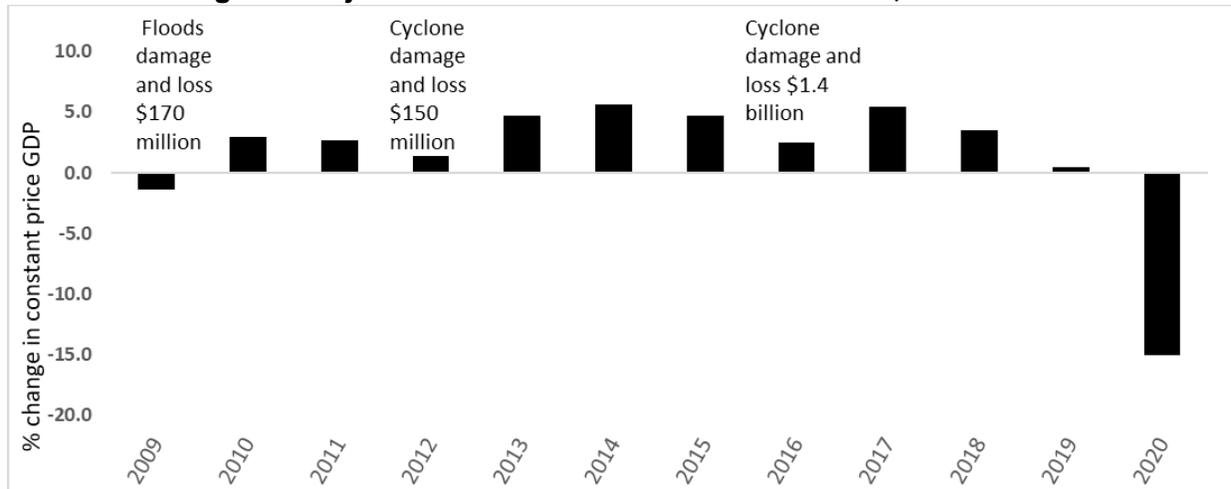


## SECTOR ASSESSMENT (SUMMARY): PUBLIC SECTOR MANAGEMENT

### 1. Sector Performance, Problems, and Opportunities

1. **Recent economic growth.**<sup>1</sup> Fiji experienced uninterrupted economic growth from 2010 to 2019, supported by sound macroeconomic policies, including an expansionary fiscal policy; a low interest rate environment; policy consistency; and improving business confidence. Economic growth averaged 3.7% per year from 2014 to 2019. Fiji's growing tourism industry and remittances supported its external position. Despite government efforts, the economic base remains shallow and susceptible to shocks. Economic growth fell to 0.5% in 2019 as a global economic slowdown coincided with government efforts to reduce fiscal stimulus, while growth had been projected to increase to 2.5% in 2020. Given the impact of the coronavirus disease (COVID-19), the economy is now forecast to contract by 15.0% in 2020.<sup>2</sup> Assuming that there is no sustained local outbreak of COVID-19 in Fiji, the depth and duration of the economic shock will depend primarily on the duration of international travel restrictions in key tourism source markets.

**Figure 1: Fiji Gross Domestic Product Growth Rate, 2009–2020**



GDP = gross domestic product.

Source: Asian Development Bank and Fiji Bureau of Statistics.

