

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2000-2002)**

REPUBLIC OF THE FIJI ISLANDS

December 1999

CURRENCY EQUIVALENTS

(as of 30 November 1999)

Currency Unit	—	Fiji Dollar (F\$)
F\$1.00	=	US\$0.50
US\$1.00	=	F\$1.99

ABBREVIATIONS

ADB	—	Asian Development Bank
FRUP	—	Fiji Road Upgrading Project
GDP	—	Gross Domestic Product
POHQ	—	Pacific Operations Division
SPRM	—	South Pacific Regional Mission
TA	—	Technical Assistance

NOTES

The fiscal year (FY) of the Government ends on 31 December.

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank for the Republic of the Fiji Islands covering the three-year period 2000-2002. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 1999, in close consultation with the Government of the Fiji Islands, and other stakeholders. The CAP was discussed with the Board of Directors in October 1999 and has been revised by the ADB to incorporate recent developments. The assistance plan described in the CAP is only indicative and may be revised to reflect future developments.

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REPUBLIC OF THE FIJI ISLANDS

I. Country Performance Assessment

A. Recent Political Developments

1. A new government was elected in May 1999 under a new Constitution that provides for political representation from all ethnic groups in the country. The elections resulted in a landslide victory for the previous opposition party grouping.¹ The parties in the new government had announced a number of new policies and measures in their election manifesto. These policies prioritize attention to improving peoples welfare and securing employment, improving governance, supporting the rehabilitation of the sugar industry, resolving the renewal of land leases under the Agricultural Landlord and Tenants Act, and encouraging private sector development.² A mini budget is proposed for submission to Parliament later in 1999 and until this is presented it is very difficult to gauge how the government will prioritize its new programs. The country program was initially prepared in February 1999 and revised with the assistance of the new Government in June. New government policies remain to be more fully developed and next year's country program will be much more determinate.

B. Economic Performance Assessment

2. The Fiji Islands economy experienced negative growth for the second year in succession in 1998 at -3.2 percent. This was largely due to the effects of a drought on sugar production and reduced gold production. Prospects for 1999 are better with growth projected at around 7.4 percent.³ This improvement in the economy must be set against longer-term trends. The growth rate in real gross domestic product (GDP) per capita in the first decade after independence was close to zero, and from 1987 to 1996 averaged 1.9 percent per year. Although the latter performance is a marked improvement over the earlier period, it is still barely sufficient to provide for the growing needs of an expanding labor force. It is considered that labor force growth rate of 5 percent per annum is required to absorb new entrants, assuming no growth in public sector employment.⁴

3. In 1998, agricultural production was mixed though weak overall as drought-related problems in the sugar industry resulted in a large fall in the output of sugar, which, at some 255,703 tons was the lowest in more than 30 years. Sugar production is set to recover in 1999 and other agricultural output such as copra and *yaqona*,⁵ is expected to increase. Gold output fell by around 21 percent in 1998 from 1997 levels but production is also expected to recover in 1999. The commencement of mahogany logging will increase the output of the forestry sector in a sustainable manner in 1999. The non-sugar manufacturing output increased in 1998 mainly as a result of strong growth in garment industry production. Tourism also performed well in 1998 with visitors increasing by some 3.5 percent over 1997 levels. Tourism

¹ Fiji Islands Labour Party, Fijian Association Party, and the Party of National Unity.

² The Peoples' Coalition. Strategies for a Better Future. 1999.

³ Reserve Bank of Fiji Islands Press Release No: 2/99. 3 May 1999.

⁴ Reference: the chapter on Labor Markets and Economic Growth in *Improving Growth Prospects in the Pacific*. Pacific Studies Series. ADB 1998.

⁵ *Yaqona*, better known as *kava*, is Fiji Islands' national drink. It is made from the pulverized root of a member of the pepper family, *piper methysticum*.

growth was largely due to increased marketing and improved price competitiveness as a result of the devaluation of the Fiji Islands dollar.

4. In January 1998, the exchange rate of the Fiji Islands dollar, which is linked to a weighted basket of currencies of the country's main trading partners, was devalued by 20 percent. The average annual inflation rate increased to 4.9 percent in 1998 from 3.4 percent in 1997. The moderated rate of inflation was partly due to subdued wage increases at around 3 to 4 percent in 1998 but continued increases in public sector remuneration and a recent increase in garment industry wages is likely to inflate prices. The real effective exchange rate rose by some 7 percent following the devaluation in January.

5. Domestic liquidity remains relatively high with commercial banks holding well over double the liquid assets required by the Reserve Bank of Fiji Islands (RBF). The RBF eased some of the restrictions on overseas accounts and investments with a view to easing excess liquidity. The persistently high levels of bank liquidity reflect a structural problem. The excess liquidity amounts to idle capital that should otherwise be contributing to growth. Interest rates eased, with lending levels falling from around 11 percent in 1997 to 9 percent in 1998. Private sector investment was lower in 1998 than the depressed levels of 1997 when the private investment to GDP ratio was 4 percent, and the public investment ratio was 7 percent. While lending to the construction and tourism industries increased in 1998, lending to other sectors has either been stagnant or fallen. Lending to agriculture fell by 19 percent up to November 1998.

6. The budget balance in 1998 improved from a deficit of 6.5 percent of GDP in 1997 to 3.4 percent in 1998. However, if adjustments are made for one-off expenditures in 1997 arising from the rehabilitation of the National Bank of Fiji Islands, and for 1998 privatization receipts then the underlying balance deteriorated. It is estimated that the increase in total government expenditure, excluding debt repayment, outstripped the increase in total revenue by 11.0 percent to 5.9 percent in 1998. Budget deficit is forecast to increase to 5.6 percent of GDP in 1999. Levels of public investment are low in comparison with recurrent expenditures with revised operating expenditures some 82 percent of total government expenditure spread over some 50 ministries in 1998. Government debt rose by two percentage points to 45 percent of GDP in 1998. Total public sector debt was some 15 percentage points higher.

