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Fiji Islands: Update

Attached for information is a paper on the above subject.

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FIJI ISLANDS: UPDATE

1. On 5 December 2006, Commander V. F. Bainimarama of the Republic of Fiji Military Forces (RFMF) staged a peaceful military takeover of the democratically elected Government of Prime Minister, Mr. L. Qarase. Subsequently, an interim government was formed with Commander F. V. Bainimarama as the interim Prime Minister and Mr. M. Chaudhry as the interim Finance Minister.
2. Consistent with ADB's response to the coup of 2000, and its *Guidelines for Dealing with De-Facto Governments*, ADB is implementing a two stage re-engagement strategy in the Fiji Islands. Under the first stage, ADB has continued to support ongoing operations, as it ascertained that the interim government (i) is in effective control of the country, (ii) generally recognizes the country's existing international obligations, (iii) is willing and able to assume all its predecessor's obligations to ADB, (iv) is able to ensure the continued implementation of ongoing projects and programs, and (v) has duly authorized a representative for the purpose of making withdrawals.¹
3. With respect to new operations in the Fiji Islands, the criteria set forth under the second stage of the re-engagement strategy included consideration of the following: (i) whether the new loan would expose ADB to additional legal or political risks associated with the country's financial obligations; (ii) the number of countries (particularly ADB member countries and neighbouring countries) that have recognized the *de facto* government or dealt with it as the government of the country; and (iii) the attitude of the other international organizations towards the de facto government.
4. ADB is closely following the progress of the interim Government in connection with the criteria set forth in the reengagement approach and is, in turn, regularly informing its shareholders of the progress made. Situation updates were issued by PARD to the Board on 20 December 2006 and 12 January 2007 in the immediate aftermath of the takeover, and on 8 May 2007, providing a re-engagement strategy for ADB's operations. Additional updates were provided on 18 June, 7 September, and 7 December 2007, and 22 April 2008. These updates supported continuation of existing operations, but highlighted that conditions did not yet appear to exist for a full re-engagement with the interim Government.
5. At the outset, the international community condemned the takeover and demanded an urgent return to democracy. A process toward democratic elections by March 2009 was identified by the interim Government in a road map endorsed by the Pacific Islands Forum Leaders. Development partners have offered extensive technical and financial support for the electoral process. However, there are indications that the objective of holding the elections in March 2009 may have become compromised.
6. The interim Government has established a National Council for Building a Better Fiji (NCBBF) to prepare a "People's Charter for Change, Peace and Progress" (the Charter) to "*rebuild Fiji into a non-racial, culturally vibrant and united, well-governed, truly democratic nation that seeks progress and prosperity, through merit-based equality of opportunity and peace.*"² The draft text of the Charter encompasses constitutional reforms to the election system that currently allocates votes along racially designated parliamentary seats. In April 2008, the interim Government informed the international community of its concerns relating to the "undemocratic" electoral rules and of its intent to convene a national forum and bringing all stakeholders to a consensus on options to the electoral system. In June 2008, the interim Prime Minister stated

¹ ADB. 2007. *Fiji Islands: Reengagement Approach*. Manila.

² Communiqué of the Co-Chairmen of the National Council for Building a Better Fiji, TASS04-06, 15 April 2008.

that the elections would only be held once the Charter is adopted by all the stakeholders and that the military would ensure that the political party that wins the next elections would uphold the principles of the Charter.

7. During the last 2 months, senior officers of the interim Government have made successive and often contradictory declarations on the electoral process. On 21 June, the interim Prime Minister wrote to the Chairman of Pacific Islands Forum, Dr. Feleti Sevele, Prime Minister of Tonga, suspending Fiji's participation in the Fiji-Forum Joint Working Group mandated to monitor progress under the road map for elections, accusing the Joint Working Group of being "*largely influenced by Australia and New Zealand.*" Amplifying the need for a continued dialogue between the interim Government and the region's leadership, the Tonga Prime Minister responded to the interim Prime Minister's letter by requesting that the Ministerial Contact Group, appointed by the Meeting of Forum Foreign Affairs Ministers in Auckland in March 2008, be allowed to visit Fiji in July 2008 to engage with the interim Government over the pathway to democracy. On 24 June, the NCBBF issued a communiqué stating that Fiji's parliamentary democracy would be hampered by the undemocratic nature of the current electoral system and on 25 June, the Interim Prime Minister said that the "*general election will be held once all investigations into corrupt practices are completed,*" indicating that the anticorruption work of the interim Government has not been concluded. Finally, on 2 July the interim Government informed the development partners that the Electoral Donor Coordination Committee, established to discuss external assistance to the election process, has been suspended until further notice.

8. In May and June 2008, concerns reemerged regarding freedom of speech and human rights abuses in the country.³ The Fiji Sun newspaper publisher was deported on 26 February 2008 over a series of controversial articles alleging tax evasion by the interim Finance Minister; and on 2 May 2008, the publisher of the Fiji Times newspaper was deported for allegedly having violated the terms of his visa. These deportations received both local and international condemnation.