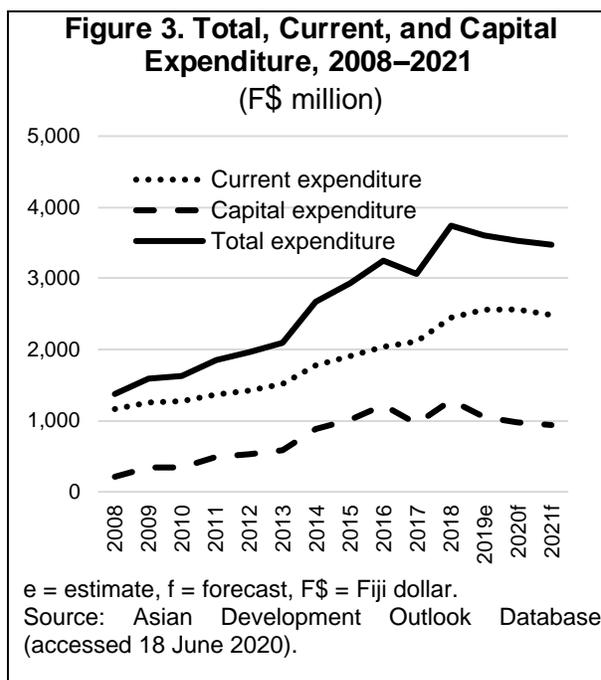
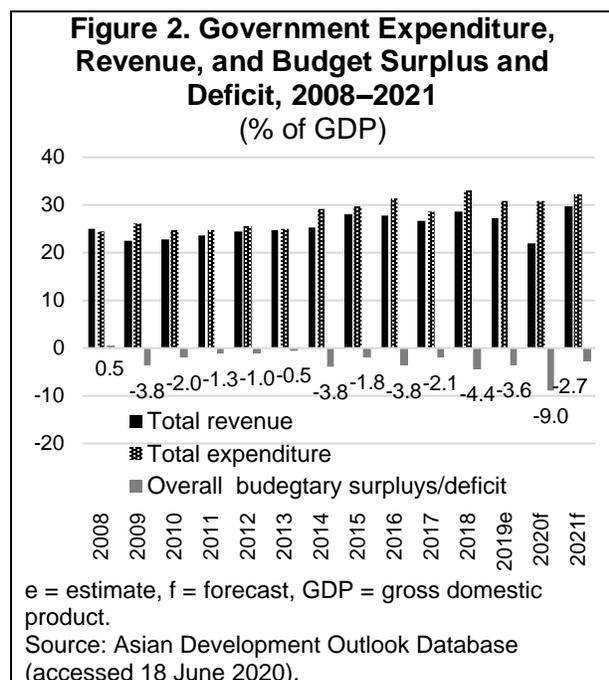
2. **Need for structural reforms.** The government's National Development Plan, 2017–2036 envisions inclusive socioeconomic development through a strategy to become a regional South Pacific hub for business, transport, and other services; and targets a fourfold increase in per capita income by 2036.<sup>3</sup> With support from the Asian Development Bank (ADB) and other development partners, the government is accelerating reforms to address binding constraints to private sector-led growth. These reforms will support economic recovery in the wake of COVID-19 and build resilience to future economic and fiscal shocks.

<sup>1</sup> This summary is based on Asian Development Bank (ADB). 2019. *Fiji Country Partnership Strategy, 2019–2023*. Manila; ADB: Asian Development Outlook. (accessed 11 May 2020); International Monetary Fund (IMF). 2020. Republic of Fiji: Staff Report for the 2019 Article IV Consultation. *IMF Staff Country Report*. No. 20/80. Washington, DC; IMF. 2020. *Assessment Letter for the Asian Development Bank and the Asian Infrastructure Investment Bank*. Washington, DC; Government of Fiji, Ministry of Economy (MOE). 2017. *5-Year and 20-Year National Development Plan: Transforming Fiji*. Suva; Government of Fiji. 2020. *Economic and Fiscal Update Supplement to the COVID-19 Response Budget Address*. Suva.

<sup>2</sup> ADB. 2020. *Asian Development Outlook 2020 Supplement*. Manila. The forecast is based on the assumption of gradual easing of international travel restrictions from Q4 2020, resulting in a slow tourism arrival recovery. The IMF projected GDP to contract by 18.4% in 2020 and rebound by 11.5% in 2021 (footnote 5).

<sup>3</sup> Government of Fiji, MOE. 2017. *5-Year & 20-Year National Development Plan: Transforming Fiji*. Suva.

3. **Performance of state-owned enterprises is improving.** Fiji's state-owned enterprises (SOEs) provide most infrastructure services and have a substantial economic impact. Historically, the SOE portfolio's financial performance has been below government expectations. In response, the government launched a program to improve the policy, legal and institutional framework for SOEs and public-private partnerships (PPPs). Reforms aimed to strengthen SOE governance, transparency, and accountability. Opportunities for SOE divestment, outsourcing, and PPPs were pursued to increase private sector investment, innovation, and expertise. As a result, the SOE portfolio's profitability has improved markedly since 2010. The portfolio's average return on equity for 2015–2018 was 9.9%, with a return on assets of 4.2%. For 2010–2014, the average return on equity was 3.3% and the return on assets was 1.5%. The government seeks to sustain the improved financial performance, through continued improvements to the policy, legal and institutional framework for SOEs and PPPs.