7. The balance of payments moved into a surplus in 1998, because of a turnaround in the capital account that outweighed a current account deterioration from a surplus of 0.7 percent of GDP to a deficit of 4.1 percent of GDP. The balance of payments position remains strong with a surplus forecast for 1999. As of 3 May 1999 foreign exchange reserves stood at over F\$800 million (US\$400 million), equivalent to 4.5 months of imports of goods and non-factor services. The external debt service ratio rose from 1.4 percent in 1997 to 2.2 percent in 1998, and the ratio of external debt to GDP rose from 6.6 percent to 8.8 percent.

8. The economy continues to operate at levels below capacity. Continued fiscal deficits and the size of the public debt remain a concern. This calls for greater attention to prioritized government expenditure. Restoring private investor confidence is also a priority, and the renewal of land leases needs to be resolved. The future of the key sugar and textiles industries depends on their ability to adjust to declining preferential trade agreements. A consistent economic policy framework is needed with respect to the improved management of prioritized public finances, the pursuit of competition under an improved regulatory framework,

and the security of all properties including land leases. The President's address at the opening of Parliament on 15 June supports the need to address these areas of policy.¹

9. Although the new government's policies remain to be more fully developed, early policy statements stress the need to improve rural infrastructure, including roads, and other public services in support of the agriculture sector and rural development. The Government has also stressed the need for improved public services in urban areas. With reference to public sector management and public finances, the Government is firm in its commitment to improved governance, accountability, and transparency in contrast to earlier weaknesses. Government seeks to maintain the public debt at manageable levels, recognizing that debt management needs to be improved. Government is reversing prior efforts to privatise public enterprises stressing the need for improved commercial operations of existing entities. Public expenditures and revenues are to be increased in support of the Government's social policy agenda. Government well recognizes the problems of the sugar industry, most especially the need to resolve the impasse over the renewals of land leases.

C. Assessment of Socio-Environmental Performance

1. Poverty Issues

10. There is concern about the rising level of poverty in Fiji Islands.² Poverty alleviation and social development is a high priority of Government. A 1991 survey by the Government's Poverty Task Force showed that the number of people living at or near the level of poverty is increasing. Drawing on data from the 1990-1991 Household Income and Expenditure Survey the Fiji Islands poverty report³ estimated that a quarter of households in the Fiji islands were poor and a further 20 percent were in constant danger of sliding into poverty should their circumstances change. While the most intense poverty is found in urban areas, the greatest number of people living in poverty occurs in rural areas. The poor in urban areas mostly live in densely populated, low-cost housing developments and squatter settlements. In the capital city of Suva, up to 25 percent of households are estimated to live in informal settlements and fringe villages. The problem of urban poverty is closely linked to employment opportunities in the public service and manufacturing industries which attracts people from the rural areas to cities and towns. As a result, more than 40 percent of the country's population are now living in urban areas. Fiji Islands has experienced difficulties in designing programs that succeed in directly assisting the poor. The new Government is, however, expected to give much stronger priority to poverty alleviation.

2. Gender Issues

11. Women are relatively disadvantaged in terms of securing education, jobs, developing enterprises, and support of the law. Although women's participation in the workforce has increased, they are mainly concentrated in lower paid, lower level jobs. There has also been an increase in domestic violence faced by women and children. A 1994 report by the Ministry of Education, Women and Culture, Science and Technology, supported by the Asian

¹ His Excellency the Rt. Hon. Ratu Sir Kamisese Mara GCMG, KBE, CF, KStJ, MSD, President of the Republic of the Fiji Islands. Address at the Opening of Parliament. 15 June 1999.

² Prof. V. Naidu, Fr. K. Barr, Dr. K. Senioli, R. Lee. Fiji Islands' National Poverty Alleviation and Eradication Strategy. Draft Report. 1999.

³ 1997. *The Fiji Islands Poverty Report*. Government of Fiji Islands, United Nations Development Program.

Development Bank (ADB), provided a comprehensive statistical profile on women in Fiji Islands.¹ The Government recognized the need to further improve the involvement of women in the development process and launched the Women's Plan of Action 1999-2008 in October 1998. Key objectives include mainstreaming women's and gender concerns, reviewing laws affecting women, developing women's micro-enterprises, increasing women's participation in all levels of decision-making, and promoting an environment free of domestic violence, sexual harassment and child abuse. An inter-ministerial co-ordinating committee was set up to implement and monitor the Women's Plan of Action.

3. Human Development

12. Human development and the strengthening of social safety nets is a priority of Government. At the time of the last census in 1996, Fiji Islands' population was estimated at 803,000 people. At that time, about 46 percent were indigenous Fijians, 49 percent were Fijian Indians, and 5 percent from other ethnic groups. Population growth amounts to about 1.1 percent per year. The UNDP Human Development Index ranks Fiji Islands in the "medium human development" category. Infant mortality rate is low at 18.3 per 1,000 live births, and life expectancy is about 72 years. It is estimated that all of the population has access to safe water and 92 percent access to sanitation.

13. Although Fiji Islands is a relatively healthy country, environment and life style related primary health problems are increasing. In the rural areas the main deficiencies are in basic sanitation and poor nutrition. Urban population growth over the last census period was 2.6 percent compared with 0.8 percent for the population as a whole. Rapid urbanization has brought health problems associated with poor housing, sanitation, diet and a sedentary life style. Adult literacy is high at 85 percent and there is almost universal access to primary education. However, there is a marked discrepancy in the quality and level of education, particularly between urban and rural areas. Urbanization has also led to an undermining of traditional food security, and traditional family support, increasing problems of squatter housing, over-taxed infrastructure, congestion, pollution and increasing crime.

4. Environment

14. The last few decades have seen serious and increasing land degradation and some coastal marine resources under threat. The now extensive practice of burning sugar cane and the lack of investment in soil conservation measures as land leases fall due for renewal is of particular concern with regard to soil quality. "A concerted effort must be made to reverse this trend through the enhancement of property rights and security of land tenure, legislative reform and enforcement, providing economic incentives, and most importantly through education and public awareness."² In 1992, the Government prepared a report on the National State of the Environment and in 1993, a National Environment Strategy. The ADB TA supported the Government's effort to establish a database for natural resources, improve environmental awareness, and prepare more comprehensive legislation.³ The draft Sustainable Development Bill is currently being reviewed.

