



# Country Partnership Strategy

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Fiji  
2014–2018

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Asian Development Bank



## **CURRENCY EQUIVALENTS**

(as of 22 October 2014)

Currency unit	–	Fiji dollar/s (F\$)
F\$1.00	=	\$0.5135
\$1.00	=	F\$1.947

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
IED	–	Independent Evaluation Department
FEA	–	Fiji Electricity Authority
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MDG	–	Millennium Development Goal
PPP	–	public–private partnership
SOE	–	state-owned enterprise
TA	–	technical assistance
UN	–	United Nations

## **NOTE**

In this report, “\$” refers to US dollars, unless otherwise stated.

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## COUNTRY AT A GLANCE

<b>Economic</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
GDP (\$ billion, current)	2.9	3.1	3.7	3.8	4.0
GDP per capita (\$, current)	3,396.2	3,699.6	4,285.0	4,493.1	4,673.2
GDP growth (% , in constant prices)	-1.4	3.0	2.7	1.8	4.6
Agriculture	-8.1	-2.6	8.1	3.5	2.6
Industry	1.0	6.5	2.0	1.1	5.1
Services	-0.8	2.9	2.0	1.8	4.9
Gross domestic investment (% of GDP)	...	...	...	...	...
Gross domestic saving (% of GDP)	...	...	...	...	...
Consumer price index (annual % change)	3.2	3.7	7.3	3.4	2.9
Liquidity (M2) (annual % change)	7.4	4.2	14.8	6.3	15.4
Overall fiscal surplus (deficit) (% of GDP)	-4.1	-2.2	-1.4	-1.1	-2.8
Merchandise trade balance (% of GDP)	-21.9	-23.4	-23.5	-19.8	-37.3
Current account balance (% of GDP)	-4.1	-4.5	-5.7	-1.5	-18.3
External debt service (% of exports of goods and services)	2.0	1.3	12.6	1.1	1.0
External debt (% of GDP)	15.0	14.8	16.8	17.5	25.6
<b>Poverty and Social</b>	<b>2000</b>	<b>2013</b>			
Population (million)	0.8	0.9			
Population growth (annual % change)	0.6	0.3			
Maternal mortality ratio (per 100,000 live births)	72.0	59.0			
Infant mortality rate (below 1 year/per 1,000 live births)	20.6	19.1			[2012]
Life expectancy at birth (years)	67.6	69.7			[2012]
Adult literacy (%)	...	...			
Primary school gross enrollment (%)	101.4	104.5			[2011]
Child malnutrition (% below 5 years old)	6.9	[1993]	5.3	[2004]	
Population below poverty line (%)	39.8	[2003]	35.2	[2009]	
Population with access to safe water (%)	91.2	96.3			[2012]
Population with access to sanitation (%)	74.2	87.2			[2012]
<b>Environment</b>	<b>2010</b>				
Carbon dioxide emissions (tons)	1,290,784.0				
Carbon dioxide emissions per capita (tons)	1.5				
Forest area (million hectares)	1.0	[2011]			
Urban population (% of total population)	52.6	[2012]			
<b>ADB Portfolio</b> (sovereign loans, as of 31 December 2013)	<b>OCR</b>		<b>ADF</b>	<b>Total</b>	
Total number of loans	4		-	4	
Net loan amount (\$ million, cumulative)	114.36		-	114.36	
Disbursements			-		
Total funds available for withdrawal (\$ million)	114.36		-	114.36	
Disbursed amount (\$ million, cumulative)	100.21		-	100.21	
Percentage disbursed (disbursed amount/total available)	88%		-	88%	

... = not available, ( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, OCR = ordinary capital resources.

Source(s): Asian Development Outlook database and World Bank World Development Indicators database.



## I. DEVELOPMENT TRENDS AND ISSUES

### A. Country Background

1. While Fiji is one of the larger and more developed Pacific island countries, it faces many of the same constraints as other small and remote island states. The country is almost 3,000 kilometers from major metropolitan markets and service delivery costs are high, with the total population of 860,000 people spread out across an archipelago of 110 inhabited islands. Indigenous Fijians (*i-Taukei*) make up about 60% of the population; about 34% are of Indian descent. Given its natural beauty, tourism is the leading sector for growth. Sugar is the mainstay of the rural economy, with the industry employing about 3,000 people directly, and with another 200,000 people depending on it for their livelihood.

2. Fiji is making progress toward the Millennium Development Goals (MDGs), although key priorities will be to further reduce the number of people living in poverty and to address gender disparities. Fiji is broadly on track to meet MDG targets of universal primary education (with equal access by girls) and reducing infant and maternal mortality.<sup>1</sup> However, there is still a long way to go in gender equality, with Fiji ranked 117 out of 136 countries in the World Economic Forum's Global Gender Gap Report 2013, and its ranking has been declining since 2009.<sup>2</sup> Fiji is ranked even lower at 120 for women's empowerment, with women's labor force participation about half that for men. Reported levels of gender-based violence are also among the highest in the world. The incidence of absolute poverty is low, and the proportion of people living below Fiji's national poverty line declined from 35% in 2002/03 to 31% in 2008/09 (Figure 1).<sup>3</sup> Rural poverty rates of 43%, however, remain stubbornly high, largely because of the long-term decline of the sugar industry and limited alternative livelihood opportunities. Rural-urban migration is accelerating, and the number of people living in cities is expected to increase from 50% in 2013 to 60% by 2030. As a result, while the proportion of people living in poverty is highest in rural areas, most of Fiji's poor people now live in urban and peri-urban areas, with an estimated 140,000 people residing in informal squatter settlements surrounding Fiji's main towns.