4. **Fiscal consolidation efforts paused.** Reliance on public sector-led growth resulted in an average fiscal deficit of 3.3% from FY2014 to FY2019 (Figure 2). Recognizing the need to rebuild fiscal buffers, the FY2020 national budget passed in July 2019 laid out a path of fiscal consolidation. The impact of COVID-19 has disrupted this effort. The government announced a COVID-19 response budget on 23 March 2020 that includes a \$460 million response and stimulus package, and which projects a deficit equivalent to 9.0% of GDP in FY2020. The widening deficit is driven by a projected decline in total revenue equivalent to 5.3% of GDP from FY2019 to FY2020. As part of fiscal consolidation efforts, capital expenditure is estimated to have fallen to 29% of total expenditure in FY2019 (down from a high of 37% of total expenditure in FY2016), and is forecast to fall to 27% of total expenditure in FY2020. Given the constrained fiscal space as a result of COVID-19, ongoing assessments of public expenditure and financial accountability should be continued and strengthened to identify future areas of improvement and reforms. Public debt is projected to increase from 48.9% of GDP in FY2019 to 60.9% of GDP in FY2020 and is expected to rise further in FY2021. Public debt is expected to remain manageable and stabilize at around 70% of GDP in subsequent years.

## 2. Government's Sector Strategy

5. **Government commitment to public financial management reforms.** The government recognizes that strong public financial management (PFM) promotes macroeconomic stability and enforces fiscal discipline and strategic and efficient allocation of resources. Good PFM ties together available resources, delivery of services, and achievement of government policy objectives and ensures that revenue is collected efficiently and used appropriately and sustainably. Following the 2006 coup, Fiji adopted a new constitution in 2013, which restored formal systems for checks and balances and transparency and accountability in the public sector.

6. **Public financial management reform priorities.** Following the 2013 Public Expenditure and Financial Accountability (PEFA) assessment, the government developed and progressively implemented the Fiji PFM Improvement Programme, 2016–2019.<sup>4</sup> Reform priorities include (i) embarking on a clear set of PFM reforms with appropriate political commitment, (ii) improving budget transparency, (iii) completing a new PEFA Assessment and a PEFA self-assessment of gender-responsive public financial management, (iv) piloting gender-responsive budget principles as part of FY2021 budget process, (v) reviewing and updating the financial management information system, and (vi) increasing the use of digital platforms for payments. The government has also adopted a medium-term fiscal framework for fiscal sustainability, which was considered when developing the COVID-19 response budget.

7. The 2020 PEFA Assessment show good reform progress.<sup>5</sup> The 2013 assessment showed a score of D+ (the lowest score being D) in several areas, while the 2020 assessment shows improvement across all these areas. However, further effort is needed to strengthen fiscal risk reporting (score C) on SOEs to bring it to the standard of reporting on contingent liabilities. Medium-term expenditure estimates now strengthen fiscal discipline and improve predictability of budget allocations (score B). Payroll controls have improved (score B+), which reflects better management of the public servant payroll. Financial data integrity, including reconciliations of bank and advance accounts has improved with clear policies and processes in place (score A).

8. **State-owned enterprise reforms progressing.** The government acknowledges that reforms are critical to improve the productivity and financial performance of SOEs. The Public Enterprises Act 2019 has come into force, and establishes a clear framework to strengthen SOE governance, transparency, and accountability and to improve performance and service delivery. Training programs on the compliance requirements of the new Act have been conducted. Cabinet has approved a new policy for onlending to government entities, including SOEs, to better manage the associated fiscal risks. Privatization guidelines have come into force, with clear and transparent rules and procedures for preparing and executing SOE divestments. PPP implementation guidelines, including on the PPP procurement process, that complement the PPP policy approved under subprogram 2, were approved by Cabinet and published on MOE's website.

9. **Business and investment climate being improved.** Private investment has been constrained by a weak investment climate affected by policy uncertainty, delays in addressing underlying structural constraints, and gaps in the commercial legal framework. With support from ADB, the government is seeking to improve the business and investment climate. Reforms will stimulate new private investment which is essential as Fiji's economy recovers from COVID-19.

<sup>4</sup> Government of Fiji. 2016. *Fiji Public Financial Management Improvement Programme 2016–2019*. Suva.

<sup>5</sup> IMF. 2020. *Fiji: Public Expenditure and Financial Accountability Assessment*. Washington, DC (The 2013 PEFA Assessment report used the 2011 framework, while the 2020 PEFA Assessment uses the 2016 framework. The PEFA comparison table was used to adjust targets to the 2016 framework.).