¹ TA 1964-FIJ: *Socioeconomic Database on Women*, for \$100,000, approved on 14 October 1993.

² Policies and Strategies for the Sustainable Development of the Fiji Islands: A Strategic Plan for the New Century. Fiji Islands Government.

³ TA 2180-FIJ: *Environmental Awareness, Legislation and Database*, for \$450,000, approved on 13 October 1994.

D. Governance: Sound Development Management

15. The Constitution (Amendment) Act of 1997 supported a process of national reconciliation between the major ethnic groups. Political leaders agreed to form a multi-racial government following the elections held in May this year and the elections resulted in a major swing in favor of the previous opposition party coalition. The successful conduct and stable outcome of the elections marks a major landmark in Fiji Islands' return to full democracy.¹

16. The economy is subject to some over-regulation and protectionism.² This is partly a legacy of colonial rule but it is also sustained by a large public sector with vested commercial interests of public enterprises. While well established local investors may have come to terms with this regulatory environment, it can be both confusing and discouraging to the new investor. A more open and competitive investment and trade, and a more balanced and predictable regulatory environment needs to be created. The new Commerce Act of 1998 seeks to improve the regulatory environment.

17. Government is firmly committed to improving governance, accountability, and transparency. The Public Finance Management Act promulgated in early 1999 provides for a revised government financial management system. The Act is a highly significant development which aims at increasing efficiency and accountability. A new system will be introduced under the Act which will focus on performance-based public sector management. This, among other matters, includes switching from input to output-based budgeting and the introduction of accrual rather than cash accounting throughout the Government.

E. Asian Development Bank Assistance: Implementation Assessment

1. The Portfolio

18. Since 1970, thirteen loans have been approved by the ADB amounting to \$161.1 million. They include four road upgrading loans, three power sector loans, three agricultural and natural resources loans, two development bank loans, and one low-income housing development loan. The ongoing loan program consists of the *Fiji Islands Road Upgrading Project* (FRUP) II and FRUP III road upgrading projects. Completion of FRUP II and commencement of FRUP III were delayed by one year awaiting the completion of one road section.

19. Since 1970, 59 TAs have been approved totaling \$16.5 million. Many of the TAs assisted the lending program financing sector studies and development plans, and institutional development. The ADB continues to be involved in helping to improve the policy framework in key sectors such as agriculture³ and transport.¹ More recent TAs focus on other aspects of the

¹ As the President stated in his address at the opening of Parliament, 15 June 1999, "The General Election has been a triumph of the democratic process."

² Over-regulation and protectionism is apparent in the remaining restrictions on the holding of foreign exchange, reserving certain industries for domestic investors under the proposed foreign investment bill, a reliance on extensive tax incentives to induce investment, and complex and protracted systems of investment approval.

³ TA 2681-FIJ: *Management of the Strategy for Agricultural Growth*, for \$600,000, approved on 6 November 1996.

policy reform agenda including public enterprise reform² and capital market reform.³ Other advisory TAs support the implementation of public financial management reforms, preparation of an economic report, strengthening the economic policy 'think tank,' corporatization of water and sewerage services, targeting public investment in support of major tourism developments, environmental management, vocational training and assistance with the development of an improved investment regulatory environment. The urban sector strategy study commenced in 1999.

2. Issues in Project Implementation

20. Project performance audit reports and project completion reports highlight the need to (i) take adequate account of socio-cultural issues, (ii) ensure adequate capacity building, and (iii) provide flexibility in project design to allow for necessary adjustments. Counterpart funds are generally well budgeted for but their release has sometimes been late. Performance monitoring at the level of the line Ministries should be strengthened. Project related financial audits have largely been kept up-to-date although a few audits have been delayed.

21. Most TAs have generally been well implemented. FRUP III-associated TAs, which support important improved sector policies of sector reorganization and road safety have been delayed in implementation. Sector funding has not been satisfactory and the Government's intention to establish a cost recovery policy has not yet been implemented. An ADB Transport Sector Review Mission will examine these issues with Government in October 1999.

II. Country Operational Strategy

22. Although the economy is recovering from the recent recession, certain economic problems need correcting. These are:

- (i) adjusting to the decline of trade preferences, most especially with respect to the sugar and textiles industries, and preparing a more competitive economy where property rights and land tenure are secured thus stimulating increased private investment in support of job and income creation;
- (ii) reducing the size of government and public debt, prioritizing public sector services, continuing public enterprise reform and generally improving governance;
- (iii) generating the skills needed for economic growth; and
- (iv) reducing the unsustainable rate of growth of the urban population.

23. A gradual shift in emphasis in the ADB's operations and operational approach is proposed.⁴ The proposed shift in emphasis is from an almost exclusive emphasis on project

¹ TA 2747-FIJ: *Road Sector Cost Recovery Improvement*, for \$100,000, approved on 7 January 1997. TA 2850-FIJ: *Road Sector Reform and Safety Improvement*, for \$1.4 million, approved on 26 August 1997.

² TA 2399-FIJ: *Institutional Strengthening of the Fiji Islands Electricity Authority*, for \$450,000, approved on 19 September 1995, and TA 2621-FIJ: *Corporatization of the Water and Sewerage Section of the Ministry of Public Works, Infrastructure and Transport*, for \$600,000, approved on 30 July 1996.

³ TA 2680-FIJ: *Capital Market Development Authority*, for \$600,00, approved on 5 November 1996, is providing expertise for the institutional development of the Authority.

⁴ Reforms inherited from the previous government included the establishment of the Capital Market Development Authority in 1996, the Commerce Act of 1998, the Foreign Investment Act of 1999, the Public Finance Management Act of 1999, and the Banking Inquiry.

and sector-based infrastructure lending and related policy and institutional issues to a program that provides greater attention to the above economic problems. This will be achieved through broad-based sector development program lending and advisory TA. Although the full extent and nature of the new government's policies is being established as the government's election manifesto is being implemented the government's early public pronouncements support the proposed change of focus in the ADB's program. An issue-oriented and forward looking Pacific island economic report (PIER) series on Fiji Islands, currently under preparation, will underpin the proposed new focus. The PIER will also lead to an update of the ADB's strategy for Fiji Islands during the latter part of 1999.