9. Notwithstanding, the interim Prime Minister and the ousted Prime Minister L. Qarase met twice in Suva in May and mid-June 2008, together with church leaders. In addition, the United Nations and the Commonwealth Secretariat have agreed to support a request of the President of Fiji to hold a nation-wide forum on reconciliation dialogue, possibly in August 2008. While the terms of reference are in the making, the forum is aimed at developing a consensus among the representatives of the interim Government, political parties, and other stakeholders on a way forward for the electoral reform recommended by the NCBBF. Many stakeholders, including several development partners, see these inter-Fijian discussions as a positive step in the effort to develop a basis for reconciliation and democracy.

10. Since the coup in December 2006, the poverty conditions in Fiji have deteriorated. In 2007 the economy contracted 4.4%, the impact of which has become visible in the first six months of 2008. While visitor arrivals have seen some recovery, tourism output remains subdued due to deeply discounted prices required to attract visitors from abroad. Commercial lending has continued its downward trend, reflecting low investor confidence. While prices are affected by global trends in food and fuel, inflation fell to 5.8% in May 2008 from 6.6% in May 2007. Finally, while official reserves at the end of May 2008 were sufficient to cover 3.8 months of imports, the external balance remains precarious in light of the deteriorating merchandise trade balance.

³ For example, the "Country Reports on Human Rights Practices - 2007" on Fiji Islands released in March 2008 by the U.S. Department of State, highlighted deteriorating human rights abuses after the military coup.

11. From a survey of the views and positions of international organizations and bilateral partners of the Fiji Islands, PARD concludes that the international community remains focused on the willingness and capacity of the interim Government to organize elections. Several development partners are increasingly doubtful of the interim Government's genuine commitment to the elections. Informal discussions among development partners in Suva suggest that the international community continues to harbor reservations over the appropriateness of undertaking constitutional changes proposed under the Charter process before parliamentary elections are held. Further, there are concerns that the Charter process outlined by the interim Government implies that elections will not be held in March 2009 as originally indicated.

12. With the continuing skepticism on the part of some of ADB's shareholder Governments towards the interim Government, PARD is of the view that the conditions set for the second stage of the re-engagement strategy (under which ADB would engage with the Interim Government in new operations) do not yet exist.

13. Consequently, ADB is not proposing a resumption of formal discussions on a new Country Partnership Strategy or new loan or TA processing at this stage. A proposal to resume full operations in Fiji Islands will follow from further evidence that the conditions for the second stage under the re-engagement strategy exist. PARD will regularly assess the conditions for new engagement, with the next assessment to be completed in September 2008. Poverty reduction will be a key consideration for defining priorities of re-engagement in new lending and non-lending operations.

14. Notwithstanding the foregoing, ADB's approved and ongoing program contains two projects that are in need of supplementary financing to reach completion. The Third Fiji Road Upgrade Project (FRUP III)⁴ and the Suva-Nausori Water Supply and Sewerage Project (SNWSSP)⁵ have suffered from cost overruns due to factors largely beyond the control of the interim Government, including the impact of rising global commodity prices. As a result, construction costs have significantly increased over the past year and the loan resources under the two projects will be utilized prior to the physical project completion. Implementation rates are currently 75% for FRUP III and 60% for SNWSSP. The project reviews, conducted over the last year, have repeatedly highlighted this situation. Failure to reach completion will mean the two projects would not be able to deliver their intended benefits to the poor, namely regular road access to mainstream markets and employment and improved access to water and sanitation services, respectively. This, in turn, carries consequences for (i) the country, in terms of deteriorating poverty conditions;⁶ and (ii) ADB, in terms of reputation risk associated with failing to reach desired development outputs and outcomes.

15. A consensus has emerged among the shareholder representatives consulted that the worsening poverty conditions call for a full resourcing of the two ongoing ADB-funded pro-poor projects. Resourcing these projects to deliver their original scope and benefits to the poor will be further discussed in the context of the regular project reviews. Therefore, ADB is proposing to review the need for supplementary resources to finance completion of these two previously approved and on-going projects to assist in reaching originally targeted pro-poor development objectives.

⁴ ADB. 1997. *Report and Recommendation of the President on a Proposed Loan and Technical Assistance Grant to Fiji for the Third Road Upgrading (Sector) Project*. Manila.

⁵ ADB. 2003. *Report and Recommendation of the President on a Proposed Loan and Technical Assistance Grant to Fiji for the Suva-Nausori Water Supply and Sewerage Project*. Manila.

⁶ Failure to reach completion would leave many Fijians in the greater Suva-Nausori areas with inadequate water and sanitation, and the villagers in the hilly areas along the circumferential King's road with an irregular and undependable gravel track to reach the main markets of the country.