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COUNTRY ENGAGEMENT NOTE

FOR THE

REPUBLIC OF FIJI

FOR THE PERIOD FY2015 - 2017

(February 4, 2015)

**Timor-Leste, Papua New Guinea, and Pacific Islands Country Management Unit
East Asia and Pacific Region, The World Bank**

**The International Finance Corporation
East Asia and Pacific Region**

Multilateral Investment Guarantee Agency

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CURRENCY EQUIVALENT (as of January 12, 2015)

Currency Unit: Fiji Dollar (FJ\$)

FJ\$1.00= US\$.50235

ABBREVIATIONS AND ACRONYMS

ATC	Agreement on Textiles and Clothing
ADB	Asian Development Bank
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CEM	Country Economic Memorandum
CEN	Country Engagement Note
CPS	Country Partnership Strategy
DPO	Development Policy Operation
EAP	East Asia and Pacific
FCPF	Forest Carbon Partnership Facility
FDI	Foreign Direct Investment
FEA	Fiji Electricity Authority
FRA	Fiji Roads Authority
FSC	Fiji Sugar Corporation
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFDRR	Global Facility for Disaster Reduction and Recovery
GoF	Government of the Republic of Fiji
HIES	Household Income and Expenditure Survey
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IFC	International Finance Corporation
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MOG	Multilateral Observer Group
NCD	Non-Communicable Disease
NPL	Non-Performing Loans
NSO	National Statistics Office
PIF	Pacific Island Forum
PBS	Poverty Benefit Scheme
PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative
PIC	Pacific Island Country
PPP	Public Private Partnership
SAP	Sugar Action Plan
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SPS	Social Pension Scheme
USP	University of the South Pacific

	IDA/IBRD	IFC	MIGA
Vice President:	Axel van Trotsenburg	Karin Finkelston	Keiko Honda
Country Director:	Franz Drees-Gross	Vivek Pathak	Ravi Vish
Country Manager/TTL:	Jane Distelhorst Sansbury	Gavin Murray	Paul Barbour

**FY2015 – 2017 COUNTRY ENGAGEMENT NOTE
REPUBLIC OF FIJI**

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EXECUTIVE SUMMARY

- i. **This Country Engagement Note (CEN) is the first World Bank Group (WBG) country strategy for the Republic of Fiji, marking the resumption of International Bank for Reconstruction and Development (IBRD) lending after a 23 year hiatus, and launching full WBG engagement.** The CEN will be presented to the Bank's Board of Executive Directors together with a US\$50 million IBRD operation, the *Transport Infrastructure Investment Project*. Between 1971 and 1992 (when the last IBRD project was approved), the Government of the Republic of Fiji (GoF) borrowed US\$153 million from IBRD for 13 projects, and all of the loans have been repaid. Between 1980 and 2005, the IFC invested US\$21 million in five projects in Fiji. Following a coup d'état in December 2006, the WBG's engagement with Fiji has been limited to a few selected technical assistance engagements and activities financed by trust funds.
- ii. **This CEN comes during Fiji's critical transition to democratic rule.** Fiji has been subject to three coups since it gained independence from Great Britain in 1970. After the last coup of December 2006, the military formed a government headed by commander Commodore Voreqe ("Frank") Bainimarama, which introduced a new constitution in 2012 and held democratic elections on September 17, 2014. Mr. Bainimarama's "Fiji First" party won the elections with broad support, an outcome that was deemed legitimate by international observers. The elections marked a critical step in the transition to full democracy, and pave the way for Fiji's re-engagement with development partners and a more conducive environment for private sector investment.
- iii. **While Fiji faces challenges similar to other Pacific islands (including remoteness and vulnerability to natural disasters), it enjoys distinct advantages compared to many of its neighbors.** Fiji is one of the wealthier countries in the Pacific, with a GNI per capita of US\$4,370 (2013), and its central location in the South Pacific has enabled it to serve as a regional hub for transportation, business, and telecommunications, and to provide a home for important regional institutions. In addition, Fiji has a more diversified economy and is less dependent on external aid than many islands in the Pacific.
- iv. **Fiji's economy has reduced its reliance on sugar and garments while tourism has become the leading sector.** Historically, sugar and garments were the backbone of the economy, but both are now undergoing structural decline due to the loss of preferential access to export markets. Over the past two decades, tourism has become the leading sector and currently accounts for about 38 percent of GDP. However, the reorientation of the economy has not been occurring at a rapid enough speed to provide adequate economic opportunities for Fijians – notably for the 20 percent (mostly Indo-Fijian) who are still reliant on sugar production for income and employment. Lack of job opportunities has led many Fijians to migrate and worker remittances are significant, contributing around 4-5 percent of GDP.
- v. **While extreme poverty is low in Fiji (only 4.5 percent of Fiji's population live below the food poverty line of US\$1.40 per day), 35.2 percent of the population live below the basic needs poverty line of US\$3.10 per day), roughly corresponding to the bottom 40 percent.** Basic needs urban poverty rates have come down between 2002/03 and 2008/09, but the decline in agricultural performance has kept rural poverty entrenched at 44 percent. The reorientation of the economy away from agriculture and toward urban services generated disproportionate income growth for the urban poor even as the economy stagnated.
- vi. **The period under the previous government saw sluggish growth, but economic management was relatively stable and important reforms were initiated.** Continued political uncertainty led to Fiji's isolation from key organizations and partners, discouraged private investment,

and prevented Fiji from realizing its potential and capitalizing on its location and distinct advantages. At the same time, the government initiated reforms to eliminate ethnically-based policies and institutions, reduce crime, and improve governance. The newly- elected GoF intends to build on these efforts to build a modern state that is inclusive and provides economic opportunities for all Fijians.