24. The ADB's program for Fiji Islands will be further guided by two specific requirements. First, institutional strengthening is required, most especially in key central and line Ministries. Second, public asset and investment management need to be strengthened.

III. Sector Strategies

A. Agriculture and Agro-Industry

25. The ADB has offered to assist the restructuring of the sugar industry in support of the Sugar Industry's Strategic Plan.¹ This intervention would aim to improve industry-wide resource allocation, efficiency, and sustainability so that it may continue to contribute to the economy. A Sector Development Program which would address both structural adjustment needs and their social and other costs as well as provide investment for modernizing and upgrading infrastructure, plant, and equipment may be appropriate. While, the government has prioritized assistance to improving the efficiencies of the sugar industry, it has not yet confirmed the ADB's involvement in the sector. This potential assistance will be reviewed during the 2000 CPM.

B. Infrastructure

26. The new government has called for increased capital investment in upgrading infrastructure. The ADB will continue assistance in infrastructure development. Although the ongoing land transport and utilities (improved water and sewerage) program will continue under the current country program, future urban infrastructure investments will be planned under the framework of the urban sector strategy which is to be prepared under ADB TA in 1999 (see below). Future rural infrastructure investments may also be planned under the framework of the proposed loan in support of sugar restructuring and possible assistance to targeted tourism development.

¹ Sugar Industry Strategic Plan. *Changing Attitudes. Implementing "Best Practice" for a new World in Trade.* Sugar Commission of Fiji Islands. 1997.

C. Social Infrastructure

1. Urban Development

27. As mentioned in paragraph 11 above, urban development issues and constraints are becoming increasingly apparent in Fiji Islands and are receiving priority Government attention. A project for improving the Water Supply and Sewerage system in the densely populated Suva-Nausori area is under preparation with the loan programmed for 2000. The ADB will also assist Fiji Islands to formulate an appropriate policy and institutional framework and overall strategy for the modern management of the country's expanding urban sector. The strategy will address poverty alleviation, improved provision of economic infrastructure and social services, private sector and community participation, availability of land, and appropriate environmental controls. Accordingly, a TA for the preparation of an urban sector strategy study in 1999,¹ will be implemented over the next year. A sector-based loan, to be developed after completion of the study, is in the 2002 lending program. This compilation of ADB interventions will assist the government in addressing its priority policy objectives in support of affordable housing, assured public services, improving local government, and alleviating urban poverty.

2. Environment

28. An advisory TA proposed for 2001 will help Fiji Islands to further strengthen environmental management and training. Environment issues will also be significantly addressed within the framework of the ADB's proposed urban development program.

D. Governance Dimensions of Asian Development Bank Operations

29. In late 1999, the ADB has provided assistance for an independent review of the new Public Finance Management Act. Follow capacity building assistance related to the gradual implementation of the Act is expected to average in 2000. The ADB will provide assistance to improve public sector and public sector financial management with technical assistance to strengthen public asset and debt management. Detailed work programs, including milestones and performance indicators which will provide for the record of performance in support of future lending levels, will also be established.

E. Gender Dimensions of Asian Development Bank Operations

30. The ADB's country program includes assistance in 1999 to the Department of Women and Culture for implementing the Women's Plan of Action. In 1999, the ADB has already provided assistance (under an earlier regional TA²) to the Fiji Islands Women's Rights Movement to study and recommend improved legislation in support of the rights of lower paid female workers. These activities will lead to greater support for women's interests and rights in both public and private sectors.

¹ TA No. (to be confirmed after TA approval).

² TA 5657-REG: *Economic and Policy Analyses in Pacific DMCs*, for \$600,000, approved on 15 December 1995.

F. Private Sector Operations

31. The ADB's overall lending and TA program is formulated in support of the Government's stated intent to give priority attention to further stimulate increased investment. The ADB is supporting a greater role for the private sector in Fiji Islands' economy through a range of TAs. These relate to improved public sector governance and financial management, the commercialization of public enterprises, greater private sector engagement in both the sugar industry and future urban management and development, and further development of the capital market. One new initiative which is to be more fully discussed with Government is the proposed targeting of public infrastructure investment in support of private sector tourism investments. Loans planned in the areas of infrastructure and transport will also help private-sector investment. The Fiji Islands private sector has benefited from the ADB's contribution to regional activities in the form of the Kula Fund, the South Pacific Project Facility, and the Foreign Investment Advisory Service.

G. Capacity Building

32. Other selected donors, most noticeably AusAID and New Zealand are heavily engaged in assisting in capacity building for the public sector and in education. The ADB's program of capacity building will complement ongoing efforts. It will focus on: (i) institutional strengthening in support of the government's policy "think tank and in the area of strategic planning;" (ii) further strengthening the policy and process of enhancing public enterprise efficiencies; and (iii) strengthening the policy framework and process of strategic urban management. Policy formulation, improved fiscal management, reduced public debt, prioritization of public services and activities, increased competition and adjustment to declining trade preferences, the restructuring of the economy, and more economic allocation of resources, are the target areas.

IV. Regional Economic Cooperation

33. Fiji Islands' priorities for regional economic cooperation are in: (i) building trading relationships within and with trade blocks outside the region; (ii) cooperative arrangements in aviation and shipping; and (iii) coordinated policies and approaches to the management of natural resources. Fiji Islands is an active member of the Melanesian Spearhead Group of countries. It benefits from regional and international preferential trade agreements with Australia and New Zealand under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), and the Lomé Agreement with the European Union. Fiji Islands is also a member and beneficiary of all the major regional organizations including the Forum, Forum Fisheries Agency (FFA), Pacific Financial Technical Assistance Centre (PFTAC), Pacific Islands Development Program (PIDP), the South Pacific Applied Geoscience Commission (SOPAC), the South Pacific Community (SPC), South Pacific Regional Environment Programme (SPREP), and the University of the South Pacific (USP).