3. National elections held in September 2014 were won convincingly by the Fiji First party of Prime Minister Bainimarama with a platform focused on consolidating a modern, inclusive Fiji. Elections have been widely seen internationally and within Fiji as a credible reflection of the will of the Fijian people, and have provided a basis for full re-engagement with Fiji by the international community.

### B. Economic Assessment and Outlook

4. Fiji is a middle-income country, with per capita income of \$4,673 in 2013. The economy is on track for a fifth successive year of expansion with growth reaching 4.6% in 2013. This has been driven by increasing private sector confidence in the lead-up to elections, as well as significant public investment and higher consumption spending. The government is forecasting growth of 3.8% in 2014.<sup>4</sup>

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<sup>1</sup> Pacific Islands Forum Secretariat. 2013. *2013 Pacific Regional MDGsMDG Tracking Report*. Suva, Fiji 2013.

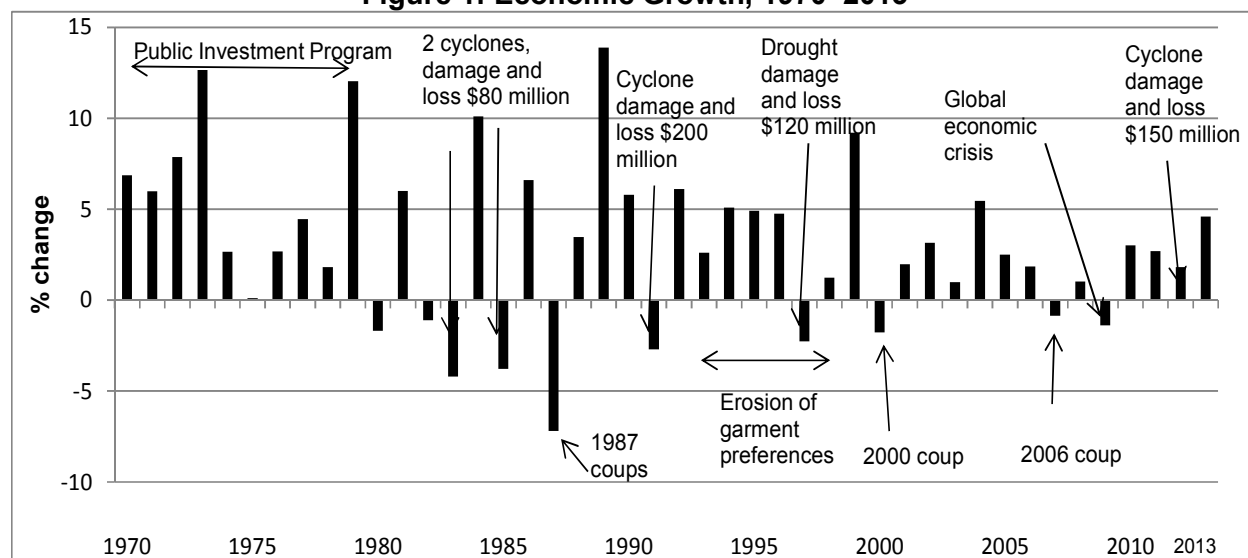
<sup>2</sup> World Economic Forum 2013, *Global Gender Gap 2013*, Geneva, Switzerland.

<sup>3</sup> World Bank. 2011. *Republic of Fiji: Poverty Trends 2002–2009*. Washington, DC; and Fiji Bureau of Statistics. 2008–2009 Household Income and Expenditure Survey. <http://www.spc.int/prism/fitest/cens&surveys/HIES.htm>. Fiji's national poverty line is a consumption-based measure, but was equivalent to about \$3.20 per day in 2008. Fiji Bureau of Statistics.

<sup>4</sup> The Asian Development Bank (ADB) expects the Fiji economy to grow more modestly at 3.3%.

5. Despite recent gains, Fiji's longer-term growth performance has been volatile and declining. Fiji's growth rate averaged 6.5% per annum in the decade following independence in 1970. However, from 1980 to 2013, growth slowed, averaging only 2.4% annually, and to only 0.6% annually between 2005 and 2009 during the global financial crisis. The longer-term trend reflects underlying structural issues that have constrained growth. Structural change in Fiji's economy has seen tourism emerge as the lead sector for growth, with about 650,000 people visiting Fiji each year and gross earnings from tourism in 2013 exceeding F\$1.3 billion—more than the combined revenues of the country's top five merchandise exports. On the other hand, the sugar and garments industries, previously key sources of growth, have slowed as both have experienced difficulty in competing effectively in deregulating global markets. Slowing growth trends are also due in part to political instability, with four coups since 1987.

**Figure 1: Economic Growth, 1970–2013**



Source: Fiji Bureau of Statistics.