vii. **The CEN proposes a 24-month program to build the WBG partnership with Fiji, deepen its knowledge base, and support critical investments.** The GoF's immediate priorities for WBG support are to set the stage for private investment and to improve the efficiency and effectiveness of the public sector. Over the CEN period, the WBG program will focus on two broad themes: (i) strengthen the foundations for inclusive private sector led growth; and (ii) protect vulnerable populations. While the details of the GoF's development strategy will be fleshed out over the course of 2015, it has identified specific areas of support from the WBG in the near term, including: (i) helping the GoF address the huge backlog in transport infrastructure repair that is urgently needed to support private sector investment and service delivery; (ii) World Bank technical assistance on civil service reform to improve public transparency and accountability; and (iii) IFC advisory services focused on improving regulatory and administrative reform to improve the business environment. The program anticipates an IBRD lending envelope of US\$100-125 million, including the US\$50 million *Transport Infrastructure Investment Project* (to be presented to the Board together with the CEN) and a second IBRD operation to be determined based on further consultations and analytical work. The WBG will collaborate with the GoF to undertake a poverty assessment based on 2013/14 household data and a Systematic Country Diagnostic, both of which will inform a Country Partnership Framework that will outline a 4-6 year program following this CEN cycle.

I. INTRODUCTION

1. **This Country Engagement Note (CEN) is the first World Bank Group (WBG) country strategy for the Republic of Fiji, marking the resumption of International Bank for Reconstruction and Development (IBRD) lending after a twenty-year hiatus, and launching full WBG engagement in Fiji. The CEN will be accompanied by an IBRD operation, the *Transport Infrastructure Investment Project (P150028)*.** Fiji joined IBRD on May 28, 1971, the International Finance Corporation (IFC) on July 12, 1979 and the Multilateral Investment Guarantee Agency (MIGA) on September 24, 1990. Between 1971 and 1992, Fiji borrowed US\$153 million from IBRD for 13 projects that primarily focused on road transportation, Information and Communications Technology (ICT) and energy. The Bank's last loan to Fiji, which was approved in 1992, has been fully repaid. Between 1980 and 2005, IFC invested US\$21 million in five projects in Fiji (mainly tourism related), provided technical assistance to 105 projects (under the South Pacific Project Facility and its successor facilities) and raised finance amounting to US\$46 million for 66 of these projects. MIGA has not yet provided any guarantees to Fiji.

2. **Since 1987, Fiji has been subject to three coups that have prevented the country from realizing its economic potential and role as a regional hub in the Pacific.** The most recent coup d'etat occurred on December 4, 2006 led by Commodore Voreqe ("Frank") Bainimarama to overthrow a nationalist Fijian dominated government. Fiji was isolated from many regional institutions and partners following this coup, and the World Bank applied its policies and procedures for dealing with *de facto* governments (OP/BP 7.30) to limit its exposure to financial risk. There has been no new IBRD lending since the 2006 coup, although the WBG has undertaken carefully focused trust fund financed grants and technical assistance focused on supporting reforms in telecommunications, social protection, and payment systems. Fiji also participated in a regional Global Environment Facility (GEF) grant, the *Sustainable Energy Finance Project* that originally covered five Pacific island countries (PICs). IFC completed a US\$2 million investment in June 2014 in a Fiji based clean energy company that will enable it to scale up and expand solar installations in Fiji and across the region.

3. **Democratic elections took place on September 17, 2014.** Fiji First, Mr. Bainimarama's party, won an outright majority, receiving support across ethnic lines, providing a clear mandate for the newly elected government. Many bilateral and multilateral partners are strengthening their engagement with Fiji following the elections. Fiji was re-admitted to the Commonwealth, and the Pacific Island Forum Secretariat lifted its suspension of Fiji. Australia and New Zealand have lifted all sanctions against Fiji. The Board of Directors of the Asian Development Bank (ADB) endorsed a new Country Partnership Strategy (CPS) on December 2, 2014 and approved a new transport sector project on December 10, 2014.

4. **Given the WBG's limited relationship with Fiji over the past eight years, the WBG proposes to prepare a CEN to outline a 24-month reengagement strategy.** The CEN aims to rebuild the WBG's partnership with the Government of the Republic of Fiji (GoF), and deepen its knowledge base, including its understanding of the current extent of poverty as well as the political economy challenges that Fiji faces as it moves to consolidate democracy.

II. COUNTRY CONTEXT

5. **Fiji is the second largest developing country in the Pacific after Papua New Guinea.** Fiji has a population of 837,271 (2007 census), and is located in the South Pacific Ocean, about two-thirds of the way between Hawaii and New Zealand. It has a total land area of 18,333 square kilometers

spread over 330 islands, of which approximately 110 are inhabited. Most of the population resides on two large islands, Viti Levu and Vanua Levu.