34. The ADB is involved with the Forum Secretariat and other regional agencies in a variety of regional activities. The ADB is currently providing a regional technical assistance (RETA) through FFA to support the negotiation of a regional tuna management plan, and for fiscal management and policy advice provided through PFTAC. In the coming three years, the ADB plans to provide RETAs for: (i) analysis of financial sector issues and strategies for selected PDMCs; (ii) judicial training in collaboration with UNDP; and (iii) more effective and sustainable

coastal fisheries management. Fiji Islands is expected to actively participate in all these RETAs.

V. Donor Activities and Aid Coordination

35. The country's largest donor and the main source of multilateral aid funds is the European Union. Besides supporting the Sugar Protocol under the Lomé Convention, the European Union provides various grants, with 45 percent of the funds being allocated to human resource development. Major bilateral donors are AusAID, NZODA, and Japan. AusAID's program currently focuses on good governance and improving public investment in health and education. NZODA assistance emphasizes human resource development. The Overseas Economic Cooperation Fund (OECF) of Japan recently commenced operations in Fiji Islands with the provision of infrastructure loans. Japan also provides annual small-scale grants through JICA. Numerous other donors include the UNDP who support a variety of small-scale advisory services, and the World Bank whose lending activity is currently limited to FRUP II and technical advice in the form of a financial sector review and strengthening of the transport unit. Most donors have national and regional missions resident in Suva and they regularly meet to coordinate their aid programs.

36. The ADB is considered to be an important multilateral development bank in Fiji Islands. It is actively pursuing donor coordination. In this regard, ADB TAs requiring coordination with other donors are:

- (i) Capacity Building in support of implementing the Government's Financial Management Information System with New Zealand;
- (ii) Strengthening public asset and debt management with AusAID;
- (iii) Institutional Strengthening of the Public Policy "Think Tank" with AusAID; and
- (iv) Implementation of the National Women's Plan of Action-AusAID, Commonwealth Secretariat, New Zealand, and the UN.

VI. Cofinancing and Catalyzing External Resources

37. In 1997, the first loan from the OECF was approved for a water supply project. The possibility of OECF cofinancing for the proposed 2000 loan for upgrading water supply and sewerage systems is being explored. Cofinancing opportunities may also be available with the Agence Francaise de Development (AFD), and the European Investment Bank (EIB). AusAID is parallel financing the preparation of the economic report.

VII. Asian Development Bank's Operational Program

38. Given the above operational strategy and operational framework, it is proposed that firstly, the ADB continue to program and to prioritize sector-based infrastructure projects of approximately one per year and to continue to provide approximately \$3 million TA per annum. Secondly, it is proposed that the ADB provide priority TA to the central Ministries of Finance, National Planning and the Office of the Prime Minister to strengthen public sector policy management and implementation. The lending pipeline retains the loan in the year 2000 for water supply and sewerage systems estimated at \$30 million (PPTA consultants have been fielded). A loan in 2001 for road rehabilitation is estimated at \$25 million, and a loan is included in 2002 for urban sector development (the nature and scope of this proposal will be defined on

the basis of the 1999 Urban Sector Strategy Study TA). A loan for the rehabilitation of the sugar sector has also been tentatively included for the year 2000 for \$10 million. All loans are on OCR terms.

39. The TA program includes PPTAs in support of sugar industry rehabilitation (1999), further road rehabilitation and urban sector development (2000). Advisory TAs have been identified in support of improved public sector asset, debt, and overall financial management, improved economic policy formulation, further public enterprise reform, further assistance to the financial sector, assistance to restructuring the sugar industry, improving environmental management, vocational education, improving the investment regulatory environment, targeting public investments in support of major private tourism developments, and helping to implement the Women's Plan of Action. The ADB's proposed lending pipeline and the technical assistance program for the period 2000-2002 are summarized in Table 1.

40. Government came in to office in May 1999 and it is still very early for it to fully establish, and to start to implement its own policies and programs. The ADB's program was reviewed and revised with the new Government in June 1999. Further revisions can be expected. While the program remains very tentative at this stage, it will likely become more firm in 2000.

Table 1: Lending and Technical Assistance Program, 2000-2002

A. Public Sector Lending Program

	1998 Actual		1999		2000		2001		2002	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program ^a	-	-	1	8.2	1	35.0	-	-	-	-
ADF	-	-	-	-	-	-	-	-	-	-
OCR	-	-	1	8.2	1	35.0	-	-	-	-
Lending Pipeline ^b	-	-	-	-	-	-	1	30.0	1	30.0
ADF	-	-	-	-	-	-	-	-	-	-
OCR	-	-	-	-	-	-	1	30.0	1	30.0

B. Technical Assistance Program

	1998		1999		2000		2001		2002	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	1	800.0	11	3,366.5	8	2,140.0	-	-	-	-
TA Pipeline ^b	-	-	-	-	-	-	8	4,000.0	2	1,000.0

^a The Program is comprised of the firm projects.

^b The Pipeline consists of the Program (firm projects) and standby projects. In 2001 and 2002, there is no distinction between firm and standby.

VIII. Economic and Sector Work Program

A. Policy Dialogue

41. The scope of policy dialogue is considerably determined by the areas in which ADB assistance is provided. It includes: improved public finance management; public debt management; public enterprise efficiencies; competition and regulation; urban sector development; public infrastructure development; vocational education and training; and sugar industry reform.

42. The policy dialogue will be strengthened by the output of the PIER that is currently being drafted. The program is also expected to lead to a continued prioritization of the public services and activities, restructuring of the economy, and more economic allocation of resources.

B. Economic and Sector Work

43. The TA program for 1999 included the preparation of an economic report on Fiji Islands that will be published as part of the ADB's PIER series. The report is expected to be important in broadening the ADB's dialogue with the Government. It is also expected to lead to an update and adjustment of the ADB's operational strategy for Fiji Islands. Other economic and sector work will be carried out in 1999 with an urban sector strategy study and the enhancement of skills for employment. The Urban Sector Strategy Study is expected to address issues that are a priority for government, such as infrastructure investment needs, affordable housing, transport, zoning, waste management, municipal revenues and cost recovery, the role of the private sector in service delivery, rural-to-urban migration, and poverty alleviation.

