



Report and Recommendation of the President to the Board of Directors

Project Number: 48490-004
July 2020

Proposed Policy-Based Loan for Subprogram 3 Republic of Fiji: Sustained Private Sector-Led Growth Reform Program

This is the version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 25 June 2020)

Currency unit	–	Fiji dollar (F\$)
F\$1.00	=	\$0.460
\$1.00	=	F\$2.172

ABBREVIATIONS

ADB	–	Asian Development Bank
AIIB	–	Asian Infrastructure Investment Bank
COVID-19	–	coronavirus disease
FMIS	–	financial management information system
GDP	–	gross domestic product
GRB	–	gender-responsive budgeting
IMF	–	International Monetary Fund
MOE	–	Ministry of Economy
MWCPA	–	Ministry of Women, Children and Poverty Alleviation
PEFA	–	Public Expenditure and Financial Accountability
PFM	–	public financial management
PPP	–	public–private partnership
PPPF	–	post-program partnership framework
SME	–	small and medium-sized enterprise
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Fiji ends on 31 July. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2020 ends on 31 July 2020.
- (ii) In this report, “\$” refers to United States dollars unless otherwise stated.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 48490-004	
Project Name	Sustained Private Sector-Led Growth Reform Program (Subprogram 3)	Department/Division	PARD/PASP
Country	Fiji, Republic of	Executing Agency	Ministry of Economy
Borrower	Fiji		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=48490-004-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=48490-004-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Law and judiciary		20.00
	Public expenditure and fiscal management		90.00
	Reforms of state owned enterprises		90.00
		Total	200.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Strengthening governance and institutional capacity			
✓ Fostering regional cooperation and integration			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.b		Gender Equity (GEN)	✓
SDG 5.a			
SDG 10.4			
SDG 16.10, 16.6			
SDG 17.17			
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		200.00	
Sovereign Programmatic Approach Policy-Based Lending (Regular Loan): Ordinary capital resources		200.00	
Cofinancing		52.20	
Asian Infrastructure Investment Bank - Programmatic Approach Policy-Based Lending (Loan) (Not ADB Administered)		50.00	
Government of Australia - Programmatic Approach Policy-Based Lending (Grant) (Not ADB Administered)		0.70	
New Zealand Grant - Programmatic Approach Policy-Based Lending (Grant) (Not ADB Administered)		1.50	
Counterpart		0.00	
None		0.00	
Total		252.20	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Republic of Fiji for subprogram 3 of the Sustained Private Sector-Led Growth Reform Program.¹

2. The proposed subprogram 3 supports the government to create an environment in which the private sector can drive economic growth through investment, improve management of public finances, strengthen the performance of state-owned enterprises (SOEs) and open private investment opportunities, and improve the business and investment climate. The coronavirus disease (COVID-19) and associated containment measures have negatively affected the private sector in Fiji. The program supports the government's immediate response to COVID-19 as the government seeks to support businesses through this period. The reforms will support the economy's recovery from COVID-19 and build resilience to future economic and fiscal shocks. It supports the Asian Development Bank (ADB) Strategy 2030 operational priority on strengthening governance and institutional capacity, particularly in small island developing states.²

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Programmatic approach.** The programmatic approach aligns ADB's support with the government's reform program over the medium to long term. It supports reforms to improve (i) fiscal management, particularly public financial management (PFM); (ii) the policy, legal, and institutional framework for SOEs and public-private partnerships (PPPs); and (iii) the business and investment climate. The programmatic approach and loan of \$15 million for subprogram 1 were both approved in June 2018. At the time of approval of the programmatic approach, it was indicated that subsequent loan amounts would equal \$55 million for subprogram 2 (in 2019) and \$110 million for subprogram 3 (in 2020), resulting in overall financial support of \$180 million across the three subprograms. To help the government meet its revised financing needs, the subprogram 2 loan was approved in September 2019 for \$65 million, \$10 million above the originally indicated amount, with the planned subprogram 3 loan to be reduced by a corresponding amount to \$100 million.³ However, at the request of the government, the loan amount for subprogram 3 is now proposed to be increased to \$200 million to help support the government's response to COVID-19 in FY2020.

4. Subprogram 1 laid strong reform foundations, such as a PFM reform roadmap, legislative actions, and diagnostic efforts. Subprogram 2 focused on the gradual implementation of these initiatives, while initiating new reforms when sufficient institutional capacity was present. All policy actions achieved during subprograms 1 and 2 continue to be complied with. Subprogram 3 completes reforms initiated in subprograms 1 and 2, but also takes stock and lays foundations for future reforms. The inclusion of a post-program partnership framework (PPPF) and ongoing

¹ The design and monitoring framework is in Appendix 1. The program is in ADB. 2019. [Country Operations Business Plan: Fiji, 2020–2022](#). Manila.

² ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila. The program also contributes to operational priorities on addressing remaining poverty and reducing inequalities, accelerating progress in gender equality, and fostering regional cooperation and integration.

³ ADB. 2018. [Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of Fiji for the Sustained Private Sector-Led Growth Reform Program](#). Manila; and ADB. 2019. [Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to the Republic of Fiji for the Sustained Private Sector-Led Growth Reform Program](#). Manila (accessible from the list of linked documents in Appendix 2).

technical assistance (TA) activities will enable ADB to continue supporting reforms and provide the platform for potential future policy-based operations.

5. **Development context.** While Fiji is classified as an upper-middle income country, it faces constraints common among small island developing states, including a remote location, a geographically dispersed population, a high-cost business environment, and vulnerability to disasters triggered by natural hazards. A narrow economic base and heavy reliance on the tourism industry make it vulnerable to external shocks.⁴ Public investment remains a key factor driving the economy. While Fiji recorded only 18 confirmed cases of COVID-19 as of 25 June 2020 and declared itself free of active cases on 5 June 2020, COVID-19 is having a devastating social, economic, and fiscal impact on Fiji, which is primarily driven by the shutdown of the tourism industry. A growing and inclusive private sector will be crucial in supporting recovery and broadening the economic base to build resilience and reduce economic volatility.

6. **Recent economic performance and shock.** 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. Fiji's growing tourism industry and remittances supported its external position. 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 2020.⁵ However, as a result of COVID-19, all regularly scheduled international flights have been suspended since 26 March 2020, and hotels and tourism service providers have ceased operations, temporarily laying off workers. The initial shock to the accommodation sector has spread to other sectors, including wholesale and retail trade, construction, transport, real estate, and finance.⁶ COVID-19 containment measures have further depressed domestic economic activity.⁷ Remittance inflows, which are equivalent to about 4% of gross domestic product (GDP), are also expected to decline significantly. Furthermore, tropical cyclone Harold struck Fiji on 8–9 April 2020, directly affecting more than 20% of the population, and causing at least \$46.4 million in damage. As a result of the combined impact of these shocks, the economy is forecast to contract by 15.0% in 2020.⁸ 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, such as Australia and New Zealand.

7. **Fiscal situation and shock.** Reliance on public sector-led growth resulted in an average fiscal deficit of 3.3% from FY2014 to FY2019 (Table 1).⁹ Recognizing the need to rebuild fiscal buffers, the FY2020 national budget passed in July 2019 laid out a path of fiscal consolidation, with projected fiscal deficits equivalent to 2.7% of GDP in FY2020, 2.0% of GDP in FY2021, and 1.5% of GDP in FY2022. 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

⁴ The government estimates that the tourism industry contributed 34% of gross domestic product (GDP) in 2017. Government of Fiji. Ministry of Industry, Trade and Tourism. 2019. [Fijian Tourism 2021](#). Suva.

⁵ The GDP growth figure for 2019 is from the Government of Fiji. The pre-COVID-19 GDP growth estimates for 2020 are from ADB. 2019. [Pacific Economic Monitor – December 2019](#). Manila.

⁶ International Monetary Fund (IMF). 2020. [Assessment Letter for the Asian Development Bank and Asian Infrastructure Investment Bank](#). Washington, DC (accessible from the list of linked documents in Appendix 2).

⁷ Government COVID-19 Response Measures in Fiji (accessible from the list of linked documents in Appendix 2).

⁸ ADB. 2020. [Asian Development Outlook 2020 Supplement: Lockdown, Loosening, and Asia's Growth Prospects](#). Manila. The forecast is based on the assumption of gradual easing of international travel restrictions from the fourth quarter of 2020, resulting in a slow recovery of tourism arrivals. The IMF has projected GDP will contract by 18.4% in 2020 and rebound by 11.5% in 2021 (footnote 6).