6. **Fiji is geographically the center of the Pacific, and has historically served as a regional hub.** Fiji is home to many important regional institutions, such as the Pacific Islands Forum (PIF) and the University of the South Pacific (USP). Fiji serves as a regional hub¹ for business and trade, transportation, and telecommunications, as outlined below:

Box 1: Fiji as a Regional Hub

The PIF is a political grouping of 16 independent Pacific island states². The PIF aims to strengthen regional cooperation, stimulate economic growth, and enhance political governance for the region. The PIF Secretariat is located in Suva, Fiji.

The USP is the premier tertiary education institution for the Pacific region. It is jointly owned by the governments of 12 member countries³ and has campuses in all member countries. The main campus is in Laucala, Fiji.

Fiji is the focal point for business activity in the Pacific region. The five largest companies⁴ headquartered in Fiji (FMF Foods, RB Patel Group, Fijian Holdings, Foster's Group Pacific, and Amalgamated Telecom Holdings) account for about 80 percent of the value of the South Pacific Stock Exchange. Fiji also serves as a hub for regional banking services.

Fiji is the regional hub for air transport for the Pacific region. Nadi International Airport is the main international gateway; it is the busiest Pacific island airport in the region, and provides direct flights to Australia, the United States (US), Hong Kong SAR and many Pacific countries. Fiji's international airline, Fiji Airways, operates 400 flights a week throughout the Pacific region (Vanuatu, Tonga, Samoa, Tuvalu, Solomon Islands and Kiribati) as well as direct flights to Australia, New Zealand, North America and Hong Kong SAR. Through code-sharing partnerships, Fiji Airways enables connections to Fiji from the US, Europe, China, Southeast Asia and the Middle East.

Fiji is a strategic transshipment hub for the Pacific Region. It offers international shipping services and its wharf facilities are capable of handling large cargo and passenger vessels. Major shipping routes through Fiji connect the PICs to Asian, North American, European, Australian/New Zealand, and around the world routes. There are four ports of entry into Fiji: Suva, Lautoka, Levuka, and Malau.

Fiji is a telecommunications hub for the Pacific Region. Three international submarine cables land in Fiji. Fiji is the operational hub for Digicel Pacific and the headquarters for the Pacific Islands Telecommunications Association, a non-profit organization that represents the telecommunications interests of small island nations in the Pacific region.

7. **While Fiji is one of the wealthier countries in the Pacific Region, with a GNI per capita of US\$4,370 (2013), it has not been able to exploit its full potential.** Fiji has a more diversified economy than most PICs, but remains dependent on tourism, agriculture, and remittances. Tourism is the leading

¹ The WBG is undertaking a Systematic Country Diagnostic for eight small Pacific islands countries (Kiribati, the Marshall Islands, the Federated States of Micronesia, Palau, Samoa, Tonga, Tuvalu, and Vanuatu). While Fiji will not be one of the countries covered, its role as a regional hub will feature in the assessment.

² PIF members include Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

³ The 12 member countries of USP are the Cook Islands, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu and Samoa.

⁴ Defined by market capitalization on the South Pacific Stock Exchange.

economic activity in Fiji, estimated to contribute 38 percent to GDP⁵. Even though agriculture accounts for only 10 percent of GDP, it employs 70 percent of the labor force. Remittances have increased from very low levels during the 1990s to approximately 4.7 percent of GDP in 2013, after peaking at 6.6 percent of GDP in 2006.⁶ Unlike other PICs, Fiji is not dependent on aid; Overseas Development Assistance (ODA) in 2013 and 2014 was 2.0 percent and 1.3 percent of GDP, respectively. Historically, political uncertainty has prevented Fiji from realizing its economic potential.

8. **Fiji is undergoing important demographic changes.** Fifty-one percent of Fijians lived in urban areas at the time of the last census (2007), and the urban population is expected to reach 61 percent by 2030. This trend reflects the migration of rural populations to urban areas, especially around Suva-Nausori. The Indo-Fijian population, which is concentrated in the sugar cane areas of the western and northern Viti Levu and northwestern Vanua Levu, has declined from about 49 percent of the total population in 1986 to 37 percent in 2007, driven by differences in fertility rates and the ongoing emigration of Indo-Fijians. The Indo-Fijian population is expected to drop to 26 percent of the population by 2030, while the iTaukei (indigenous Fijian) population is predicted to grow to 68 percent.

Social and Political Context

9. **After 96 years of British rule, Fiji became independent in 1970.** Around 30 percent of Fiji's population was brought from India and South Asia to work as indentured laborers on its sugar cane plantations during the British rule. Ethnic divisions have followed linguistic and religious lines, with few linkages to draw the iTaukei and Indo-Fijian communities together.