The COVID-19 response budget included measures to support business survival during the downturn. Reform priorities include: (i) enhancing investment policy and law, through the drafting of a new Investment Bill; (ii) improving trade competitiveness, by implementing the World Trade Organization Trade Facilitation Agreement; (iii) facilitating access to finance through personal property securities reforms; (iv) simplifying construction permit applications and fastening approvals, through the Regulation of Building Permits Act 2017; and (v) strengthening competition and consumer protection, through a new policy, and the drafting of associated legislation.

### 3. ADB Sector Experience and Assistance Program

10. **Past Asian Development Bank engagement.** The past engagement of ADB in public sector management and private sector development has been primarily through technical assistance (TA) facilities. Lessons highlight the need to (i) identify champions to strengthen reform commitment and lead implementation, particularly for SOE reform; (ii) obtain government endorsement so that reforms are not derailed if the leadership changes; (iii) pursue moderate, sequenced reforms, especially where institutional capacity is limited; and (iv) provide sufficient time to develop capacity and institutionalize reforms.

11. **Ongoing technical assistance.** ADB's engagement in public sector management and private sector development has been through regional and country-specific TA projects, which have provided support for PFM, SOE reform, and business climate reform.<sup>6</sup> For example, the scope of the Supporting Public Financial Management Reform TA includes the recruitment of international and national experts in fiscal policy, budget management, financial management, public procurement, and knowledge management to help the MOE improve its institutional capacity to implement the PFM Improvement Programme and strengthen reform coordination.

12. **Subprogram 3 policy-based loan.** The government requested a programmatic policy-based loan series with three subprograms (in 2018, 2019, and 2020) from ADB. The government, ADB, the Asian Infrastructure Investment Bank, and the governments of Australia and New Zealand have agreed on substantive policy actions. The program is consistent with ADB's country partnership strategy for Fiji, 2019–2023 and Pacific Approach, 2016–2020.<sup>7</sup> The government requested to increase the value of subprogram 3 to \$200 million, to help finance the government's rapid response to COVID-19 and associated economic impacts, as outlined in the COVID-19 response budget. Under subprogram 3, ADB supported policy actions across three reform areas: (i) fiscal management; (ii) policy legal, and institutional framework for SOEs and PPPs; and (iii) business and investment climate.

13. The strong relationship developed with the government has helped ADB play an important role in identifying and implementing critical structural reforms through TA support (footnote 6). Specifically, ADB has directly supported the introduction of gender-responsive budgeting; and the drafting of policy or legislation on SOEs, PPPs, personal property securities, and competition and consumer protection. The programmatic approach has enabled the sequencing of complex reforms, with ADB TA involvement across all reform areas in support of all subprograms, aligned with development partners. Strong collaboration exists with the governments of Australia and New Zealand, the World Bank, the European Union, and the IMF's Pacific Financial Technical Assistance Centre, who are all supporting these reforms.

<sup>6</sup> ADB. [Fiji: Supporting Public Financial Management Reform](#); ADB. [Regional: Sector and Thematic Analyses in Policy Development](#); ADB. [Regional: Pacific Private Sector Development Initiative, Phase IV](#).

<sup>7</sup> ADB. 2019. *Country Partnership Strategy, Fiji: 2019–2023—Achieving Sustained, Inclusive, and Private Sector-Led Growth*. Manila; ADB. 2016. *Pacific Approach, 2016–2020*. Manila.

## Problem Tree for Public Sector Management

**EFFECTS**

Long-term economic growth constrained

**SUB EFFECTS**

Limited fiscal space to respond to external shocks

Public debt continues to accumulate

Private sectors crowded out and remain underdeveloped

**CORE PROBLEM**

Reliance on the public sector to drive growth with weak accountability

**CAUSES**

Weak budget management and program budgeting

Limited non-budget fiscal reporting

Resource allocation is not linked to government

Low productivity of state-owned enterprises

Low level of private investment

**SUB CAUSES**

Link between planning and budgeting is weak

Limited expertise to enable effective fiscal reporting

Limited institutional capacity for fiscal management

Legal framework for state-owned enterprises not firmly developed

Unclear recruitment and removal processes of state-owned enterprise directors

High cost and difficulty of doing business

Uncertainty around the resolution of international commercial disputes

Limited access to finance

The country's small size, remoteness, and susceptibility to disasters