⁹ For purposes of comparison, fiscal year data is shown, sourced from government budget documents and ADB estimates. The IMF reports calendar year data. The general trends of the IMF data align with the data presented.

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. 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. Despite rising quickly in the context of COVID-19, public debt is expected to remain manageable and stabilize at around 70% of GDP in subsequent years, supported by continued sound macroeconomic policies and renewed fiscal consolidation.¹⁰

Table 1: Selected Economic and Fiscal Indicators

Item	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019e	FY2020p
Real GDP growth (% change)	5.6	4.7	2.5	5.4	3.5	0.5	(15.0)
CPI change (% annual average)	0.5	1.4	3.9	3.3	4.1	1.8	1.2
Central government budget (% of GDP)							
Total revenue	25.9	28.5	28.8	26.6	28.6	27.1	21.8
Total expenditure	29.7	30.4	32.6	28.7	33.0	30.7	30.8
Operating balance	6.1	6.8	6.8	7.4	7.7	5.9	(1.3)
Asset sales	0.1	1.9	1.9	0.0	0.0	0.0	1.8
Fiscal (deficit)	(3.8)	(1.8)	(3.8)	(2.1)	(4.4)	(3.6)	(9.0)
Public debt (% of GDP)	44.5	43.0	44.0	43.9	46.0	48.9	60.9
of which: External debt	13.7	12.7	13.1	12.9	12.8	12.4	17.4
Nominal GDP (\$ million)	4,850.3	4,682.5	4,930.2	5,353.5	5,536.8	5,483.3	4,711.6

() = negative, CPI = consumer price index, e = estimate, FY = fiscal year, GDP = gross domestic product, p = projection. Note: 2020 GDP numbers are a projection by the Asian Development Bank. Fiscal indicators are from the COVID-19 response budget.

Source: Government of Fiji and Asian Development Bank estimates.

8. **Macroeconomic challenges.** Fiji's narrow economic base, high import demand, and weak merchandise export sector make it susceptible to external shocks. From 2010 to 2018, growth was driven by public investment.¹¹ The International Monetary Fund (IMF) recommended (i) gradually reducing the fiscal deficit to achieve a downward trend in the ratio of public debt-to-GDP; (ii) enhancing the business environment and strengthening governance to foster private investment, enhance productivity, and raise potential growth; and (iii) tackling the gender gap in labor force participation to boost inclusive economic growth (footnote 6). While continued fiscal stimulus is considered appropriate in response to COVID-19, business environment reform is critical to support the economic recovery and build resilience to future economic and fiscal shocks. As a regional hub for business, transport, and communications, the recovery of Fiji's private sector and SOEs will also play an important role in the economic recovery of the Pacific region.

9. **Binding constraints.** The government recognizes the challenges it faces in reducing reliance on public sector-led growth, particularly in the wake of COVID-19. It must gradually ease fiscal stimulus to rebuild fiscal buffers, while improving the effectiveness of public investment and the strategic allocation of resources. To do so, the government must (i) regularly review public sector performance, such as through Public Expenditure and Financial Accountability (PEFA) assessments and public expenditure reviews, to prioritize expenditure and reforms; (ii) strengthen the strategic planning and budget process to ensure that the lifetime costs of investments are

¹⁰ The IMF assessed (i) the fiscal stimulus to be appropriate given the severity of the shock and the need for a counter-cyclical response; and (ii) public debt to be sustainable, despite the rapid rise in debt in 2020 as a result of the impact of the COVID-19 pandemic. Public debt as a proportion of GDP is expected to peak in 2020 and then decline, helped by a rebound in growth that will boost fiscal revenues and increase GDP, but this medium-term path is vulnerable to significant risks (footnote 6). Updated medium-term fiscal projections will be published in the FY2021 national budget.

¹¹ Total investment averaged 19.9% of GDP in 2010–2018. Public investment rose from 3.6% of GDP in 2010–2013 to 5.6% of GDP in 2014–2018. Private and SOE investment fell from 12.5% of GDP to 11.7% of GDP over the same period. ADB estimates based on data from Reserve Bank of Fiji. 2020. *Quarterly Review: December 2019*. Suva. Investment data excludes aircraft purchases by the SOE Fiji Airways in 2013 as a one-off shock to the series.

considered and government programs are responsive to priorities, particularly gender; and (iii) strengthen its financial management information system (FMIS) and make government payments more efficient. It must also improve SOE performance, as SOEs deliver most infrastructure services in Fiji. To do so, the government must strengthen policy and institutional frameworks for government ownership of SOEs and financial transactions with SOEs (onlending and guarantees). Improved governance and performance will help SOEs access finance on commercial terms. It must facilitate private sector participation to bring in investment, innovation, and expertise; and in doing so must have clear privatization and PPP policies and guidelines, and transparently pursue divestment and PPPs, where feasible. The government must also strengthen the business climate to facilitate private investment by (i) reforming outdated foreign investment and competition legislation, (ii) removing barriers to international trade, (iii) implementing collateral reforms to facilitate innovation and access to finance, (iv) streamlining construction permit applications and approvals, and (v) strengthening intellectual property rights. It must also support businesses to withstand the fallout of the COVID-19 pandemic.

B. Policy Reform and ADB's Value Addition

10. **Government strategy.** 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.¹² To contain the COVID-19 outbreak and limit the risk of local transmission, the government developed (i) a \$38.4 million health system preparedness and response plan; and (ii) a \$460 million COVID-19 response budget with measures to boost the economy, and provide social protection for the poor and vulnerable. With support from ADB and other development partners, the government is accelerating reforms to address binding constraints to private sector-led growth (para. 9). These reforms will support economic recovery from COVID-19 and build resilience to future economic and fiscal shocks.

11. **Increased Subprogram 3 Loan Amount.** The programmatic approach provides flexibility to respond to emerging opportunities and constraints. In subprogram 3, this includes supporting the government's rapid response to the impacts of COVID-19, as outlined in the COVID-19 response budget, and for which the government has requested an increase in the ADB loan amount for subprogram 3 from \$100 million to \$200 million.¹³ The proposed increase in the loan amount reflects the alignment of the reform areas with the focal areas of the government's COVID-19 response. The use of the policy-based loan modality in FY2020 maintains the government's reform momentum and expands this to reflect relevant COVID-19 responses, leaving open the possibility of the use of a COVID-19 Pandemic Response Option operation in FY2021, if requested by the government, in the case that additional government stimulus measures are required to address an extended period of COVID-19 related border closures.¹⁴

12. **Alignment.** The program (i) supports the government's COVID-19 response; (ii) is aligned with the government's policy priorities in the National Development Plan; and (iii) is aligned with the values and objectives of the Framework for Pacific Regionalism.¹⁵ The program is consistent

¹² Government of Fiji, Ministry of Economy. 2017. [5-Year & 20-Year National Development Plan: Transforming Fiji](#). Suva.

¹³ Government of Fiji, Ministry of Economy. 2020. [Economic and Fiscal Update Supplement to the COVID-19 Response Budget Address](#). Suva.

¹⁴ Subprogram 3 complements other COVID-19-related support to Fiji, including through the Asia Pacific Disaster Response Fund and regional technical assistance support in areas including social protection and gender.

¹⁵ Supporting Fiji's role as a business, information and communications technology, and transport hub for the South Pacific supports deeper market integration in the Pacific, a goal of the Framework for Pacific Regionalism. Pacific Islands Forum Secretariat. 2014. [The Framework for Pacific Regionalism](#). Suva.

with ADB's Pacific Approach, 2016–2020, and country partnership strategy, 2019–2023 for Fiji in its focus on promoting private sector investment and growth, and building resilience and reducing economic volatility.¹⁶ With regard to Strategy 2030, it (i) directly supports the operational priority of strengthening institutional capacity for governance by strengthening the quality and capacity of public institutions to undertake reforms and promote private sector development; and (ii) contributes to operational priorities on addressing remaining poverty and reducing inequalities, accelerating progress in gender equality, and fostering regional cooperation and integration.