6. Recent economic activity has been encouraged by accommodative monetary and fiscal policies. Fiscal policy was eased in 2009 in an effort to combat the recessionary effects of the global economic crisis. Greater public spending has focused on investments to overcome infrastructure bottlenecks and improve Fiji's human capital. The centerpiece of the 2013 budget was a substantial increase in capital spending on road maintenance to about 5% of gross domestic product (GDP). The introduction of universal free primary and secondary education in the 2014 budget, costing the government a further 3% of GDP a year, has also been widely welcomed and will increase opportunities for poorer children in particular. The government is similarly expanding and better targeting social protection programs which, while limited, remain among the more advanced in the Pacific. A poverty benefit scheme budgeted at F\$22 million will more than double coverage to Fiji's poorer people, microcredit programs will provide greater income-earning opportunities for women, and a national employment center will provide school leavers with labor market information and in-service work experience. A national minimum wage was introduced in 2014, covering both formal and informal sector workers. Consumption spending is also increasing as a result of accommodative monetary policy, as well as boosts to household incomes following increased public sector wages, lower personal tax liabilities, and one-off pension changes allowing people to withdraw part of their savings. Interest rates have declined and, after a period of low private investment during which liquidity in the banking system increased significantly, domestic credit has increased rapidly since 2012.

7. While public investments have been important to support economic recovery and provide a platform for future growth, the government must continue to ensure the sustainability of its fiscal position. The 2013 Article IV report of the International Monetary Fund (IMF) noted that mildly accommodative fiscal and monetary policies were broadly appropriate.<sup>5</sup> Since then, however, domestic investment and credit growth have led to higher imports and a reduction in foreign reserves from 5 months of export cover to 4.7 months in September 2014, although remittances from overseas workers and trade services (tourism and air transport) continue to support Fiji's external position. The projected fiscal deficit of 1.9% in 2014 is modest, but is predicated on the partial sale of state-owned enterprises (SOEs). The underlying deficit excluding asset sales is forecast at 7.7%. The government has met its financing requirements by issuing domestic bonds and through overseas commercial borrowing. In 2011, for example, the government issued a \$250 million bond at a face value of 9%. The government has also borrowed from the import-export banks of India and the People's Republic of China to fund essential infrastructure investments. Although Fiji's external debt to GDP ratio remains a relatively modest 14%, Fiji's total public debt in 2014 is 49.5% of GDP with additional contingent liabilities from SOEs equivalent to about another 30% of GDP. The government has established a sinking fund for the repayment of the global bond, but with this due to be repaid in 2016, fiscal space is tight. Against this backdrop, the government is conservatively forecasting growth of 2.4% for 2015 and 2016 – although expectations are that this could be revised upwards.

8. A key challenge for the government will be to undertake structural reforms to reinvigorate private sector investment and sustain growth and employment. The recent private sector assessment of the Asian Development Bank (ADB) highlighted the need for greater policy certainty, improvements in the regulatory environment for business start-ups, and a more conducive environment for foreign investment.<sup>6</sup> Business input and transaction costs in Fiji are internationally not competitive—exacerbating the comparative disadvantage of being a relatively small and remote island state. Electricity costs, while they compare favorably in the region, are high on an international basis and the business community complains of poor reliability. The road network, sea transport, and airports overall perform below their potential. The social dimensions of clean water and sanitation problems in the rapidly growing informal squatter settlements are exceeding the government's capacity to finance services. Increasingly, providing these infrastructure services is likely to require efforts to encourage greater private investments. Without further reform, initial IMF research suggests that infrastructure bottlenecks and structural constraints (such as access to land and the private sector enabling environment) could limit growth to a long-term average of about 2.5% of GDP.

9. Encouraging greater private investment will be critical to sustain growth, ensure it is more inclusive, and generate jobs. Employment offers the best route out of poverty, but too few jobs are available for Fiji's labor force of about 600,000 people. The labor market is characterized by a high share of informal sector jobs, underemployment, and unemployment. The labor force participation rate—at 65% of the workforce—is low, and gender disparities are pronounced with women significantly less likely to participate in the formal labor force (a participation rate of 34%). Youth unemployment is high, with unemployment in the 15–24 age group twice Fiji's national average; and the economy generates less than half the number of jobs needed each year to provide for the country's 20,000 annual school leavers. Faced with a difficult domestic labor market, emigration is high. It is estimated that, since 2000, Fiji has lost

<sup>5</sup> IMF. 2013. *Republic of Fiji: Staff Report for the 2013 Article IV Consultation*. Washington, DC (December).

<sup>6</sup> ADB. 2013. *Re-invigorating Private Sector Investment: A Private Sector Assessment for Fiji*. Manila.

about one-third of its professional, managerial, technical, and clerical workers through emigration, resulting in skills shortages and productivity declines throughout the economy.<sup>7</sup>

### C. Highlights of Previous ADB Country Strategy

10. Since Fiji became a member in 1970, ADB has committed a total of \$317 million in loans and \$27 million in technical assistance (TA). Consistent with priorities of successive Fiji governments, ADB engagement has focused on promoting sustained economic growth, through direct investments in economic infrastructure (transport, water and sanitation, and energy), and improved public sector management. The overarching aim has been private sector development for greater growth and job creation. ADB engagement in Fiji since 2006 has been limited and guided by the Fiji Islands: Reengagement Approach.<sup>8</sup> ADB continued implementing projects in the transport and water sectors that were ongoing at the time of the coup in 2006.<sup>9</sup> In 2009, ADB approved \$49.8 million in additional financing to complete road and water supply and sewerage investments. A total of \$19.6 million in additional support was provided in 2009 and 2012 in response to devastating floods. All investments will be completed by the end of 2014. ADB has also provided TA to support SOE reform, to develop a national 20-year transport strategy, and an urban water and sanitation master plan. Fiji also continues to participate in ADB regional TA projects in areas such as climate change, public sector management, information and communication technology, and trade facilitation.