IX. Local Cost Financing

44. Timely availability of counterpart funds and staffing are not perceived to be a problem in Fiji Islands. Fiji Islands will improve public financial management which will ensure more timely release of budgeted counterpart funds. Local cost financing by the ADB will most likely remain very limited as Fiji Islands is a category C country.

REPUBLIC OF THE FIJI ISLANDS
COUNTRY PERFORMANCE INDICATORS

Item	1994	1995	1996	1997	1998	1999 ^a
A. Income and Growth						
1. GDP per Capita (US\$, current)	3,020.0	3,127.0	3,308.0	3,333.0	...	...
2. GDP Growth (% in constant prices)	5.1	2.6	3.4	-1.8	-2.3	...
Agriculture	11.0	-3.2	1.9	-12.5	-6.1	...
Industry	3.9	1.7	6.6	-1.3	-3.0	...
Services	3.5	5.2	2.4	1.8	-0.8	...
B. Saving and Investment (current market prices)						
			(percent of GDP)			
1. Gross Domestic Investment	13.9	13.1	11	12.4	12.1	...
2. Gross Domestic Saving	10.4	12.2	13.9	12.6	10.0	...
C. Money and Inflation						
			(annual percent change)			
1. Consumer Prices (annual average)	0.8	2.2	3.0	3.4	5.7	...
2. Broad Money (M2)	2.7	4.3	0.8	-9.0	...	...
D. Government Finance						
			(percent of GDP)			
1. Total Revenue	25.9	24.7	25.0	24.6	...	...
2. Total Expenditure and Net Lending	28.8	28.0	31.0	33.4	...	...
3. Overall Surplus/Deficit (-)	-2.9	-3.3	-5.9	-8.8	...	...
E. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	-13.8	-13.8	-10.9	-17.3	-13.8	...
2. Current Account Balance (% of GDP)	-3.9	-1.1	3.5	1	-2.5	...
3. Export (\$) growth (annual percent change)	25.1	1.9	23.0	-15.6	10.8	...
4. Import (\$) growth (annual percent change)	4.6	1.6	10.1	0.3	9.1	...
F. External Payments Indicators						
1. International Reserves (million dollars, end of period)	387.8	501.1	592.9	559.3	758.5	...
- months of imports	4.3	5.2	5.1	4.8	5.8	...
2. External Debt Service (% of exports of goods & services)	8.5	5.9	...	...	...	...
3. External Debt (% of GDP)	15.5	12.6	...	...	...	...
Memorandum Items:						
GDP (current prices, million F\$)	2,672.4	2,799.4	2,975.8	3,033.1	3,172.6	...
GNP (current prices, million F\$)	...	...	...	...	...	...
Exchange Rate (F\$ per dollar, annual average)	1.46	1.41	1.40	1.44	1.99	...
Population (million)	...	...	...	...	...	...

^a Estimates

REPUBLIC OF THE FIJI ISLANDS
COUNTRY PERFORMANCE INDICATORS

	1985	1990	Latest Year
			1998
POPULATION INDICATORS			
Total Population (millions)	0.70	0.73	0.80 (1998)
Annual Population Growth Rate (% change)	1.60	1.10	0.90 (1990-98)
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	3.4	3.1	3.3
Maternal Mortality Rate (per hundred thousand live births)	86.0 (1978)	90.0 (1989)	31.0
Infant Mortality Rate (below 1 year; per '000 live births)	28.6	24.6	16.0
Life Expectancy at Birth (years)	65.3	73.2	69.0
Female	67.1	69.0	65.0
Male	63.6	71.1	...
Adult Literacy (%)	...	87.0 (1986)	93.0
Primary School Enrollment (% of school age population)	122.0	125.0	...
Female	122.0	126.0	90.0
Secondary School Enrollment (% of school age population)	51.0	61.0	36.0
Female	51.0	60.0	35.0
Child Malnutrition (% of under age 5 underweight)	...	...	8.0
Population Below Poverty Line (%)	...	...	25.0 (1990)
Income Ratio of Highest 20% to Lowest 20%	...	...	10.0 (1990)
Population with Access to Safe Water (%)	83.3 (1982)	79.0 (1988)	77.0
Population with Access to Sanitation (%)	...	92.0 (1993)	85.0
Public Education Expenditure as % of GDP	5.9 (1981)	4.7	6.1
Public Health Expenditure as % of GDP	...	...	3.0
Human Development Index	...	0.730	0.667
Human Development Global Ranking	...	71.0	101.0
Human Poverty Index	...	...	8.5
ENVIRONMENTAL INDICATORS			
Forestry			
Deforestation	...	...	...
Total Area	...	...	...
Annual deforestation	...	...	...
Biodiversity			
Nationally protected area	...	...	...
Area	...	...	...
Number	...	...	...
As % of land area	...	...	...
Biosphere reserves	...	...	...
Area	...	...	...
Number	...	...	...
World Heritage sites (number)	...	...	...
Wetlands of international importance	...	...	...
Area	...	...	...
Number	...	...	...
Land Use			
Cropland; permanent pasture	...	...	...
Air Pollution (Ambient concentrations)			
Particulates	...	...	...
SO ₂	...	...	...
Water Pollution (concentration of pollutants in water bodies)			
Biochemical Oxygen Demand (BOD)	...	...	...
Chemical Oxygen Demand (COD)	...	...	...
Global Environmental Problems			
CO ₂ emissions (total and per capita)	...	...	...