13. **Policy actions.** Implementation of the government's structural reform agenda underpins the provision of policy-based lending from ADB and the Asian Infrastructure Investment Bank (AIIB), and linked grants from the governments of Australia and New Zealand.¹⁷ Subprogram 3 actions build on reforms undertaken through subprograms 1 and 2, and reforms will continue as outlined in the PPPF. Under subprogram 3, ADB supports 23 policy actions across three reform areas contained in the policy matrix (Appendix 4) and described in paras. 15–17. All 23 policy actions have been completed.¹⁸

14. Some indicative actions for subprogram 3 were adjusted. The overall strength has been improved with the addition of new policy actions, including relating to the government's COVID-19 response, and changes to increase the substance of the policy actions.¹⁹ The strengthened matrix reflects the additional financing requested by the government.

- (i) Six actions were added to subprogram 3. A PEFA assessment and a PEFA self-assessment of gender-responsive PFM were completed. Fiji's Cabinet decided to introduce gender-responsive budgeting (GRB) in the FY2021 budget; budget submission templates that incorporate associated principles were introduced and piloted by two ministries. This is a critical step to ensure the strategic allocation of resources for government priorities in future budgets. Through the COVID-19 response budget, additional resources were allocated for COVID-19 containment and treatment, and the total budgeted expenditure was reduced to contain the fiscal deficit in a fiscally sustainable manner; specific measures to assist the private sector were also approved.
- (ii) Several indicative actions were changed to increase their substance. Fiji's solicitor-general has notified the secretary-general of the Parliament that four bills approved by the Cabinet—on investment, trademarks, designs, and patents—will be introduced in a regular 2020 sitting of Parliament, through the Solicitor-General's letter of 23 June 2020 on *Introduction of Certain Bills to Parliament*.²⁰ A planning framework to align the service delivery, staffing, and corporate planning requirements of ministries was implemented across all government ministries ahead of schedule. The government exceeded its own targets for shifting from manual to digital payments.

¹⁶ ADB. 2019. [Country Partnership Strategy, Fiji: 2019–2023—Achieving Sustained, Inclusive, and Private Sector-Led Growth](#). Manila; and ADB. 2016. [Pacific Approach, 2016–2020](#). Manila.

¹⁷ The Government of New Zealand joined subprograms 2 and 3, and AIIB and the Government of Australia have joined Subprogram 3, all aligned to the ADB policy matrix. The World Bank's [Fiscal Sustainability and Climate Resilience Development Policy Operation](#) and [Fiji Second Fiscal Sustainability and Climate Resilience Development Policy Operation](#) were aligned to the matrix in subprograms 1 and 2, and the World Bank is preparing a new operation for approval in late 2020.

¹⁸ The program does not distinguish between prior actions (triggers) and policy milestones, with these collectively referred to as policy actions. Milestones strengthen the program and lay the foundation for ongoing reform.

¹⁹ Further details and reasons for the changes are summarized in Changes from Subprogram 3 Indicative Policy Actions to Final Policy Actions (accessible from the list of linked documents in Appendix 2).

²⁰ This allows for a notice to be published in the Gazette and the bills to be introduced in a regular sitting of Parliament in 2020.

- (iii) Two actions were removed from subprogram 3. Cabinet approval of a Public Financial Management Bill for tabling in Parliament has been delayed due to a change in the development partner providing TA and staff turnover, and this will be pursued through the PPPF. An action related to the appointment or use of transaction advisory services for PPP transactions was removed, as it was not relevant in the subprogram 3 period, as no new PPP transactions were initiated.²¹

15. **Reform area 1: Fiscal management improved.** The government recognizes that sound PFM systems and processes that promote fiscal discipline, strategic allocation of resources, and efficient service delivery provide the private sector with policy certainty and business confidence, as well as more cost-effective public services. In the immediate term this area addresses the economic and social risks of COVID-19 by mobilizing the government response in a fiscally sustainable manner. The following subprogram 3 policy actions support this outcome:

- (i) **Public financial management framework.** The Ministry of Economy (MOE) continued to implement the Public Financial Management Improvement Programme, 2016–2019 approved in subprogram 1.²² A high-level, multi-sector public expenditure review of health, education, capital spending, and personnel was completed, and a synopsis was published on the MOE’s website. The public expenditure review analyzes public finance effectiveness and consistency with policy priorities. Strengthening of the budget process continued through the incorporation of forward estimates, and by linking investments and recurring costs in the FY2021 budget submission templates. In subprogram 2, a planning framework to align service delivery, staffing, and corporate planning requirements was piloted by four ministries. In subprogram 3, all ministries have adopted its use well ahead of a planned expansion to three additional ministries in subprogram 3. A PEFA assessment was completed and published that will guide the development of a new PFM roadmap.²³ Fiji was one of seven countries globally to pilot the PEFA self-assessment of gender-responsive PFM, and received “PEFA check” approval.²⁴ The assessment informed the government’s GRB pilot and provides a model for adoption by other countries in the Pacific. Parliament passed a supplementary COVID-19 response budget that allocates additional resources for COVID-19 containment and treatment, reduces budgeted expenditures to contain the fiscal deficit in a fiscally sustainable manner, and provides updated key fiscal projections (including on revenue, expenditure, and debt).
- (ii) **Financial management.** To guide improvements in the FMIS, the responsible minister approved the recommendations of the review undertaken in subprogram 2, and the MOE is writing detailed business and technical requirements to enable the purchase of two priority modules (budget reporting and monitoring, and business intelligence). While an upgrade of the whole FMIS is planned, updating of these modules will enable immediate improvements. The government now

²¹ Existing PPP transactions continue with transaction advisors appointed under subprograms 1 and 2. The removed action required the government to use transaction advisors for any new PPPs. In a small island developing state such as Fiji, it is not expected that potential PPP transactions would be ready for appointment of advisors each year. The government is assessing new PPP opportunities, including with TA from ADB’s Office of Public–Private Partnership.

²² Government of Fiji. 2016. [Fiji Public Financial Management Improvement Programme 2016–2019](#). Suva.

²³ The previous PEFA assessment was undertaken in 2013, but the report was neither endorsed by the government nor published. The 2020 PEFA assessment demonstrates improvements in PFM since 2013, and its publication demonstrates the government’s commitment to transparency and increased accountability.

²⁴ The PEFA Check confirms that the processes used in planning and implementing a PEFA assessment and preparing a PEFA report comply with the PEFA 2016 methodology and other guidance issued by the PEFA Secretariat.

makes 92% of payments digitally, including for social welfare recipients as part of the COVID-19 response.

- (iii) **Gender-responsive budgeting.** The MOE has embraced the potential gains from introducing GRB. While completing the PEFA self-assessment, practical implementation efforts have included procuring software to enable “gender tagging” and a Cabinet decision on introducing and rolling out GRB. The MOE worked with the Ministry of Women, Children and Poverty Alleviation (MWCPA) to develop a methodology that will be used by two pilot ministries for their budget submissions for FY2021.²⁵ Lessons from the pilot will be used to inform and expand GRB in Fiji and across the region.

16. Reform area 2: Policy, legal, and institutional framework for state-owned enterprises and public–private partnerships improved. Fiji’s SOEs provide most infrastructure services in Fiji, and play an important role for trade and tourism connectivity in the Pacific region.²⁶ SOE profitability has improved markedly since 2010, but productivity remains low in many SOEs, and the government is seeking to improve their performance, including through SOE divestment, outsourcing, and PPPs to increase private sector investment, innovation, and expertise.²⁷ Reforms to improve SOEs’ financial management and internal governance will enable SOEs to access finance on commercial terms, which will help them to withstand economic shocks, including those associated with COVID-19. With ADB support, the following subprogram 3 policy actions have been implemented:

- (i) **State-owned enterprise reform.** The Public Enterprises Act 2019 was passed by Parliament in subprogram 2 to strengthen SOE governance, transparency, and accountability; and improve performance and service delivery. It has come into force, and required regulations are in place.²⁸ Training programs on the compliance requirements of the Public Enterprises Act 2019 have been conducted, covering 76% of directors and 80% of senior management, including 90% of women in these roles.²⁹ Cabinet has approved a new policy for onlending to government entities, including SOEs, to better manage associated fiscal risks; the onlending policy complements a guarantee policy approved in subprogram 2. Privatization guidelines have come into force, with clear and transparent rules and procedures for preparing and executing SOE divestments. The onlending policy and privatization guidelines were published on the MOE’s website.
- (ii) **Divestment and public–private partnerships.** Two SOEs—Food Processors (Fiji) Limited and Fiji Rice Limited—have restructured their balance sheets through the sale of non-core assets, including land and buildings.³⁰ PPP implementation

²⁵ The Ministry of Commerce, Trade, Tourism and Transport and Ministry of Fisheries have committed to pilot gender-based budgeting for at least two of their programs. The methodology and new budget submission templates will be distributed to all ministries, and other ministries may choose to also participate in the pilot.