10. **Since its independence from Great Britain, Fiji has endured three coups (in 1987, 2000, and 2006).** Fiji's coup cycle arose from political struggles between iTaukei and Indo-Fijian groups. The growth in the economic power of an increasingly well-educated Indo-Fijian population led to iTaukei resentment of the perceived dominance of Indo-Fijians in government and business. Both the 1987 and 2000 coups were triggered by fears regarding the political dominance of parties perceived to represent Indo-Fijian ethnic interests. The 2006 coup was different – it overthrew an overtly anti-Indo-Fijian government. It sought to modernize Fiji, and was conducted in the name of anti-corruption and multi-racialism.

11. **Fiji was isolated from many partners after 2006.** The Commonwealth and the PIF suspended Fiji's membership, and Australia and New Zealand imposed sanctions. The World Bank applied its policies for dealing with *de facto* governments⁷ and limited its program to selective trust fund financing and technical assistance.

12. **Mr. Bainimarama lifted martial law in January 2012.** The Bainimarama government subsequently consulted widely on a draft constitution that achieved broad popular support but was ultimately rejected by the government itself. Instead, the 2013 Constitution was drawn up by the Attorney General's office with limited popular input. It is strongly entrenched, requiring a 75 percent majority for any amendment first in parliament and then in a nationwide referendum. There is a 50-member parliament elected for a four-year term. The president is largely ceremonial. Communal constituencies, in which Fiji's distinct communities voted separately for their own candidates, have

⁵ World Travel and Tourism Council, "Travel and Tourism Economic Impact 2014 Fiji", <http://www.wttc.org/>

⁶ Recently, remittance flows have been driven by high levels of emigration and the participation of the Republic of Fiji Military Forces in international peacekeeping operations, as well as sporting professionals and former Fiji residents living abroad.

⁷ On November 24, 2014, following Fiji's democratic elections and the designation of a new government, the WBG established that Fiji was no longer governed by a *de facto* government and that the legal framework was in place to allow WBG to carry out its activities in Fiji.

been abolished. The Constitution provides immunities to coup perpetrators and gives the military broad ranging powers “to ensure at all times the security, defense and well-being of Fiji and all its residents.”

13. **In March 2014, Mr. Bainimarama stepped down as Commander of the Republic of Fiji Military Forces in order to run for office and, on September 17, 2014, he won the election.** Voter turnout was high at 84 percent and Fiji First took 32 out of 50 seats in Parliament. The Multilateral Observer Group (MOG) concluded that the conditions enabled Fijians to exercise their right to vote freely with an absence of electoral misconduct or evident intimidation, and reported that it did not observe significant irregularities in the vote count. Political parties were able to communicate their messages to the public, although the media's ability to rigorously examine the claims of parties was limited. Election laws disadvantaged those who live outside of Fiji, including politicians who left Fiji. Despite these factors, the MOG declared that the election was credible and broadly represented the will of Fijian voters.

Recent Economic Developments

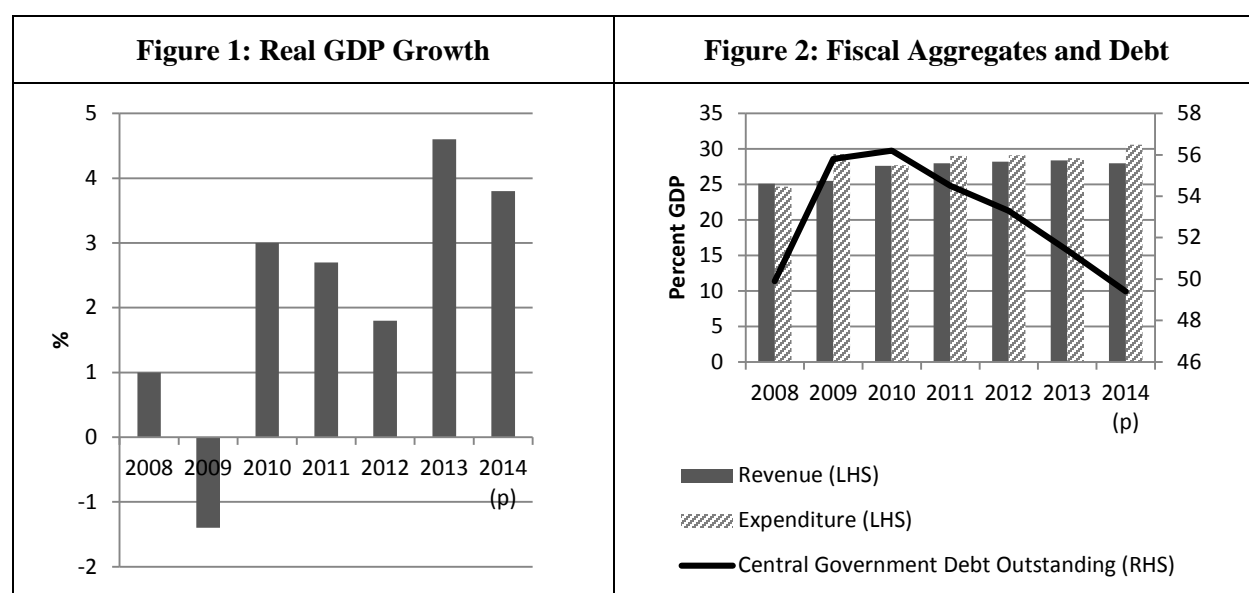
14. **Economic activity has recently picked up, driven by gradually improving business confidence in the lead-up to the elections and expansionary fiscal policies.** As shown in Figure 1, GDP growth reached 4.6 percent in 2013 before slowing slightly to 3.8 percent in 2014, fueled by significant public investments (7.8 percent of GDP) concentrated in road infrastructure, and historically high levels of private sector investment (15.2 percent of GDP) driven by increased business confidence and consumption. Investment in the tourism and mining sectors, and a recovery in tourism numbers, also contributed to strong performance.