11. ADB investments in Fiji have generally achieved their key objectives. A review of ADB's engagement in Fiji over 2006–2013 found that ADB's continuing support to Fiji has been relevant to the country context, met national priorities, and had broad support across stakeholders in Fiji.<sup>10</sup> The review incorporates findings and recommendations from Fiji project completion and evaluation reports, as well as (i) Pacific regional studies by ADB's Independent Evaluation Department (IED) on governance, public sector management, and transport that include Fiji as a case study country;<sup>11</sup> and (ii) the findings of an ongoing comprehensive country economic diagnostic study for Fiji by ADB's Economics and Research Department.<sup>12</sup> Lessons from ADB's program in Fiji and significant experience in reengaging with countries in transition from fragile and conflict-affected situations are in Table 1.

<sup>7</sup> ADB. 2012. *Pacific Studies, Fiji: 2012 Revitalizing the Fiji Economy*. Manila.

<sup>8</sup> ADB. 2007. *Fiji Islands: Reengagement Approach*. Manila.

<sup>9</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Maritime and Ports Authority of Fiji for the Fiji Ports Development Project in the Republic of the Fiji Islands*. 2009. ADB. 2009. *Report and Recommendations of the President to the Board of Directors Loan No. 1530-FIJ to the Republic of Fiji for the Third Fiji Road Upgrading Sector Project*. ADB. 2010 28261-023 *Third Road Upgrading (Sector) Project (supplementary loan)*. Manila. *Report and Recommendation of the President to the Board of Directors: Proposed Supplementary Loan Republic of the Fiji Islands (Suva–Nausori Water Supply and Sewerage Project)*. Manila.

<sup>10</sup> ADB. Fiji: Review of ADB Engagement, 2006–2013.

<sup>11</sup> ADB. 2008. *Completion Report: Fiji Ports Development Project*. Manila. ADB. 2011. *Performance Evaluation Report: Fiji Ports Development Project*. Manila. ADB. 2009. *Completion Report: Alternative Livelihoods Development Project*. Manila. ADB. 2012. *Validation Report: Alternative Livelihoods Development Project*. Manila. IED. 2009. *Special Evaluation Study: ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity*. Manila. ADB IED. 2011. *Evaluation Study: Asian Development Bank's Support for Promoting Good Governance in Pacific Developing Member Countries*. Manila. ADB; and IED. 2011. *Sector Assistance Program Evaluation: Transport Sector in the Pacific Developing Member Countries (1995–2010)*. Manila. ADB.

<sup>12</sup> ADB. (2014). *Fiji Country Diagnostic Study (Draft)* <http://www.adb.org/data/statistics/country-diagnostic-studies>

**Table 1: Lessons Incorporated into Fiji Country Partnership Strategy**

<b>Lessons</b>	<b>Response</b>
A wide consensus for change and broad community ownership is critical in a post-coup setting.	ADB has consulted across the political spectrum and with civil society to ensure buy-in and ownership of the proposed strategy.
Programs should help the client country develop, prioritize, and sequence its reform agenda. Governance issues must be addressed at the whole of government level, not only at the sector level.	ADB, through its Economics and Research Department Fiji Country Diagnostic Study (ongoing) is working closely with the government to help prioritize and sequence reforms, and will play a lead role in collaboration with partners in a coordinated policy engagement with Fiji. <sup>a</sup>
Programs should be flexible and adjustable in responding to evolving country needs, and delivered in close collaboration and coordination with other development partners.	ADB has consulted widely with government, development partners, and other stakeholders and intends to partner with the World Bank on an initial investment project.
The introduction of policy reforms, adapted to the country's situation through significant TA support (especially analytical, advisory, and capacity development), should be embedded in the reengagement program.	ADB is delivering or planning to deliver, TA in all of the proposed areas of engagement (transport, urban water and sanitation, and renewable energy). TA to provide a framework for the reform of public enterprises was completed in 2013. <sup>b</sup>
Investment in infrastructure has the potential to support inclusive growth, but this is not automatic; specific efforts will be needed to help the vulnerable.	ADB will support rural and maritime community development, not just to provide basic services but also to unlock the development potential of these areas and develop new economic opportunities. ADB safeguards will ensure the impact of investments on economic and social welfare. Gender equality outcomes in ADB investment will contribute to inclusiveness.
Income distribution is important, not just to reduce poverty but because of its potential impact on future growth.	The proposed ADB engagement will have an explicit focus not only on increasing growth, but on providing opportunities for rural communities and improving service delivery for poorer households.
Regional integration in the Pacific has been limited and has been affected by the absence of Fiji from regional organizations. This, in turn, has affected Pacific partnerships and weakened regional adherence.	Fiji's reintegration into Pacific regional structures following elections provides an opportunity to reinvigorate regional collaboration.
Fiji is highly vulnerable to natural disasters and climate change.	Disaster risk management will be embedded across the program to ensure ADB investments are more climate-resilient.
Underdeveloped human capital and institutions constrain Fiji's development and the ability of the poor and disadvantaged to participate in and benefit from economic growth.	Sustained TA support will be required to strengthen public institutions so that the government can effectively manage the reform process plan and implement development programs and projects, coordinate external assistance, and deliver public services.