²⁶ Air Pacific Limited (trading as Fiji Airways), Airports Fiji Limited, and Fiji Ports Corporation Limited in particular offer essential services in air and maritime transport for Fiji and the Pacific region.

²⁷ 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%.

²⁸ Among other key features, the act (i) harmonizes different forms of SOEs under a single framework; (ii) establishes a framework for the identification, costing, contracting, and financing of community-service obligations that applies to all SOEs; (iii) makes the minister for public enterprises solely responsible for SOEs, with clear duties and responsibilities; and (iv) strengthens the appointment process for directors, and their duties and responsibilities.

²⁹ This compares to less than 25% people in such positions trained in 2017. The training was considered important to ensure implementation of the new act and that directors and management can be held to account for performance. The training was attended by 11 of the 13 women directors (85%) and all 7 women in senior management (100%).

³⁰ In the COVID-19 response budget, the government announced its intention to convert government loans to equity for five agriculture sector SOEs—Fiji Sugar Corporation, PAFCO, Fiji Rice Limited, Food Processors (Fiji) Limited, and Viti Corp Company Limited—to strengthen their balance sheets.

guidelines, including on the PPP procurement process, which complement the PPP policy approved under subprogram 2, were approved by Cabinet and published on the MOE's website.

17. **Reform area 3: Business and investment climate improved.** Foreign direct investment in Fiji averaged 6.7% of GDP from 2010 to 2018, and is constrained by a weak investment climate affected by policy uncertainty and gaps in the commercial legal framework. Proactive measures are also required to ensure women's private sector participation, and inclusive and sustainable economic development in the immediate, medium and longer term. Reforms to improve the business and investment climate are being undertaken in consultation with the private sector. These reforms will stimulate new private investment, which is essential as Fiji's economy recovers. The COVID-19 response budget included targeted measures to support business survival during the downturn. These reforms are achieved through the following subprogram 3 policy actions:

- (i) **Foreign investment and trade.** To strengthen investor rights and streamline the investment approval process, a new Investment Bill was approved by Cabinet for tabling in Parliament, and the solicitor-general notified the secretary-general of parliament that the Investment Bill will be introduced in a regular 2020 sitting of Parliament.³¹ The bill, when enacted, will replace the Foreign Investment Act 1999, and it builds on the policy statement approved in subprogram 2. To improve trade competitiveness, the government has completed five World Trade Organization Trade Facilitation Agreement commitments.³² These reforms will decrease barriers to international and regional trade and foreign direct investment flows.
- (ii) **Access to finance.** The Personal Property Securities Registry was established following the passing of the associated act and implementing regulations in subprograms 1 and 2,³³ enabling lenders to more easily, cheaply, and securely accept movable assets as security for loans. This particularly benefits businesses owned by women, who are less likely to have fixed assets, such as land.
- (iii) **Ease of doing business.** The Regulation of Building Permits Act 2017, which simplifies construction permit applications and speeds approvals, was approved in subprogram 1. It has come into force, and application forms have been streamlined and harmonized, and an online portal launched to provide easier access to information for those submitting applications. Following stakeholder consultations in subprogram 2, Cabinet approved bills to enhance the legal framework for trademarks, designs, and patents; and the solicitor-general notified the secretary-general of Parliament that the bills will be introduced in a regular 2020 sitting of Parliament (footnote 31).³⁴ Cabinet approved a competition and consumer

³¹ All bills that are tabled will undergo validation and gender analysis by the parliamentary standing committee with jurisdiction over the subject matter of the bill.

³² These commitments are provisions that the World Trade Organization member will implement after a transitional period following the entry into force of the Trade Facilitation Agreement. The five commitments completed in subprogram 3 are: Article 1.3 Enquiry Points; Article 1.4 Notification; Article 3 Advance Rulings; Article 7.7 Trade Facilitation Measures for Authorized Operators; and Article 10.3 Use of International Standards. The Trade Facilitation Agreement was ratified under subprogram 1, and four commitments were completed in subprogram 2.

³³ The Personal Property Securities Act 2017 came into force when the Registry was established and launched. This completes the reform and the framework is fully operational. As of 31 March 2020, over 57,500 filings were recorded. Personal property securities reform has been completed in nine Pacific developing member countries with support from ADB, resulting in harmonization of legal frameworks. Pacific Private Sector Development Initiative. 2020. [Annual Progress Report, 2018–2019](#). Sydney.

³⁴ In May 2020, Parliament referred international treaties on intellectual property (the Madrid Agreement Concerning the International Registration of Marks, the Protocol Relating to the Madrid Agreement, and the Paris Convention for Protection of Industrial Property) to the Standing Committee for Foreign Affairs and Defense for review. Submissions were heard in June 2020. These treaties enable international recognition of intellectual property rights among parties.

- protection policy statement, and the drafting of associated legislation, which sets out the government's commitments in facilitating a well-functioning competitive market economy. This follows extensive consultations on a review of the Fijian Competition and Consumer Commission Act 2010 undertaken in subprogram 2.³⁵
- (iv) **Coronavirus disease response.** To help the private sector and workers mitigate the financial impact of COVID-19, the government introduced, via the supplementary COVID-19 response budget for FY2020 (i) a reduction in employers' statutory Fiji National Provident Fund contributions until 31 December 2020; (ii) 21 days government-paid sick leave for workers who test positive to COVID-19; (iii) tax deductions for employers for wages and salary paid to employees who are self-quarantined; (iv) additional contributions to financial sector schemes that boost lending to small and medium-sized enterprises (SMEs); and (v) relief payments to informal sector workers, including for women-owned microenterprises such as hawkers, in lockdown areas.³⁶ In addition, a guidance note on the gendered impacts of COVID-19 in Fiji was presented to Cabinet by the MWCPA; a newly established government-led COVID-19 Response Gender Working Group will oversee further analysis and implement recommendations into future COVID-19 assessments and responses.³⁷

18. **Post-program partnership framework.** Major reforms have been achieved through the program; however, continued reform is needed. The four bills approved by the Cabinet—on investment, trademarks, designs, and patents—will be tabled in Parliament, and upon approval implemented. The Public Financial Management Bill, which was removed from subprogram 3, will be finalized and tabled in Parliament. Work started in subprogram 3 to mainstream GRB will continue after learning from the pilots. Ongoing improvements to the operations of SOEs are anticipated, and SOEs involved in air and maritime transport will facilitate delivery of services critical to post-COVID-19 economic recovery in Fiji and the Pacific region. A PFM roadmap will be developed from the PEFA Assessment to clearly guide the future reform program. Details of the PPPF can be found in the policy matrix in Appendix 4.

19. **Gender.** Subprogram 3 is classified *gender equity theme*. Subprogram 3 includes policy actions that will have a transformational impact on gender equality, women's economic empowerment, and women's access to resources and services. To address the immediate impacts of COVID-19, actions included: (i) support for SMEs owned or led by women; (ii) direct cash transfers to informal workers, including for microenterprises owned by women (such as hawkers); and (iii) a guidance note on the gendered impacts of COVID-19 in Fiji presented to Cabinet, and the establishment of a COVID-19 Gender Working Group to act on the recommendations from the paper. To increase women's voice and access to services and resources, the government carried out a number of actions to introduce GRB. To ensure a gender-responsive business and investment climate, actions included: (i) gender analysis on the investment, trademarks, designs and patents bills by the Parliamentary Standing Committee with jurisdiction over the subject matter of the bills; (ii) the establishment of a sex-disaggregated Personal Property Securities Registry that allows women to more easily access finance; and

³⁵ In addition, the government is implementing reforms on starting a business, including digitization of its companies' registry and business licensing reforms, with technical support from Singapore Cooperation Enterprise.

³⁶ Additional contributions were made to the Credit Guarantee Scheme and Natural Disaster Rehabilitation Facility, which makes loans available to banks at very low interest rates to pass on to SMEs impacted by COVID-19 at a capped interest rate. These schemes are administered by the Reserve Bank of Fiji, and are particularly important to provide finance for SMEs owned by women, which are less likely to have capital or insurance to sustain operations.