15. **Inflation remains stable while the current account deficit has narrowed.** Inflation reached 2.9 percent in 2013 reflecting domestic price pressures stemming from the effects of public sector pay raises, but fell to 1.2 percent during 2014, largely due to the introduction of free primary education. The current account deficit was 10 percent of GDP in 2014, which was significantly narrower than in 2013. (The current account deficit was unusually large in 2013 due to the one-off import of new aircraft by the national carrier in 2013.) Imports declined by 13.8 percent of GDP to 51 percent of GDP, reflecting the 2013 aircraft purchases. Export earnings remained steady at 25.9 percent of GDP. At the end of 2014, foreign exchange reserves stood at US\$750 million, equal to four months of import cover.

16. **The financial system is sound.** Banks are sound and continue to be well capitalized with average capital adequacy ratios above regulatory requirements, low levels of non-performing loans (NPLs), and adequate loan loss provisioning. Fiji has a well-developed financial system; its capital market is one of the active markets in the region with frequent issuance by government and state owned entities.

17. **The GoF has run successive fiscal deficits since 2008.** Increased expenditure (24.7 percent of GDP in 2008 to 30.6 percent in 2014) has been financed by debt given sluggish growth (Figure 2). While growth and revenue have picked up over recent years, the pace of expenditure growth, particularly capital expenditure, has also increased. The underlying deficit in 2014 was budgeted at 7.8 percent of GDP, and mostly financed by privatization receipts equal to six percent of GDP. However, projected receipts from the partial privatization of the Fiji Electricity Authority (FEA), the divestment of shares in Airports Fiji Limited and Fiji Ports Corporation Limited, the sale of foreign mission properties, and the privatization of the government printers were not realized. Debt financing of the 2014 budget is expected to remain within budgeted levels (around 1.9 percent of GDP) due to revenue over-performance and the under-execution of the development budget (execution of about 75 percent is now expected).

18. **The total debt to GDP ratio has been declining over recent years.** As of end-2014, Fiji's total outstanding government debt stood at 48.3 percent of GDP, down from 54.5 percent of GDP in 2011. The major share of this debt is to domestic creditors (72 percent). The domestic debt is issued largely as infrastructure bonds held by non-bank financial institutions. The remaining balance is held by commercial banks and other investors, including individuals. While external debt is relatively low, it has been growing steadily since 2010. In March 2011, Fiji issued a five-year US\$250 million sovereign bond at an interest rate of nine percent. The 2011 bond rolled over a maturing US\$150 million bond that was issued in 2006. The current sovereign bond matures in 2016, and represents a sizeable refinancing risk in the medium term. To help address this risk, the GoF has established a sinking fund, which is capitalized both through appropriated debt repayment allocations and any unexpected budget surpluses. The Fund has a balance exceeding US\$130 million. Concessional or semi-concessional debt from bilateral and multilateral agencies, including EXIM Bank of China and the EXIM Bank of Malaysia, and ADB has covered mainly on-going construction works and rehabilitation of roads and bridges.



Source: IMF and Ministry of Finance data

19. **Growth of about 2.5 percent is expected in 2015.** Growth is expected to slow slightly, returning to potential following the sharp increase in credit growth and investment over the election period. Growth is expected to accelerate somewhat to 2.7 per annum over the medium-term as the productive capacity of the economy expands with new public and private investment. The current account deficit is expected to narrow to nine percent of GDP over 2015 as investment-driven imports slow and tourism exports strengthen. The recent opening of a second large hydroelectric power station and the expected introduction of sugarcane-based biofuel generation could help reduce fossil fuel dependency, which may offset increases in other import categories over the medium-term. Foreign exchange reserves are expected to decline over coming years from four months of import cover in 2014. The competitiveness impacts of the 2009 devaluation are now considered to have been fully offset by subsequent price increases, and greater flexibility in exchange rate policy may be required to ensure external balance over the long-term. Inflation of around 3.0 percent is expected in 2015 and over the medium-term, driven by strong consumption and investment, significant growth in donor inflows, and the Reserve Bank of Fiji's accommodative monetary stance. The authorities are seeking to maintain fragile growth momentum while preserving price stability. A timely monetary response

will be required if continued private sector credit growth leads to any acceleration in inflationary pressures.

20. **The fiscal deficit will need to be carefully managed.** High levels of expenditure under the 2015 budget are supported by projected once-off asset sale receipts of FJ\$507 million (which were budgeted but not realized in 2014). Realizing projected asset sale receipts will be important if the deficit is to be constrained to budgeted levels and debt levels reduced. In order to achieve targeted debt reductions, the medium-term fiscal framework presented in the budget also depends upon significant fiscal consolidation on the expenditure side over coming years, with public expenditure expected to decline from 31.1 percent of GDP in 2015 to 29.5 percent of GDP by 2019. Revenue broadening measures, including the removal of tax holidays and other tax investment incentives, will be important to support financing of investment needs. The latest joint IMF-WB debt sustainability analysis indicates that public debt is sustainable, but highlights risks associated with any rapid increase in debt from external sources.