REPUBLIC OF THE FIJI ISLANDS
PORTFOLIO PERFORMANCE

Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1998)

A. Project Portfolio ^b	Net Loan Amount \$ million %		Rating (No.) ^a										
			Total No. %		Implementation Progress				Development Objectives				
					HS	S	PS	U	HS	S	PS	U	
Agriculture and Natural Resources	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance and Industry	-	-	-	-	-	-	-	-	-	-	-	-	-
Social Infrastructure	-	-	-	-	-	-	-	-	-	-	-	-	-
Transport and Communications	58.0	100.0	2	100.0	0	2	0	0	0	2	0	0	0
Others/Multisector	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	58.0	100.0	2	100.0	0	2	0	0	0	0	2	0	0

B. Disbursements ^c	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	58.00	-	58.00
(2) Disbursed amount (\$ mn, cumulative, active loans only)	17.40	-	17.40
(3) Percentage disbursed [(2)/(1)] (%)	30.00	-	30.00
(4) Disbursements (\$mn, active loans only, latest year)	0.99	-	0.99
(5) Disbursement ratio (%) ^d	2.39	-	2.39

C. Net Transfer of Resources ^e (\$ million)	OCR	ADF	Total
Net transfer in 1995	-3.71	-	-3.71
Net transfer in 1996	-4.44	-	-4.44
Net transfer in 1997	-4.39	-	-4.39
Net transfer in 1998	-4.85	-	-4.85

D. Post-Evaluated Projects	1968 - 1977		1978 - 1987		1988 - 1998		1968 - 1998			
	No.	%	No.	%	No.	%	No.	%		
1. Postevaluation Rating (as of 31 December 1998)										
Rated Generally Successful (GS)	-	-	4	100.0	2	40.0	6	66.7		
Rated Partly Successful (PS)	-	-	-	-	2	40.0	2	22.2		
Rated Unsuccessful (US)	-	-	-	-	1	20.0	1	11.1		
No Rating	-	-	-	-	-	-	-	-		
Total	0	0.0	4	100.0	5	100.0	9	100.0		
2. Postevaluation Rating by Sector 1968-88 (as of 31 December 1998)										
	GS		PS		US		NR		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	-	-	2	100.0	1	100.0	-	-	3	33.3
Energy	3	50.0	-	-	-	-	-	-	3	33.3
Finance and Industry	1	16.7	-	-	-	-	-	-	1	11.1
Social Infrastructure	-	-	-	-	-	-	-	-	-	-
Transport and Communications	2	33.3	-	-	-	-	-	-	2	22.2
Others/Multisector	-	-	-	-	-	-	-	-	-	-
Total	6	100.0	2	100.0	1	100.0	0	0.0	9	100.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

^b Excludes loans closed during the year.

^c Excludes loans closed during the year without disbursement.

^d Disbursement Ratio is defined as the ratio of the total disbursement in a given year over the net loan amount available at the beginning of the year plus the loan amounts of newly approved loans which have become effective. "Net loan amount at the beginning of the year" includes all effective loans at the beginning of the year. "Loan amounts of newly approved loans which have become effective" includes loans approved before and after the beginning of the year that have become effective after the beginning of the year.

^e Includes private sector projects for countries with private sector operations.

**REPUBLIC OF THE FIJI ISLANDS
PORTFOLIO PERFORMANCE**

**Table 2: Status of Project Implementation
Public Sector Projects Only
(As of 31 December 1998)**

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR (\$ million)	ADF (\$ million)			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objective
T&C	Loan No. 1164-FIJ Second Road Upgrading	18.00	0.00	Jun-92	Jun-93	Dec-97	Dec-98	98	18.10	17.40	S	S
T&C	Loan No. 1530-FIJ Third Road Upgrading	40.00	0.00	Aug-97	Jan-98	Jun-04	-	15	-	-	S	S
Total		58.00	0.00						18.10	17.40		

^a Sector:

- AGR: Agriculture & Natural Resources
- ENY: Energy
- SOC: Social Infrastructure
- I&F: Industry and Finance
- T&C: Transport and Communications
- OTH: Multisector/Others

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

Note: Excludes loan(s) closed during the year.

**REPUBLIC OF THE FIJI ISLANDS
OVERALL EXTERNAL ASSISTANCE**

External Source (\$ million)	Past 3-5 Years (annual average)		1998 Approvals	
	Loan/Credit	TA ^a	Loan/Credit	TA ^b
A. Multilateral Assistance				
Bank	2.4	1.7	...	0.8
World Bank	1.8	...	...	0.8
European Union	0.4	...	...	2.4
UNDP	...	0.8	...	0.4
Subtotal	4.6	2.4	0.0	4.4
B. Bilateral Assistance				
Australia	...	3.0	...	7.1
France	...	1.4	...	0.7
Japan	...	4.8	...	2.2
New Zealand	...	3.6	...	2.4
PRC	...	0.4	...	0.2
United Kingdom	...	0.3	...	0.2
Others	...	1.6	...	1.4
EXIM Bank of Japan	...	...	...	...
Japan OECF	...	...	10.2	...
Subtotal	...	15.0	10.2	14.3
Total	4.6	17.5	10.2	18.6
Memo Items:				
External Assistance as % of Current Expenditures		9.8		8%
External Assistance as % of Capital Expenditures		28.6		36%

Sources:

^a Government estimate.

^b Includes cash and aid-in-kind (i.e. materials, equipment, staff, and cash contributions which go directly to organizations or individuals without passing through the budget.)

REPUBLIC OF THE FIJI ISLANDS
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002
 (Amounts in \$ million)

Sector/Project Name	Strategic Dev't Objectives ^a		Responsible Division	Year of PPTA	PROJECT COST					
	Primary	Secondary			TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2000 FIRM LOANS										
Social Infrastructure										
1. Suva, Nausori Water Supply and Sewerage	HD	ENV	POHQ	1999	45.0	35.0 ^b	0.0	35.0	10.0 ^c	0.0
Subtotal					45.0	35.0	0.0	35.0	10.0	0.0
Total					45.0	35.0	0.0	35.0	10.0	0.0
2001 LOAN PIPELINE										
Transport and Communications										
1. Road Rehabilitation	ECO		POHQ	2000	30.0	30.0	0.0	30.0	0.0	0.0
Subtotal					30.0	30.0	0.0	30.0	0.0	0.0
Total					30.0	30.0	0.0	30.0	0.0	0.0
2002 LOAN PIPELINE										
Social Infrastructure										
1. Urban Sector Development ^d	ECO		POHQ	2000	30.0	30.0	0.0	30.0	0.0	0.0
Subtotal					30.0	30.0	0.0	30.0	0.0	0.0
Total					30.0	30.0	0.0	30.0	0.0	0.0

^a ECO = Economic Growth; HD = Human Development; POV = Poverty Reduction; WID = Women in Development; and ENV = Environmental Protection.

^b Cofinancing to be sought. Loan amount may decrease accordingly.