³⁷ The Working Group is led by MWPCA and includes representatives of civil society and women's rights organizations, ADB and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women).

(iii) a Cabinet-approved competition and consumer protection policy statement with a commitment to supporting women's consumer rights. These actions will expand the use of GRB in government programs and ensure that future COVID-19 programs include targeted measures for women's economic empowerment. Ultimately, the longer-term effect of the reforms will ensure inclusive private sector-led growth; increased access to quality services for women and girls; and women's economic empowerment during and following the COVID-19 crisis.

20. **ADB engagement.** ADB has supported PFM reform, SOE reform, and business climate reform through regional and country-specific TA projects.³⁸ There is strong collaboration with the governments of Australia and New Zealand, the European Union, the IMF's Pacific Financial Technical Assistance Centre, and the World Bank, and all are supporting these reforms. ADB's strong relationship with the government enabled ADB to help identify and implement critical structural reforms. Specifically, ADB has directly supported the introduction of GRB; the drafting of policy or legislation on SOEs, PPPs, personal property securities, and competition and consumer protection; and has provided implementation support. ADB supported the drafting of a guidance note on the gendered impacts of COVID-19 in Fiji, and ADB is a member of the government's COVID-19 Gender Working Group. 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.

21. Lessons from ADB's engagement in these areas in Fiji and across the Pacific, including from implementing subprograms 1 and 2, highlight the need to: (i) identify champions to strengthen reform commitment and lead implementation; (ii) obtain broad endorsement so that reforms are not derailed if leadership changes; (iii) pursue moderate, sequenced reforms, especially if institutional capacity is limited; (iv) provide sufficient time to develop capacity and institutionalize reforms; (v) meet with government specialists responsible for undertaking specific reforms (in addition to senior officials) to ensure appropriate technical input; (vi) create clear tracking tools to monitor progress toward final outcomes; and (vii) showcase the impact of reforms to other countries in the Pacific region, such as through regional fora or knowledge products, to encourage harmonization of reform in the region.³⁹

22. **Development partner coordination.** The program is part of a multi-development partner package of support for structural reform. The governments of Australia and New Zealand will provide grants, and AIIB will provide a loan in 2020 linked to the completion of the ADB policy actions. The World Bank is preparing a new development policy operation series for approval in late 2020. Joint missions have been undertaken to develop subprogram 3 with cofinanciers, and regular development partner meetings are held to coordinate reforms (para. 20).

C. Impacts of the Reform

23. Implementation of the policy actions for the overall reform program will improve the quality of budget systems and institutions; improve the productivity and competitiveness of SOEs; and help create new businesses and formal job growth, including for women.⁴⁰ It will also mitigate the impact of COVID-19 on businesses, workers, the poor and vulnerable through targeted transfers. The GRB actions will increase awareness of the cost of gender inequality; increase capacity and data related to gender equality; increase budget transparency, accountability and participation;

³⁸ ADB. [Fiji: Supporting Public Financial Management Reform](#); ADB. [Regional: Sector and Thematic Analyses in Policy Development](#); and ADB. [Regional: Pacific Private Sector Development Initiative, Phase IV](#).

³⁹ ADB. 2014. *Fiji: Review of ADB Engagement, 2006–2013*. Manila; and Independent Evaluation Department. 2019. [Fiji Country Partnership Strategy Final Review Validation, 2014–2018](#). Manila.

⁴⁰ Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

and improve gender outcomes in budgets, policies and service delivery. GRB actions will also have impacts across the region as lessons will inform GRB initiatives in other Pacific countries. Improving the policy, legal, and institutional framework for SOEs will strengthen governance, transparency, and accountability; improve performance and service delivery; reduce contingent liabilities; create room for private investment; and improve the reliability, efficiency, and affordability of public services. Fiji's business environment reforms are expected to increase its ease of doing business score from 61.5 in 2019 to at least 64.0 by 2020, which would bring Fiji's performance above that of the Philippines (62.8) and close to that of Malta (66.1) in 2019.⁴¹

D. Development Financing Needs and Budget Support

24. The government has requested a regular loan of \$200 million from ADB's ordinary capital resources to help finance subprogram 3.⁴² The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 9.25 years, and there is no maturity premium payable to ADB.

25. The subprogram 3 financing will help meet the government's total financing requirements for FY2020—projected at \$580 million, including the COVID-19 response budget—and FY2021. In FY2020, the external financing need is \$268 million, of which ADB will finance 74.8% and cofinancing partners will finance 19.5% as part of the program. Parallel collaborative partner cofinancing includes a loan of \$50 million from AIIB, a grant of \$1.5 million (NZ\$2.5 million) from the Government of New Zealand, and a grant of \$0.7 million (AU\$1.0 million) from the Government of Australia.⁴³ The gap will be filled by grants and concessional loans from development partners and domestic bonds. Additional funding (of over \$9.1 million) has been provided by the governments of Australia and New Zealand to assist with the COVID-19 response. The program has considered the government's financing needs, its ability to rebuild fiscal buffers to respond to disasters triggered by natural hazards, the availability of alternative financing and estimated financial support from other partners, and debt sustainability.

E. Implementation Arrangements

26. The implementation period for subprogram 3 is May 2019–October 2020. The preparation and completion of policy actions for subprogram 3 was carried out from May 2019 to June 2020. The MOE was the executing agency for all three subprograms. The MOE has taken the lead in coordinating implementation of actions; engaging in progress meetings with the Ministry of Commerce, Trade, Tourism and Transport; the MWCPA; and the Reserve Bank of Fiji as implementing agencies, and providing updates to ADB. The MOE has also actively coordinated policy dialogue and needed technical support for the program reforms with partners (para. 20). The proceeds of the policy-based loan will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).⁴⁴

⁴¹ The World Bank. [Doing Business](#). Reforms under the program are expected to improve scores for the following Doing Business topics: (i) getting credit (personal property securities reform); (ii) trading across borders (World Trade Organization Trade Facilitation Agreement implementation); and (iii) dealing with construction permits (building permits reform).

⁴² Subprogram 3 was originally planned as a \$100 million program, following the outbreak of COVID-19 the government requested an additional \$100 million to reflect revised forecasts of financing needs.

⁴³ The Government of Australia and AIIB are new cofinancing partners.

⁴⁴ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

III. DUE DILIGENCE

27. Following ADB’s Safeguard Policy Statement (2009), subprogram 3 is classified category C for the environment, involuntary resettlement, and indigenous peoples. Program activities will be confined to policy and institutional reforms. No activity will result in or lead to involuntary resettlement, or negatively affect indigenous peoples or the environment.

28. **Risks.** Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.⁴⁵ PFM systems are assessed as capable of supporting reliable service provision. Policy reforms and TA support will address other fiduciary risks. The overall risk of the operation is *moderate*.

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
The COVID-19 pandemic undermines economic growth and Fiji’s fiscal position to the point that it diverts political and administrative focus and capacity away from reforms.	ADB will monitor national and global economic developments and respond in a timely manner and in coordination with other partners to possible government requests for assistance if the economic downturn becomes more severe than anticipated.
Policy reform implementation falters because of inadequate institutional capacity.	Reforms are prioritized and sequenced, taking into account institutional capacity. TA from ADB and other development partners will build capacity in the ministries engaged in the proposed program.

ADB = Asian Development Bank, COVID-19 = coronavirus disease, TA = technical assistance.
Source: Asian Development Bank.

29. ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government; the MOE; the Ministry of Commerce, Trade, Tourism and Transport; the MWCPA; and the Reserve Bank of Fiji.

IV. ASSURANCES

30. The government and the MOE have assured ADB that implementation of subprogram 3 shall conform to all applicable ADB policies, including those concerning anti-corruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement. No disbursement shall be made unless ADB is satisfied that government has completed the policy actions specified in the policy matrix relating to the subprogram.