ADB = Asian Development Bank, TA = technical assistance.

<sup>a</sup> ADB (2014), Fiji Country Diagnostic Study. (draft).

<sup>b</sup> ADB. 2012. *Technical Assistance to the Republic of Fiji to Implement Reforms of State-Owned Enterprises*; Manila.

## **II. THE COUNTRY STRATEGY**

### **A. Government National Strategy**

12. The Government of Fiji's strategic objectives are set out in its Roadmap for Democracy and Sustainable Socio-Economic Development, 2009–2014: and Green Growth Framework for Fiji approved by the cabinet on 29 July 2014.<sup>13</sup> The framework is intended to be a transformative tool to accelerate integrated, inclusive, and sustainable development to build environmental resilience, enhance social development, and promote economic growth. Critical

<sup>13</sup> Government of Fiji. 2009. Roadmap for Democracy and Sustainable Socio-Economic Development, 2010–2014. Suva. Government of Fiji. 2014. A Green Growth Framework for Fiji: *Restoring the Balance in Development that is Sustainable for our Future*. Suva.

economic infrastructure has been identified as energy, transport, and water and other urban infrastructure and services. There is cross-stakeholder consensus that these sectors will remain priority sectors for investment as they have been critical to inclusive development in all of Fiji's past and present national development plans. The key principles and thematic areas of both the Roadmap and the Framework will underpin the government's policy and economic strategy in the medium term, and provide a foundation for ADB's country partnership strategy (CPS).

## B. ADB Country Strategy

13. ADB's CPS, 2014–2018 positions ADB to reengage quickly and fully with the new government to help Fiji overcome its key development challenges. The CPS is based on extensive consultation with the government, development partners, private sector representatives, civil society, and other stakeholders. Consistent with Fiji's needs and ADB's corporate priorities set out in ADB's Midterm Review of Strategy 2020,<sup>14</sup> the CPS aims to:

- (i) **Raise Fiji's growth potential by encouraging private investment.** The government and partners expect ADB's leadership in supporting policy reform to encourage greater private investment to boost growth and provide jobs. ADB's policy engagement will be supported by infrastructure investments to enable Fiji to compete globally and overcome transport and energy bottlenecks. ADB will actively explore opportunities for greater private sector investments in Fiji that can generate growth and employment.
- (ii) **Make growth more inclusive and improve service delivery.** Improved transport links for rural communities will expand access to markets and services. Better opportunities for employment and income-generating activities will be supported by linking ADB investments to other public and private initiatives designed to develop skills and provide access to financial services and small business development. Improved water and sanitation infrastructure will be vital for the large number of people living in peri-urban informal settlements, and can especially benefit the health and welfare of women and their families.
- (iii) **Reduce volatility and build resilience.** Building on its analytical work, ADB will engage with the government on macroeconomic policy to strengthen buffers and reduce the volatility of growth. ADB's investment in economic infrastructure will also ensure that assets are increasingly climate-resilient and able to withstand disasters.

14. ADB will harness synergies from both its public and private sector operations to support these priorities. Improving the overall business enabling environment, assisting with the divestment of public enterprises, and encouraging new investment can generate growth and employment. Experience, both globally and from the telecoms revolution in the Pacific since the mid-2000's, also demonstrates that greater competition and private sector involvement in service delivery can deliver better outcomes more efficiently. Reflecting this, ADB intends to support government efforts to encourage greater private provision of services and encourage public-private partnerships (PPPs).

15. ADB's comparative advantage lies in its capacity to bring together finance, skills, and implementation capacity. ADB's processes and technology have supported effective project delivery in the transport and water and sanitation sectors. ADB will use this experience and knowledge gained from the economic, sector, and thematic studies to underpin a more

<sup>14</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila. mid-term review.

substantive policy dialogue with the government, development partners, and other key stakeholders. ADB will share lessons from other parts of Asia and the Pacific through its regional assistance program. These lessons will be reflected in ADB's country knowledge plan.

16. **Crosscutting themes.** ADB will mainstream the following drivers of change across its investment and policy engagement:

- (i) **Governance and capacity development.** Fiji's transition from a military to democratically elected government will involve rebuilding central accountability mechanisms and institutions, and could stretch capacity as civilians fill positions. Although other partners are likely to lead in helping Fiji resolve these issues, ADB operations will be designed to reinforce this transition. ADB support will focus on strengthening public sector management capacity in core government functions, including budgeting, debt management, and other public financial management and SOE reforms. Strengthened citizen engagement in service delivery will (a) ensure that ADB support is relevant to the social and political context; (b) ensure that sensitive social issues such as violence against women are reflected in program and project safeguards; and (c) include consultation with a wide range of nongovernment organizations at the project design stage to provide avenues of participation for women and youth who might otherwise be excluded.
- (ii) **Disaster risk management and climate resilience.** Fiji is prone to cyclones and floods, which periodically destroy essential infrastructure. ADB will assist the government to assess climate and disaster risks, and take action to reduce such risks through investments. ADB will support Climate Change and Disaster Risk Reduction and Mitigation and Green Growth as overarching tools for sustainable development. ADB will also work with Fiji to explore options for contingent catastrophe financing instruments.
- (iii) **Gender equity.** Building on a Fiji country gender assessment, country programs and operations will incorporate key gender concerns into project designs to promote gender equity in access to social services and income-generating opportunities.<sup>15</sup>
- (iv) **Regional cooperation and integration.** ADB will seek opportunities to strengthen Fiji's reengagement with other Pacific island countries and Pacific institutions and to implement the Pacific Islands Forum Framework for Regionalism<sup>16</sup> to build (a) regional cooperation through working more closely with the regional organizations in the Pacific; (b) the regional provision of public services involving the pooling together of national services at the regional level (the University of the South Pacific and the Forum Fisheries Agency being excellent examples); and (c) regional integration, which lowers barriers for goods and services and the movement of people between countries. Fiji is undeniably a major actor in the development of relationships between the Pacific and Asian regions, which makes it key to the development of the other Pacific island countries. ADB supports information and communication technology interconnectivity across the Pacific, and is exploring through TA, opportunities in the maritime and air transport sectors supported by regional trade facilitation activities.