Poverty Profile and Trends

21. **The most recent Household Income and Expenditure Survey (HIES) was conducted in 2013/14 but the results are not yet available.** Based on the previous 2008/09 HIES, extreme poverty is relatively rare in Fiji. The food poverty line for Fiji, which is used as a measure of extreme poverty, is estimated at US\$1.40 per day in 2005 Purchasing Power Parity terms. Only around 4.5 percent of Fijians live below this level, and such experiences of extreme poverty are typically transitory, following shocks or transitions. The basic needs poverty line for Fiji is estimated at US\$3.10 per day in 2005 Purchasing Power Parity terms. Based on the 2008/09 survey, 35.2 percent of Fijians lived below this poverty line with this group approximately corresponding to the bottom 40 percent in consumption terms.

Box 2: Poverty Measures in the Pacific Region

In the Pacific region, poverty is commonly defined by using food and basic needs expenditure requirements.

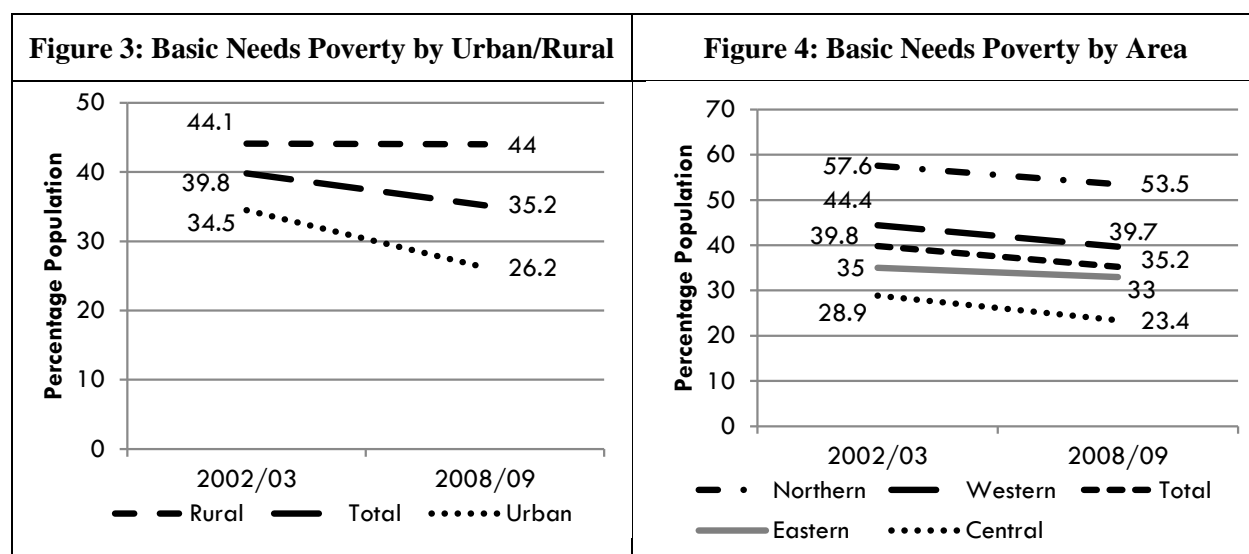
Food expenditure requirements are calculated by estimating the cost of meeting caloric energy requirements using cost information from the food basket of low-income households. In Fiji, the required caloric intake was estimated at 2,793 kcal per adult, significantly higher than other PICs. The food poverty line is used as a measure for extreme poverty.

Non-food basic needs requirements are calculated based on the expenditure for non-food items of households whose total consumption is close to the food poverty line. Poor households are defined as those whose total consumption is below that required to meet food and non-food consumption requirements. Basic needs poverty is used as a measure to identify the bottom 40 percent. Fiji's daily basic needs poverty line of US\$3.10 per day is similar to that of Vanuatu (US\$3.0), Samoa (US\$3.3), and Kiribati (US\$3.0), but significantly higher than that of the poorest PICs, Solomon Islands (US\$1.5) and Papua New Guinea (US\$2.0).

The application of these poverty estimates for international comparison needs to be approached carefully given the relatively high caloric intake requirement used to derive the food poverty line in Fiji and the relatively large proportion of Fijians living in urban areas without the capacity for subsistence production.

22. **Data from the 2008/09 HIES indicate that poverty rates are higher in rural areas, at 44 percent, compared to 26.2 percent in urban areas.** As shown in Figure 4, poverty rates vary significantly by district, from 53.5 percent in Northern Division to 23.4 percent in Central Division. Even within better off divisions (e.g. Western or Central divisions) there are pockets of very high poverty incidence. Areas with high poverty rates include isolated rural areas of the main island of Viti Levu, squatter settlements around the outskirts of Suva and Nausori, and the non-sugar producing areas of Eastern Vanua Levu. Poverty rates are low within Suva and the tourism-intensive southern coast of Viti Levu. Annexes 3 and 4 map the poverty headcount and the distribution of poverty at the tikina (district) level.