V. RECOMMENDATION

31. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$200,000,000 to the Republic of Fiji for subprogram 3 of the Sustained Private Sector-Led Growth Reform Program, from ADB’s ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

2 July 2020

Masatsugu Asakawa
President

⁴⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Inclusive socioeconomic development achieved (National Development Plan 2017–2036) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Effect of the Reform Inclusive private sector-led economic growth sustained	By 2021: a. Improvements in the Public Expenditure and Financial Accountability (PEFA) ratings for Fiji to at least C for PI-10.1, PI-10.3, PI-16.1, PI-23 and PI-27 (2013 baseline: D+) ^b b. Ease of doing business score in the World Bank Doing Business report increased to at least 64 (2019 baseline: 61.5) c. Financial institutions' lending to the private sector for commercial purposes maintained or increased (2016 baseline: 48.3% of GDP) d. Government COVID-19 response and recovery programs include targeted gender measures for women's economic empowerment (2020 baseline: not applicable) ^c e. At least four government programs use gender-responsive budgeting in the annual budget process (2018 baseline: 0) ^d	a. PEFA assessment (or comparable assessments) b. World Bank Doing Business reports c. Reserve Bank of Fiji Economic Review reports d. Ministry of Economy reports and publications e. Ministry of Economy reports and publications	Macroeconomic shocks, including the effects of the COVID-19 pandemic, undermine Fiji's economic growth and fiscal position, leading to a shift in government priorities away from performance improvements and ongoing reforms.
Reform Areas under Subprogram 3 1. Fiscal management improved	Key Policy Actions By 30 April 2020: 1a. Public Expenditure and Financial Accountability Assessment completed, and final report published (2019 baseline: not started) 1b. Public Expenditure and Financial Accountability self-assessment of gender-responsive public financial management completed and received a "PEFA check" (2019 baseline: not started) 1c. MOE submitted a Cabinet information paper that outlines the steps taken to introduce gender-responsive budgeting principles in the annual budget process (2019 baseline: not applicable)	1a. PEFA Assessment 1b. PEFA self-assessment of gender-responsive public financial management 1c. Letter from the permanent secretary for economy	Leadership and political will to complete the reforms is lacking because of vested interests.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>2. Policy, legal, and institutional framework for SOEs and PPPs improved</p> <p>3. Business and investment climate improved</p>	<p>1d. Budget submission templates designed to enable gender-responsive budgeting (2019 baseline: not started)</p> <p>1e. COVID-19 response budget for FY2020 that allocates additional resources for COVID-19 containment and treatment, and reduces budgeted expenditure to contain the fiscal deficit in a fiscally sustainable manner approved by Parliament (2019 baseline: not started)</p> <p>By 30 April 2020:</p> <p>2a. Training programs conducted for SOE directors and senior management, including at least 90% of women in these roles, on compliance requirements of Public Enterprises Act 2019 (2019 baseline: not started) ^e</p> <p>2b. Public–private partnership implementation guidelines approved (2019 baseline: not approved)</p> <p>2c. Policy framework for onlending to government entities approved (2019 baseline: not approved)</p> <p>By 24 June 2020:</p> <p>3a. Investment Bill approved by Cabinet, and the Secretary-General of Parliament notified that the bill will be introduced in a regular 2020 sitting of Parliament (2019 baseline: not approved)</p> <p>3b. Personal Property Securities Registry that captures sex-disaggregated data established (2019 baseline: not established) ^f</p> <p>3c. Competition and consumer protection policy statement—which includes recognition of the specific needs of women, rural and disadvantaged groups and a commitment to supporting women’s consumer rights—approved (2019 baseline: not approved)</p> <p>3d. Measures introduced to assist the private sector and workers by mitigating the financial impact of COVID-19, including (i) a reduction in employers’</p>	<p>1d. Budget submission templates</p> <p>1e. COVID-19 response budget</p> <p>2a. Letter from the permanent secretary for economy</p> <p>2b. Public–private partnership implementation guidelines</p> <p>2c. Policy framework for onlending to government entities</p> <p>3a. Investment Bill</p> <p>3b. Personal Property Securities Registry website</p> <p>3c. Competition and consumer protection policy statement</p> <p>3d. Letter from the permanent secretary for economy</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>statutory Fiji National Provident Fund contributions, (ii) government-paid sick leave for workers who test positive to COVID-19, (iii) tax deductions afforded to employers for wages and salary paid to employees who are self-quarantined, (iv) additional contributions to financial sector schemes that boost SME lending, and (v) relief payments to informal sector workers, including for micro-enterprises owned by women (such as hawkers), in lockdown areas (2020 baseline: not applicable) ^g</p> <p>3e. A guidance note on the gendered impacts of COVID-19 in Fiji, including recommendations on women's economic empowerment, prepared and presented to Cabinet (2020 baseline: not applicable)</p>	3e. Guidance note	

Budget Support

ADB: \$200.0 million (regular OCR loan)

Asian Infrastructure Investment Bank: \$50.0 million (loan)

Government of New Zealand: \$1.5 million (NZ\$2.5 million equivalent) (grant)

Government of Australia: \$0.7 million (AU\$1.0 million equivalent) (grant)

ADB = Asian Development Bank, COVID-19 = coronavirus disease, GDP = gross domestic product, MOE = Ministry of Economy, OCR = ordinary capital resources, PEFA = public expenditure and financial accountability, PPP = public-private partnership, SOE = state-owned enterprise.

^a Government of Fiji, Ministry of Economy. *5-Year & 20-Year National Development Plan: Transforming Fiji*. Suva.

^b PEFA indicator: PI-10.1: Monitoring of public corporations; PI-10.3: Contingent liabilities and other fiscal risks; PI-16.1: Medium-term expenditure estimates; PI-23: Payroll controls; and PI-27: Financial data integrity. The baseline is from the 2013 PEFA Assessment report, which uses the 2011 framework. The PEFA comparison table was used to adjust targets to the 2016 framework.

^c This is a leading indicator of increased economic empowerment of women and girls because it measures increased access to services and resources that support their economic empowerment. To the extent possible, the program completion report will report further details on the early benefits of the targeted measures for women and girls based on evidence of immediate benefits available at completion reporting stage.

^d Lack of existing sex-disaggregated data limits the ability to set outcome-level gender baselines and targets. This is an indicator of women's participation in budget processes and a leading indicator of (i) increased targeted budget allocation to services for women and girls; and (ii) ultimately improved services for women and girls in Fiji. This indicator will be further informed by analysis of the systematic collection of sex-disaggregated data in the budget process. ADB will continue to monitor these intended outcomes through future programming.

^e A total of 18 out of 20 women directors and senior management have improved capacity in ensuring SOE compliance with Public Enterprises Act 2019.

^f The reform enables lenders to accept movable assets as security for loans more easily, cheaply, and securely, thereby benefiting businesses owned by women. As of 31 March 2020, the Personal Property Securities Registry included women debtors (13.1%); equal male and female (12.6%); and unknown (20.3%). Unknown gender was recorded primarily for older, transitional filings.

^g The COVID-19 response budget costs measure (i) at \$58.1 million; measures (ii), (iii), and (v) are part of a package for employees costed at up to \$29.1 million, with measure (iv) costed at \$29.1 million. Government-paid sick leave is provided for up to 21 days, compared to the statutory requirement of 10 days' sick leave per year.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=48490-004-3>

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Approved Report and Recommendation of the President to the Board of Directors: Sustained Private Sector-Led Growth Reform Program (Subprogram 1)
11. Approved Report and Recommendation of the President to the Board of Directors: Sustained Private Sector-Led Growth Reform Program (Subprogram 2)

Supplementary Documents

12. Program Impact Assessment
13. Government COVID-19 Response Measures in Fiji
14. Changes from Subprogram 3 Indicative Policy Actions to Final Policy Actions
15. Program Policy Matrix

DEVELOPMENT POLICY LETTER



Attorney-General and Minister for Economy, Civil Service and Communications

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11 June 2020

By E-mail

President Masatsugu Asakawa
Asian Development Bank
6 ADB Avenue
Mandaluyong, 1550 Metro Manila
Philippines

Dear President Asakawa

Government of the Republic of Fiji Development Policy Letter

1. Fiji and the Asian Development Bank share a longstanding partnership, built on mutual trust, respect and confidence that has produced tremendous progress and prosperity within our borders and across our region. Fiji made history as the first Pacific island nation to ever host an Asian Development Bank ('ADB') Annual Meeting in 2019, where we proudly hosted your predecessor President Takehiko Nakao. The theme of that meeting "Prosperity through Unity" rings truer today than ever before in light of the historic challenge of the COVID-19 pandemic.
2. As a Small Island Developing State, Fiji is exceptionally vulnerable to the dual health and economic crises brought on by the spread of the novel coronavirus. As of 5 June 2020, we've declared an end to the COVID-19 outbreak in Fiji, with all 18 of our cases making full recoveries. Regardless of the success of our public health response, the pandemic has had unyielding social, economic and fiscal impacts for Fiji, primarily driven by the shutdown of the tourism industry.
3. The services sector, and tourism in particular, is the main driver of economic growth and accounts for around 70% of our gross domestic product ('GDP') and is a major contributor to employment. In addition, economic slowdowns in our major trade and investment markets, including Australia and New Zealand, has had devastating ripple effects for Fijian businesses and livelihoods.
4. Historically, Fiji's real GDP growth has been low and volatile, averaging 1.9% per year from 1980 to 2009. However, Fiji entered a 10-year streak of economic growth from 2010, with real GDP growth averaging 3.4% from 2010 to 2019, which was snapped by COVID-19. Fiji's

economic expansion, which has been supported by public investment in infrastructure, has come despite Fiji's vulnerability to climate-induced natural disasters such as cyclones and floods. Our economic advancement has seen poverty rates decline between 2002 and 2014 and Fiji is ahead of most countries in the region in terms of social development.