<sup>15</sup> ADB. 2010. *Promoting Evidence-Based Policy Making for Gender Equity in the Pacific*. Manila Under this TA, a Fiji country gender assessment has been conducted to assess gender disparities across various sectors and identify gender-related barriers for the country's development

<sup>16</sup> Pacific Islands Forum. 2014 *Framework for Regionalism*. Suva

17. ADB will continue to work closely with development partners to ensure that external support is coordinated and that it reflects individual partners' comparative advantages. ADB financing for Fiji, while substantial, will amount to 1.5% of GDP and 20% of all development partner flows, which are anticipated to increase sharply following elections. ADB will deepen and expand its partnerships by mobilizing resources from development partners—as it has done across the South Pacific (where about a third of the current portfolio is cofinanced by partners). ADB has worked especially closely with the World Bank in undertaking joint country programming consultation, and anticipates cofinancing investments. More broadly, coordination with partners, many of which are likely to focus their support on ADB's third corporate pillar (social protection), will allow each to play to their relative strengths. Australia, New Zealand, and the United Nations (UN) development agencies, for instance, have played a critical role in supporting health and education services. The European Union expects to provide significant support for the sugar sector, and to encourage alternative livelihoods through agriculture. UN agencies have supported environment, gender, governance and human rights, and capacity development in several sectors. Japan has financed water supply, agriculture, rural transport, education, and disaster relief. The People's Republic of China has emerged as a major new source of finance for roads and hydropower development, and for social housing and hospitals.

### **III. STRATEGY IMPLEMENTATION**

#### **A. Indicative Resource Parameters**

18. An estimated \$350 million in ordinary capital resources financing is envisaged during the 2014–2018 CPS period, supported by TA resources (\$1.5 million per annum). To leverage resources and ensure ownership, ADB envisages significant cost sharing from the government.<sup>17</sup> As an ordinary capital resources borrower, ADB will need to be highly responsive to priorities of the Government of Fiji, with the government likely to look first for grant financing from other partners except where ADB can demonstrate its comparative advantage.

#### **B. Program Overview**

19. Consistent with the government's strategic priorities and ADB corporate priorities, and following a request from government for ADB to support critical infrastructure development, the CPS proposes to focus on the provision of transport, water and other urban infrastructure and energy infrastructure, as well as on improving public sector management. The proposed program is consistent with all three pillars of inclusive economic growth in ADB's Midterm Review of Strategy 2020 (high, sustained economic growth; greater access to opportunities; and strengthening social protection). Infrastructure plays an important role in linking the key social and economic sectors of the economy, including resources-based industries, education, and health. In supporting these sectors, ADB will bring policy analysis and advice, as well as both its sovereign and nonsovereign financing capacity. The proposed program is sequenced carefully. Initial investments are focused on ADB's comparative advantages and areas of historical engagement. They respond to government priorities, and will support sustained and inclusive growth. Future sovereign investment decisions, and possible policy-based lending, will be considered based on reform progress.

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<sup>17</sup> While the new 2014 Fiji cost-sharing and financial parameters continue to allow ADB to finance up to 99% of project costs, this flexibility would only be used fully in exceptional cases.

20. **Transport.** The government has invested heavily in transport infrastructure since 2012. However, much still needs to be done, with the Fiji Roads Authority estimating that, even with the current high level of spending, it will take up to 5 years to return the roads to an acceptable level of repair. The government has requested ADB's support, given ADB's demonstrated ability in this sector. ADB's recent Third Road Upgrading (Sector) Project, for instance, has rehabilitated or upgraded over 235 kilometers of roads, improving access to markets and services for 13,000 people in the key catchment area and reducing poverty among this group by 20%. A proposed \$100 million investment in 2014 will build on TA under way to develop a 20-year national transport sector plan. Future support could also emphasize wharf upgrading on Vanua Levu, road upgrading in the outer islands, improved road maintenance, sector institutional reforms, and local capacity development. Transport activities will provide direct employment in the construction and maintenance phases for locally based workers—and efforts to build skills will be explicitly incorporated in infrastructure investments. ADB could provide TA to develop PPP options and related advisory services, and decide on future sovereign investments guided by reform progress in the airports and ports subsectors.