23. **Between 2002/03 and 2008/09 the national poverty rate declined, but with a significant rural-urban variation.** As shown in Figure 3, national poverty dropped by 4.6 percentage points from 39.8 percent in 2002/03 to 35.2 percent in 2008/09.⁸ The decline in agricultural performance kept rural poverty entrenched at 44 percent, while urban poverty declined by 8.3 percentage points from 34.5 percent to 26.2 percent. The reorientation of the economy away from rural agriculture and toward urban services has generated disproportionate income growth for the urban poor even as the economy stagnated. While inequality increased modestly (the Gini coefficient increased from 0.38 in 2003 to 0.41 in 2009), as Table 1 shows, ethnic disparities in poverty also declined slightly – between 2002/03 and 2008/09, the poverty rates for iTaukei and Indo-Fijians fell by five and four percentage points, respectively.



Source: 2002/03 and 2008/09 HIES

Table 1: Poverty Rates by Group

	Urban	Rural	iTaukei	Indo-Fijian	Male-Head Household	Female-Head Household
2002/2003	34.5	44.1	42.1	37.7	38.8	47.2
2008/2009	26.2	44.0	37.1	33.7	35.5	33.0
Change	-8.3	-0.1	-5.0	-4.0	-3.3	-14.1

Source: 2002/03 and 2008/09 HIES

⁸ Reported poverty rates are consumption-based estimates that were jointly produced by the World Bank and the Fiji National Statistics Office (NSO). Income-based estimates available through the NSO website show similar trends.

24. **Fiji has achieved broad coverage in the provision of basic social services, contributing to relatively strong human development indicators.** Enrolment in primary education is almost universal, with a net primary enrolment rate of 96.8 percent – well above the Pacific average of 86.4 percent. Net enrolment in secondary education, at 80.3 percent, is the highest in the Pacific. Broad access to education has helped the youth literacy rate reach 99.5 percent, above the average for upper-middle income countries and the EAP region, but secondary dropout rates remain a concern. To encourage poor students to stay in school, the GoF introduced a grant of FJ\$250 per child per school year to alleviate the burden of fees, textbook and transportation costs for children in pre-primary through grade 12. While girls’ and boys’ participation is almost equal at the primary and secondary levels, at the tertiary level women make up the majority of students. Life expectancy was around 69.3 years in 2011, slightly above the Pacific average of 67.5 years, but below the average for upper middle-income countries and the EAP region. Infant and child mortality rates are among the lowest in the Pacific, at 16.4 and 14.1 per 1,000 live births, respectively. Like other PICs, Fiji faces huge challenges in addressing the incidence of Non-Communicable Diseases (NCDs). NCDs are responsible for at least 80 percent of deaths. About 45 percent of premature deaths (i.e. occurring before age 60) among men are attributable to NCDs, which is the fifth highest rate in the Pacific region. The proportion of public expenditure allocated to education is similar to other upper middle-income countries and the EAP average. However, public spending on health as a proportion of total public expenditure is the second lowest in the Pacific at about nine percent – only Kiribati spends a smaller proportion of public resources (eight percent) on health.

25. **The social protection system in Fiji is one of the most developed in the Pacific region.** The Family Assistance Program was established in 1975 as a cash transfer safety net for poor and disadvantaged households (elderly, disabled, chronically ill, widows and deserted spouses). In 2013, it was replaced by the Poverty Benefit Scheme (PBS). With technical assistance from the World Bank, the GoF endorsed two changes: (i) to target the PBS to the poorest 10 percent of the population; and (ii) to provide a pension for those over 70 years old.

26. **Fiji is on track to meet most Millennium Development Goals (MDGs)⁹, although its progress on MDG 1 (Eradicate Extreme Poverty and Hunger) is mixed¹⁰.** While overall basic needs poverty has decreased significantly since 2002, the latest data show a deterioration of measures of food poverty and unemployment. Poor progress against some poverty indicators reflects the growth of urban squatter settlements, the continuing decline of the agricultural sector – including sugar – and the timing of the most recent surveys (during a period of low growth in the context of the 2008 Global Economic Crisis and following the 2006 coup). Like many of its Pacific neighbors, Fiji has made little progress on MDG 3 (Promote Gender Equality and Empower Women). Despite reaching gender parity in education, low female employment outside of agriculture, lower pay for women, and few women in decision-making positions threaten Fiji’s progress on gender equality. Fiji is on track to meet MDG 2 (Achieve Universal Primary Education). Fiji recently introduced free education for pre-primary through grade 12, and appears to be following the trajectory of countries that offer fee-free education and make comparatively better progress on providing universal primary education (e.g. Cook Islands, Niue, Palau, and Tonga). Fiji has done well at reducing maternal and child mortality (MDGs 4 and 5) as is the case in many PICs¹¹. Fiji has made only mixed progress toward reaching MDG 6 (Combat HIV/AIDS, Malaria and Other Diseases) due to the increase in reported cases of sexually transmitted diseases.