5. The Sustained Private Sector-Led Growth Reform Program supports the improvement of fiscal management, the strengthening of the policy, legal and institutional framework for state-owned enterprises ('SOEs') and public-private partnerships ('PPPs'), and the improvement of the business and investment climate. The reforms in these areas will be critical to support the Fiji's full economic recovery and broaden our economic base to build resilience and reduce economic volatility.
6. This year, with all regularly scheduled international flights suspended, the tourism sector gutted, and supply chains disrupted, the Fijian economy is forecasted to contract. The initial shock to the accommodation sector has spread across industries, including wholesale and retail trade, construction, transport, real estate, and finance. Remittance inflows are also expected to decline. Furthermore, tropical cyclone Harold struck Fiji on 8–9 April 2020, directly affecting more than 20% of the population, and causing around \$46.4 million in damages according to initial assessments.
7. In relation to public financial management, a Public Expenditure and Financial Accountability ('PEFA') Assessment was undertaken in the fourth quarter of 2019 and will be used to develop a roadmap for reform following on from the Fiji Public Financial Management Improvement Programme, 2016–2019. The roadmap will outline reforms to be progressively undertaken to strengthen public financial management in Fiji. Key focuses of the programme are expected to improve macroeconomic stability, governance, expenditure management, financial accountability and transparency. This provides the needed thrust to our broad reform agenda for implementation in key areas such as:
 - (i) fiscal management;
 - (ii) the policy, legal and institutional framework for Fiji's SOEs and PPPs; and
 - (iii) Fiji's business and investment climate.

We believe that policy-based lending from ADB will support the full implementation of these critical structural reforms.

8. We are therefore seeking ADB's favourable consideration of Fiji's policy-based loan for a total of US\$200 million for subprogram 3, the final of three subprograms under the "Sustained Private Sector-Led Growth Reform Program". Subprogram 1 disbursed US\$15 million in 2018 and subprogram 2 US\$65 million in 2019. The initial request for subprogram 3 was for US\$100 million in 2020 however changes in circumstances as the result of COVID-19 have resulted in a request to increase the amount to \$200 million. The attached program policy matrix which contains confirmed actions for subprogram 3 as agreed between the Fijian Government and ADB, is in line with the Government's policy reform agenda. The policy matrix is appropriate for Fiji's context and within our capacity to accomplish.

9. The Government had agreed to substantive policy actions in the policy matrix and completed all the actions in subprogram 3 by the agreed date of 30 April 2020. To improve fiscal management, reforms completed under subprogram 3 included:
- (i) completion of a public expenditure review;
 - (ii) improved budget submission templates to link investment and recurrent costs;
 - (iii) use by all ministries of the planning framework;
 - (iv) completion of a PEFA assessment and PEFA self-assessment of gender-responsive public financial management;
 - (v) commencement of developing detailed requirement and procurement documents for 2 financial management modules;
 - (vi) an increase in the percentage of Government payments made through digital platforms;
 - (vii) submission of a Cabinet information paper on the introduction of gender-responsive budgeting principles;
 - (ix) piloting of gender-responsive budgeting by two Ministries; and
 - (x) the supplementary COVID-19 response budget that allocates additional resources for COVID-19 containment and treatment, reduces budgeted expenditure to contain the fiscal deficit in a fiscally sustainable manner, and provides updated key fiscal projections (including on revenue, expenditure and debt).
10. To strengthen the policy, legal and institutional framework for SOEs and PPPs, reforms completed under subprogram 3 included:
- (i) the Public Enterprises Act 2019 which came into force with new regulations;
 - (ii) training programs to support compliance with the Public Enterprises Act 2019;
 - (iii) privatization guidelines came into force;
 - (iv) Cabinet approved a public-private partnership implementation guidelines;
 - (v) Cabinet approved a new policy framework for onlending to Government entities; and
 - (vi) the balance sheet restructuring of several public enterprises.
11. To improve the business and investment climate, reforms completed under subprogram 3 included:
- (i) Cabinet approved an Investment Bill for tabling in Parliament;
 - (ii) implementation of World Trade Organization Trade Facilitation Agreement commitments;
 - (iii) regulations under the Building Permit Act came into force, the Building Permits Evaluation Committee members were appointed and an online information portal was launched;
 - (iv) Cabinet approved Bills relating to trademarks, designs and patents for tabling in Parliament;
 - (v) Cabinet approved a policy statement and drafting of a Bill relating to competition and consumer law; and
 - (vi) the Government introduced, via the supplementary COVID-19 Response Budget for FY2019/2020, measures to assist workers and the private sector.

12. We have tasked senior Government officials to continue monitoring program implementation and sector performance. We are confident that the Fijian Government's strong leadership and ownership of the reforms, supported by financial and technical assistance from ADB, and effective development partner collaboration over the medium term, will result in the successful implementation of our structural reform agenda. We look forward to working closely with the ADB to carry forward Fiji's vision to achieve inclusive socio-economic development for all Fijians.
13. We look forward to your favourable response.

Thank you.

Yours sincerely



Aiyaz Sayed-Khaiyum
Attorney-General and Minister for Economy

POLICY MATRIX

Principal Objective	Subprogram 3 Policy Actions – All Complete	Post-Program Partnership Framework
REFORM AREA 1: FISCAL MANAGEMENT IMPROVED		
1.1 Public financial management regulatory framework, systems and processes	1.1.2 The Ministry of Economy completed a public expenditure review (PER) that includes high level sector reviews on education, health, capital spending, personnel, and transfers and subsidies, and a synopsis of the PER was published on the Ministry of Economy's website. ^a	Work that commenced on a Public Financial Management Bill will result in a draft bill that will be tabled in Parliament, and which will clarify in legislation changes made through reforms and strengthen the authority of Permanent Secretaries. With the finalization of the PEFA Assessment (action 1.1.5) the government will develop a new PFM reform roadmap, which will pick up on many of the reform areas that laid foundational work during this program. Reform to the budget process will continue, and the gender-responsive budgeting pilots commenced during subprogram 3 will continue, with a gradual rollout of gender-responsive budgeting across government, as agreed by Cabinet (action 1.4.1) . The implementation of an initial two software modules to improve financial management is expected to lead to a large project to replace the current system in full, and take advantage of ongoing work to revise and improve the chart of accounts and to move government towards an International Public Sector Accounting Standards accrual accounting system for the whole of government.
	1.1.3 The Ministry of Economy implemented the Medium Term Expenditure Framework through the incorporation of forward estimates and clear links between investments and recurrent cost requirements in the FY2021 budget submission template.	
	1.1.4 All Ministries have adopted use of the planning framework that will aid Ministries to better align their service delivery, staffing and corporate planning requirements.	
	1.1.5 The Ministry of Economy; (i) completed a Public Expenditure and Financial Accountability (PEFA) Assessment and the final report has been published on its website, and (ii) completed a PEFA self-assessment of gender responsive public financial management, which has been approved by the PEFA Secretariat. ^b	
	1.1.6 Parliament passed a supplementary COVID-19 Response Budget for FY2020 that allocates additional resources for COVID-19 containment and treatment and reduces total budgeted expenditure to contain the fiscal deficit in a fiscally sustainable manner.	
1.3 Financial management	1.3.1 The Minister responsible for finance approved the recommendations of the FMIS review, and the Ministry of Economy commenced development of business and technical requirements to enable procurement of software modules (budget reporting and monitoring, and business intelligence) that include capability to tag gender expenditure. ^c	
	1.3.2 92% of government payments have been made through digital platforms during 1 August 2019–31 March 2020.	
1.4 Gender-responsive budgeting	1.4.1 Ministry of Economy submitted a Cabinet information paper that outlines the steps taken to introduce gender-responsive budgeting principles in the annual budget process.	
	1.4.2 The Ministry of Economy issued budget submission templates that include gender-responsive budgeting principles, and, as a pilot, the Ministry of Commerce, Trade, Tourism and Transport and Ministry of Fisheries, are	