21. **Water and other urban infrastructure and services.** This sector is vital to the development and growth of human capital in Fiji. Studies indicate that improved access to water and sanitation improves the health of women and children and increases school attendance for children. Fiji's urban water supply infrastructure is under pressure from the rapidly growing urban population, leading to frequent water shortages and cuts in water supply. ADB's Suva–Nausori Water Supply and Sewerage Project has laid new water mains and upgraded water treatment plants. The proposed next phase of ADB's support for improved municipal services will aim to continue upgrading urban water supply and sanitation, including support for community-based water and sewage connections, introducing utility tariffs that cover the costs of delivery, and improved environmental infrastructure. This will build on TA under way to develop an urban water and sanitation master plan that will feed into an overall water master plan for Fiji.<sup>18</sup> ADB's work in this sector could also provide the entry point for closer collaborative working in the sector between ADB, Australia, New Zealand, and the UN.

22. **Energy.** Fiji is committed to increasing the proportion of renewable energy in the generation mix and expanding grid access. The renewable energy sector affords an opportunity for growth and employment creation. It directly contributes to improvements in human capital and to enterprise development at the village level. With ADB's TA, Fiji Electricity Authority (FEA) has completed a Renewable Energy and Energy Efficiency Program aimed at building capacity to develop, fund, and implement renewable energy and energy-efficiency projects. ADB is providing TA for interventions in capacity development of key state institutions for effective sector regulation and policy enforcement. Investment opportunities lie in large-scale investments to extend and reinforce FEA's existing networks, and expand electricity service to communities unserved by FEA or other formalized commercial arrangements. For isolated populations on Fiji's outer islands, small hydroelectric, solar photovoltaic, and mini-grid opportunities are apparent. FEA's recently drafted corporate plan identifies opportunities for independent power provision and developing PPPs in generation which ADB, through the private sector development initiative, is well placed to assist.

23. **Public sector management.** A particular focus will be analytical and advisory support to improve the environment for private sector growth to create more and better jobs. Capacity

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<sup>18</sup> ADB. 2013. *Technical Assistance to the Republic of Fiji for Urban Development Planning and Institutional Capacity Building (Cofinanced by the Multi-Donor Trust Fund under the Water Financing Partnership Facility)*. Manila.

development TA will support reforms that (i) promote fiscal discipline and more effective public spending, and (ii) foster higher and more productive private sector investment. The support will include (i) SOE reform; (ii) advisory support for the development and implementation of potential PPP models in the energy, ports, and airports sectors; (iii) decisions on program priorities for future public sector financing of infrastructure based on progress with SOE reform; and (iv) potential transaction advisory and nonsovereign financing for PPPs when commercially viable. ADB's Private Sector Operations Department and Pacific Department, and the International Finance Corporation, are discussing private sector reforms with the government, including establishing PPPs and assisting the government in divesting three public enterprises in 2014. With the government's demonstrated commitment to reform, ADB, in coordination with the World Bank and other partners would be prepared to consider potential policy-based lending to assist reforms and strengthen debt management.

24. **Resources.** Key to ADB's performance in delivering the CPS will be the effective operation of the Pacific Subregional Office in Suva, as this is where most of the responsibility for programming and program administration will lie. Manila- and Sydney-based staff will also be engaged in the work load arising from reengagement. ADB will ensure adequate financial and human resources to implement the CPS.

#### IV. RESULTS MANAGEMENT

##### A. Monitoring

25. Progress made in achieving the CPS outcomes will be monitored regularly through project and TA review missions, and annually through the country operations business plans. ADB's results tracking will be integrated with and will be supportive of the government's tracking of progress against targets set in its Green Growth Framework and in ADB's CPS results framework (Appendix 1), which will be updated annually.

##### B. Risks

26. **Political economy.** Continued political and economic reform will be essential if Fiji is to accelerate progress. ADB will help to mitigate risks by providing support for economic reform and infrastructure development that can help rebuild private sector confidence and encourage a higher growth trajectory. ADB will provide TA to strengthen capacity in key central and sector agencies during the transition period following elections. The program is carefully sequenced, with investment decisions and more flexible financing modalities subject to reform progress.

27. **External shocks.** Fiji's narrowly based economy makes it vulnerable to exogenous economic shocks and the country is highly vulnerable to natural disasters. ADB will help reduce risks by encouraging the building of economic buffers and more resilient infrastructure. In the event of shocks, ADB will be ready to respond quickly with emergency operations, and will keep a degree of flexibility on counterpart contribution requirements.

28. **Implementation risks.** Project start-up delays have hampered implementation performance in the past. ADB will promote project readiness by providing pre-implementation support through developing sector planning and reform capacity, and by building project implementation capacity within the core infrastructure executing and implementing agencies.

## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Goals</b>			
Fiji Roadmap and Green Growth Strategy targets: a) GDP growth of above 3% per annum b) Poverty reduction (under 25% by 2020) c) Private engagement infrastructure service provision: At least one public–private partnership approved by 2015 d) Energy security: 100% national electrification coverage by 2020 (90% in 2014); improvement in the national electricity mix from 65% renewables (2012) to fossil fuel to 90:10 for the grid by 2020 e) Water and sanitation: 100% of the urban population has access to safe water supply by 2025 (96% in 2014); increase in the urban population with sewerage connection to not less than 60% by 2030 f) Public sector reform: Improved public sector efficiency, effectiveness, and service delivery; simplified public enterprise restructuring process by 2015, at least one public enterprise sold by 2017 g) Building resilience to climate change and disasters: Develop a national framework by 2020			
<b>Sectors Selected for ADB Support</b>			
<b>Government Sector Objectives</b>	<b>Sector Outcomes that ADB Contributes to and Indicators</b>	<b>ADB Areas of Intervention</b>	<b>ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities</b>
<b>1. Transport (Core Area 1: Infrastructure)</b>			
Safer and more efficient movement of passengers and cargo	<b>By 2018:</b>  Number of bridges requiring high priority attention reduced by 30% (2014 baseline: 100 bridges)  Number of jetties requiring high priority attention reduced by 20% (2014 baseline: 20 jetties)  Vehicle fatalities decrease to 7 per 10,000 vehicles (baseline: 8 per 10,000 vehicles)	<b>Planned key activity areas:</b> National, provincial, and rural roads Maritime berthing infrastructure Maritime safety: Land and maritime transport policies and reforms <b>Pipeline project with estimated amounts:</b> Transport Infrastructure Investment Project (\$100 million) <b>Ongoing projects with approved amount:</b> Fiji Flood Rehabilitation Project (\$2 million)	\$100 million in 2014 (Joint financing of up to \$50 million from the World Bank)  \$50 million transport project 2017 (stand-by)  ESG: 33% GEM: 50% PSD: 30% RCI: 0%
<b>2. Water and other urban infrastructure and services (Core Area 1: Infrastructure)</b>			
Increased access to reliable and adequate supplies of safe water in urban centers and to sanitary and environmentally safe sewerage waste systems and treatment facilities	Universal access to urban water supply is maintained by 2019 (2013 baseline: 100%)  Access to improved sanitation among the urban population is increased to 98% by 2018 (2013 baseline: 92%)  Poverty rate among informal settlers falls to 30% by 2019 (2009 baseline: 38%)  Population of the GSA with sewerage connections increased to at least 53% by 2018 (2013 baseline: 40%)	<b>Planned key activity areas:</b> (i) Urban water supply and sewerage systems (99% of funds) (ii) Water and sewerage regulation (1% of funds) <b>Pipeline projects with estimated amounts:</b> (i) Urban Water Supply and Sewerage Sector Project (\$100 million) (iii) Capacity development technical assistance for strengthening water and sewerage sector regulation (\$1.2 million) <b>Ongoing projects with approved amounts:</b> Suva–Nausori Water Supply and Sewerage Project (\$70 million)	\$100 million (2015)  ESG: 50% GEM: 65% PSD: 30% RCI: 0%

Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities
<b>3. Energy (Core Area 1: Infrastructure and Core Area 2: Environment)</b>			
More robust power sector with higher proportion of renewable generation and greater access	<p>Share of renewable energy in power generation increased to 75% in 2018 (2012 baseline: 65%)</p> <p>Power network system losses reduced to 7% by 2018 (2012 baseline: 11%)</p> <p>Electrification rate increased to 98% by 2018 of which 95% is rural electrification rate (including households headed by women) (2007 baseline: 89% for total and 82% rural)</p>	<p><b>Planned key activity areas:</b> Renewable power generation (35% of funds) Transmission lines and substations (30% of funds) Rural Electrification (30% of funds) Policy and regulatory reforms (5% of funds)</p> <p><b>Pipeline projects:</b> Policy reform and investment planning support (\$800,000)</p> <p><b>Ongoing projects with approved amounts:</b> Not applicable</p>	<p>\$50 million (2017)</p> <p>ESG: 33%</p> <p>GEM: 30%</p> <p>PSD: 30%</p> <p>RCI: 0%</p>
<b>4. Public sector management (Other Area)</b>			
Stronger fiscal discipline and improved delivery of public services	<p>At least one public-private partnership approved by 2015. (Baseline: 2 PPPs in 2014)</p> <p>At least one public enterprise sold by 2017 (Baseline 29 SOEs in 2014)</p>	<p><b>Planned key activity areas:</b> Policy dialogue with key government ministries, including MOF, MPE, MOIT.</p> <p><b>Pipeline projects:</b> Public sector reform programs Ongoing projects with approved amounts Implementing reforms of state-owned enterprises (\$0.5 million) Transport sector planning and management (\$0.8 million) Urban development planning and institutional capacity building (\$1.15 million)</p> <p><b>Ongoing projects with approved amounts:</b> Not applicable</p>	<p>\$50 million (2016 )</p> <p>ESG: 33%</p> <p>GEM: 30%</p> <p>PSD: 30%</p> <p>RCI: 0%</p>

ADB = Asian Development Bank, COBP = country operations business plan, ESG = environmentally sustainable growth, GDP = gross domestic product, GEM = gender equity and mainstreaming, MOF = Ministry of Finance, MOIT = Ministry of Infrastructure and Transport, MPE = Ministry of Public Enterprises, MPSD = private sector development, RCI = regional integration.

Sources: Asian Development Bank and Fiji Road Authority estimates.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/CPS/?id=FIJ-2014>

1. Economic Analysis (Summary)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Transport
7. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
8. Sector Assessment (Summary): Energy
9. Sector Assessment (Summary): Public Sector Management
10. Risk Assessment and Risk Management Plan (Summary)
11. Country and Portfolio Indicators
12. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters
13. Country Partnership Strategy Formulation
14. Country Partnership Strategy Final Review
15. Country Operations Business Plan, 2015–2017

**Supplementary Document**

16. Financial Analysis (Summary)
17. Fiji: Review of ADB Engagement, 2006–2013