^c Cofinancing to be sought. Government local cost contribution may decrease accordingly.

^d To be identified under urban sector strategy PPTA

REPUBLIC OF THE FIJI ISLANDS
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2002

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
2000 TECHNICAL ASSISTANCE PROGRAM					
Finance and Industry					
1 . Debt Management	POHQ	AD	150.0	0.0	150.0
2 . FDB and Financial Services Review	POHQ	AD	340.0	0.0	600.0
3 . Institutional Strengthening of CMDA and Suva Stock Exchange	POHQ	AD	200.0	0.0	200.0
Subtotal			<u>690.0</u>	<u>0.0</u>	<u>690.0</u>
Transport and Communications					
1 . Road Rehabilitation, FRUP IV ^a	POHQ	AD	600.0	0.0	600.0
2 . Tourism Infrastructure	POHQ	AD	300.0	0.0	300.0
Subtotal			<u>900.0</u>	<u>0.0</u>	<u>900.0</u>
Others					
1 . Land Boundaries	POHQ	AD	150.0	0.0	150.0
2 . Rehabilitation of the Sugar Industry Study	POHQ	AD	250.0	0.0	250.0
3 . Strategic Planning and Development	POHQ	SS	150.0	0.0	150.0
Subtotal			<u>550.0</u>	<u>0.0</u>	<u>550.0</u>
Total			<u>2,140.0</u>	<u>0.0</u>	<u>2,140.0</u>
2001 TECHNICAL ASSISTANCE PROGRAM					
Finance and Industry					
1 . Capacity Building, Government's Financial Management Information System (Phase II)	POHQ	AD	800.0	0.0	800.0
2 . Institutional Strengthening of Public Policy Formulation (sector)	POHQ	AD	300.0	0.0	300.0
Subtotal			<u>1,100.0</u>	<u>0.0</u>	<u>1,100.0</u>
Others					
1 . Tourism Infrastructure Support Development	SPRM	PP	500.0	0.0	500.0
2 . Environmental Management and Training	POHQ	PP	600.0	0.0	600.0
Subtotal			<u>1100.0</u>	<u>0.0</u>	<u>1100.0</u>
Social Infrastructure					
1 . Implementation of Urban Management Strategy	POHQ	PP	500.0	0.0	500.0
2 . Urban Sector	POHQ	PP	400.0	0.0	400.0
Subtotal			<u>900.0</u>	<u>0.0</u>	<u>900.0</u>
Transport and Communications					
1 . Queens Road Rehabilitation and Duplication	POHQ	PP	600.0	0.0	600.0
Subtotal			<u>600.00</u>	<u>0.0</u>	<u>600.00</u>
Total			<u>3,700.0</u>	<u>0.0</u>	<u>3,700.0</u>
2001 TECHNICAL ASSISTANCE PROGRAM					
Finance and Industry					
1 . Capacity Building Government's Financial Management Information System (Phase III)	POHQ	AD	500.0	0.0	500.0
Subtotal			<u>500.0</u>	<u>0.0</u>	<u>500.0</u>
Others					
1 . Full Implementation of Urban Management Strategy	POHQ	AD	500.0	0.0	500.0
Subtotal			<u>500.0</u>	<u>0.0</u>	<u>500.0</u>
Total			<u>1,000.0</u>	<u>0.0</u>	<u>1,000.0</u>

REPUBLIC OF THE FIJI ISLANDS
LENDING PROGRAM BY TYPE AND SECTOR, 2000-2002

Classification	2000 (Firm)		2001-2002	
	No.	% ^a	No.	% ^a
By Type				
A. Economic Growth		0.0	2	100.0
B. Projects Directly Aimed at Social Concerns	1	100.0		0.0
C. Projects Directly Aimed at Environmental Concerns		0.0		0.0
D. Economic Growth-oriented Projects with Social and/or Environmental Concerns		0.0		0.0
Total	1	100.0	2	100.0
By Sector				
A. Agriculture and Natural Resources		0.0		0.0
B. Energy		0.0		0.0
C. Finance		0.0		0.0
D. Transport and Communications		0.0	1	50.0
E. Social Infrastructure	1	100.0	1	50.0
F. Others/Multisector		0.0		0.0
Total	1	100.0	2	100.0

^a rounded off

REPUBLIC OF THE FIJI ISLANDS

PROJECT PROFILE				
1. Project Name: Suva, Nausori Water Supply and Sewerage		2. Sector/Subsector: Social Infrastructure/Water Supply and Sanitation		
3. Dev. Objective: Primary: HD Secondary: ENV				
4. Rationale: Increased economic activity and population growth in Fiji's urban centers have made current water supply and sewerage services inadequate. Extension and rehabilitation of water supply systems are required in order to provide reliable services, improve the urban environment, and assist the development of commercial enterprises including tourism.		5. Beneficiary Participation in Formulation: Community leaders are being consulted, consumer surveys are being carried out, and beneficiary participation will be developed during project implementation.		
6. Objectives and Scope: The object of the project is to assist human and economic development in Fiji through the development of water supply and sewerage services in the Suva – Nausori and Sigatoka urban areas. New water sources will be developed, water treatment plants will be extended and rehabilitated, and pipelines and distribution systems will be developed; sewage pumping stations and trunk sewers will be rehabilitated, and sewerage networks will be extended. The project will provide water and sewerage services of a standard that is suitable for commercialized operation, and will complement institutional developments that are being assisted by the Bank				
7. Estimated Cost & Financing Plan (\$):			Remarks Opportunities for cofinancing are being actively sought.	
Loan Project Cost (\$m)				
Financing (Source)	FC	LC		Total
Bank	35.0	0.0		35.0
Cofinancing	0.0	0.0		0.0
Borrower	0.0	10.0		10.0
Total	35.0	10.0	45.0	
7. Estimated Benefits and Beneficiary Groups: The entire population of the Suva-Nausori and Sigatoka urban areas (about 300,000 people), commercial, industrial and tourism developments.				
9. Executing Agency: Ministry of Communications, Works, and Energy		10. Project Implementation Period: Start: 2000 End: 2006		
11. Environment Category: B		12. Processing Year: 2000		