of the first 10 years.

The income tax concession is coupled with a carry-forward of losses up to 6 years after the tax concession period. No time limits will be imposed for Category A industries.

b) Accelerated Depreciation

Accelerated depreciation should be maintained in its present form. But the term "expedient for the

economic development in Fiji should be interpreted as referring only to:

- Category A firms and
- Export-oriented firms falling under Category B.

A hire-purchase system should be introduced for Category A_s industries.

c) Fuel Economy Relief (and related)

A deduction of 100% of expenditure incurred at will be permitted for any expenditure aimed at reducing consumption of electricity, fuel oil or its derivatives.

The Economic Development Board should employ a technical engineer who can advise investors on machinery and on energy conservation.

A more general approach, however, seems to be warranted. Discussions with the Ministry of Energy and Mineral Resources and with Fiji Electricity Authority should be intensified with a view to strengthen the programme on energy conservation and on alternative energy sources.

d) Export Incentives

The present export incentive is modified to the new Export Performance Incentive.

This is given as an exemption from income tax on export profits for a duration of:

- 8 years for Category A industries
- 6 years for Category B industries
- 3 years for Category C industries

A new Export Market Development Incentive will be introduced. This incentive will be given as a grant for up to 75% of relevant promotional expenditure which will be administered by EDB. The duration will be

- 5 years for Category A industries
- 4 years for Category B industries
- 2 years for Category C industries

e) Import Duty Concession

Import duty concession on machinery as well as on raw materials and components should be given as an exemption from fiscal duty for the income tax concession period. No time limit will be imposed for Category A_s.

| TYPE OF INCENTIVE | DESCRIPTION OF INCENTIVE | As | CATEGORY | | |
|-------------------------------------|---|---|--------------------------|--|---------------------|
| | | | A | B | C |
| Income tax Concession | Tax exemption of equivalent to 5 - 10% of wages and salaries paid to local employees (5% normal; 10% training, young people, combined with carry forward of losses after tax concession period) | 5 out of first 10 years income tax exemption unlimited | 5 years unlimited | 3 years 6 years | - |
| Accelerated Depreciation | Tax allowance on building, plant and equipment (20%) for any 5 of the first 8 years | Available or Hire-purchase system | Available | Available for export-oriented industries | - |
| Fuel Economy Relief | Depreciation of expenditure incurred for energy saving at will | available, unlimited | Available Unlimited | Available mited | Available Unlimited |
| Export Performance Incentive | Income tax exemption on export profits | 8 years | 8 years | 6 years | 3 years |
| Export Market Development Incentive | Grant for promotional expenditure of up to 75% | 8 YEARS | 5 years | 4 years | 2 years |

| TYPE OF INCENTIVE | DESCRIPTION OF INCENTIVE | C A T E G O R Y | | | |
|--|--|--------------------------|--------------------------|-----------------------------------|---------------|
| | | A _s | A | B | C |
| Duty concession on machinery | Duty concession (exemption from fiscal duty) | No time limit | 5 years | 3 years | - |
| Duty concession on raw material and components | Duty concession (exemption from fiscal duty) | No time limit | 5 years | 3 years | - |
| Duty drawback | Duty drawback on duty paid on inputs re-exported after processing | Available; No time limit | Available; No time limit | Available; No time limit | No time limit |
| Government loan Guarantee | Government guarantee of 80% of loans for investors not able to meet security requirements | Available | Available | - | - |
| Grants | Grants for cost of: - feasibility studies - infrastructure development in rural areas - training purposes | 95% of cost | 50% of cost | - | - |
| Protection | Licence & tariff protection | Available | Available | Only in cases of dumping evidence | |

Ministries of Employment and Youth, FNTC, manufacturers and other organisations involved in training should be intensified with a view to strengthen professional training, especially for:

- a) young, unskilled and unemployed people.
- b) trade skills, science, engineering, economics/management.