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	required to make budget submissions for at least 2 programs in line with the new methodology.	
<u>REFORM AREA 2: POLICY, LEGAL AND INSTITUTIONAL FRAMEWORK FOR SOEs AND PPPs IMPROVED</u>		
2.1 SOE reform	<p>2.1.1 Minister responsible for public enterprises made regulations under the Public Enterprises Act 2019 in relation to the percentage of share ownership or control for the purposes of section 43(2)(e).</p> <p>2.1.2 The Department of Public Enterprises conducted training programs for 76% of directors and 80% of senior management (defined as chief executive officer and chief financial officer, or equivalent positions), including 90% of women directors and senior managers, of public enterprises on the compliance requirements of the Public Enterprises Act 2019.^d</p> <p>2.1.3 Privatization Guidelines came into force and the Ministry of Economy published the guidelines on its website.</p> <p>2.1.4 Cabinet approved, and the Ministry of Economy published on its website, the Public Private Partnership implementation guidelines.</p> <p>2.1.5 Cabinet approved, and the Ministry of Economy published on its website, a new policy framework for onlending to government entities, including public enterprises.</p>	Following the completion of reforms under the program, future privatizations and public-private partnership transactions will be based on sound policies and processes to achieve the best outcomes for government. SOE performance is expected to continue to improve, due to the Public Enterprises Act 2019 coming into force, and training started under the program will continue for directors and senior management to ensure compliance with the Act. Transaction advisors will continue to be appointed for any PPP transactions undertaken. To support the economic recovery from COVID-19 in Fiji and the Pacific region, the government will continue to work with SOEs and regional partners, particularly in the air and maritime transport sectors, to facilitate the provision of critical services, and to reduce barriers to trade and travel. ^e
2.2 Divestment and PPPs	2.2.1 Two public enterprises, Food Processors (Fiji) Limited and Fiji Rice Limited, have restructured their balance sheets, including through the sale of non-core assets.	
<u>REFORM AREA 3: BUSINESS AND INVESTMENT CLIMATE IMPROVED</u>		
3.1 Foreign investment and trade	<p>3.1.2 Cabinet approved the Investment Bill for tabling in Parliament; and the Solicitor-General has notified the Secretary-General of Parliament that the Bill will be introduced as soon as practicable in a regular 2020 sitting of Parliament through the Solicitor-General's letter of 23 June 2020 on <i>Introduction of Certain Bills to Parliament</i>.^f</p> <p>3.1.3 The Fijian Government completed five commitments under the World Trade Organization Trade Facilitation Agreement.^g</p>	The reforms completed under the program will support the economy's recovery from COVID-19. The Investment Bill will be tabled in Parliament, and associated regulations will be drafted. The government will continue to implement its World Trade Organization Trade Facilitation Agreement commitments. The competition and consumer protection policy statement will lead the development of a new Competition and Consumer
3.2 Access to finance	3.2.1 The Fijian Government established the Personal Property Securities Registry that captures sex-disaggregated data. ^h	
3.3 Ease of doing business	3.3.1 Regulation of Building Permits Act 2017 came into force; the Minister responsible for industry and trade made regulations under the Act that include	

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	<p>harmonized forms and appointed the Building Permits Evaluation Committee members; and an online information portal on obtaining a building permit was launched.</p> <p>3.3.2 Cabinet approved; (i) a Bill relating to trademarks, (ii) a Bill relating to designs, and (iii) a Bill relating to patents, in each case for tabling in Parliament; and the Solicitor-General has notified the Secretary-General of Parliament that the Bill will be introduced as soon as practicable in a regular 2020 sitting of Parliament through the Solicitor-General's letter of 23 June 2020 on <i>Introduction of Certain Bills to Parliament</i>.^f</p> <p>3.3.3 Cabinet approved a policy statement and drafting of a Bill relating to competition and consumer law which includes recognition of the specific needs of women, rural and disadvantaged groups and a commitment to supporting women's consumer rights.</p>	Protection Bill. The online information portal on building permits and starting a business will continue to be expanded in functionality, which is expected to include the ability to file applications online. The gender and COVID-19 guidance note will be used to inform further planned COVID-19 surveys and research. The multi-stakeholder COVID-19 response gender working group has been formally established and will continue to coordinate and provide analysis and recommendations on gender and COVID-19 on an ongoing basis. ADB is part of this working group.
3.4 COVID-19 response	<p>3.4.1 Government introduced, via the supplementary COVID-19 Response Budget for FY2020, measures to assist the private sector and workers, including (i) a reduction in employers' statutory Fiji National Provident Fund contributions until 31 December 2020, (ii) 21 days Government-paid sick leave for workers who test positive to COVID-19, (iii) tax deductions afforded to employers for wages and salary paid to employees who are self-quarantined, (iv) additional contributions to financial sector schemes that boost SME lending, and (v) relief payments to informal sector workers, including for women-owned micro-enterprises such as hawkers, in lockdown areas.ⁱ</p> <p>3.4.2 The Ministry of Women, Children and Poverty Alleviation: (i) prepared and presented to Cabinet a guidance note on the gendered impacts, of COVID-19 in Fiji, including recommendations on supporting women's economic empowerment, and (ii) established a multi-stakeholder COVID-19 response gender working group.^j</p>	

COVID-19 = coronavirus disease, FMIS = financial management information system, FY = fiscal year, PEFA = public expenditure and financial accountability, PER = public expenditure review, PFM = public financial management, PPP = public-private partnership, SMEs = small and medium-sized enterprises.

^a PER is a key diagnostics instrument used to evaluate the effectiveness of public finances. The PER analyzed government expenditures during FY2009–FY2018 to assess consistency with policy priorities. This aggregate PER was a first step and a detailed education sector PER is now underway.

^b The PEFA gender responsive public financial management self-assessment was done as one of the seven pilot countries chosen to trial the new framework, which was launched in January 2020. The PEFA Secretariat approved the self-assessment by issuing a 'PEFA Check'.

^c The budget reporting and monitoring module and the business intelligence tool form phase one of the approved recommendations from the FMIS report approved by the Minister.

- ^d 18 out of 20 women directors and senior management have improved capacity in ensuring SOE compliance with Public Enterprises Act 2019.
- ^e Air Pacific Limited (trading as Fiji Airways), Airports Fiji Limited, and Fiji Ports Corporation Limited in particular offer essential services in air and maritime transport.
- ^f All Bills that are tabled in Parliament will undergo a validation by the Parliament Standing Committee with jurisdiction over the subject-matter of the Bill, including gender analysis.
- ^g These commitments are provisions that the World Trade Organization member will implement after a transitional period following the entry into force of the Trade Facilitation Agreement. The five commitments completed are: Article 1.3 Enquiry Points; Article 1.4 Notification; Article 3 Advance Rulings; Article 7.7 Trade Facilitation Measures for Authorized Operators; and Article 10.3 Use of International Standards.
- ^h The Personal Property Securities Act enables lenders to accept movable assets as security for loans more easily, cheaply, and securely. This particularly benefits women owned businesses who are less likely to have fixed assets (such as land).
- ⁱ Additional contributions were made to the Credit Guarantee Scheme and Natural Disaster Rehabilitation Facility, which makes loans available to banks at very low interest rates to pass on to SMEs impacted by COVID-19 at a capped interest rate. These schemes are administered by the Reserve Bank of Fiji, and are particularly important to provide finance for women-owned SMEs, who are less likely to have capital or insurance to sustain operations.
- ^j The Working Group is led by the Ministry of Women, Children and Poverty Alleviation, and includes representatives of civil society and women's rights organizations, ADB and UN Women.