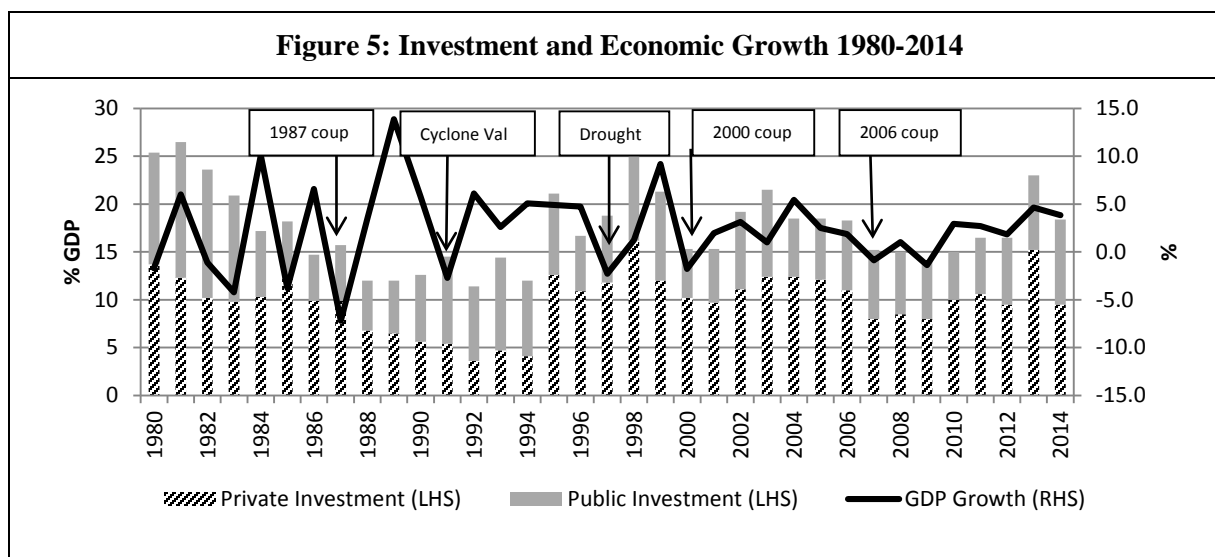
⁹ Pacific Islands Forum Secretariat, “2013 Pacific Regional MDGs Tracking Report”, <http://www.forumsec.org>

¹⁰ Only two countries in the Pacific (Cook Islands and Niue) are on track to achieve MDG 1.

¹¹ Only PNG is off track to reduce child mortality; both FSM and PNG are off track to improve maternal health.

Development Challenges and Priorities

27. **Fiji's economic growth has been volatile while on a long-term downward trend due to decades of political instability and the loss of preferential access arrangements.** Fiji has a small and relatively undiversified economy that is vulnerable to external shocks. Historically, the economy has been dependent upon preferential access arrangements for textiles and sugar. Following independence, Fiji sustained robust per capita growth averaging 4.4 percent per annum throughout the 1970s while exporting sugar to European markets at prices of up to four times the world price. The erosion of preferential arrangements since the 1990s has weakened export performance (exports declined from 40 percent of GDP in 1990 to 26 percent of GDP in 2013), hindered private investment, and reduced growth. As shown in Figure 5, between 1980 and 2009, economic growth averaged just 2.3 percent per annum. The loss of quotas for garment exports under the Agreement of Textiles and Clothing (ATC) led to a 47 percent decline in textile exports in 2005 alone. The phasing out of preferential access to the European sugar market now threatens the sustainability of that industry. At the same time, successive coups have reduced business confidence, investment, and tourism arrivals. Private investment declined following the 1987, 2000, and 2006 coups, and the associated surge in emigration of highly skilled workers (especially Indo-Fijians) further constrained economic development. By some estimates, Fiji has lost one-third of its professional, managerial, technical, and clerical workers since the 1987 coup.



28. **While growth and investment have picked up since 2010, new growth drivers will be required to achieve shared prosperity.** Growth has averaged 3.2 percent over the past five years, driven primarily by fiscal stimulus and improved business confidence in the context of the planned democratic transition. The GoF has pursued a program of public infrastructure investment, and has reduced personal and corporate taxes. The GoF raised public sector pay (with the central government wage bill increasing by nearly 30 percent in 2014) and worker remittances have grown, fuelling consumption. Total government spending increased from 27.7 percent of GDP in 2010 to 30.6 percent of GDP in 2014. Accommodative monetary policy has allowed the expansion in credit growth as business confidence has improved with the expectation of a smooth transition to democracy (private sector credit increased by 25 percent between 2009 and 2013). Reflecting strong confidence, private sector investment reached 15.2 percent of GDP in 2013, its highest level since 1998. To maintain public debt at sustainable levels over the coming years will require expenditure restraint; the medium-term

fiscal framework presented in the 2015 budget shows real public expenditure cuts of seven percent in 2016 and zero growth in 2017. Tightened monetary policy may be required if credit growth continues and inflationary pressures become more pronounced. With recent drivers of growth likely short-lived, the priority for Fiji is now to establish a policy and business environment that allows the economy to transition more quickly towards emerging sectors and new opportunities.

29. **Over the past two decades, the Fijian economy has begun to reorient away from agriculture (including sugar) and textiles towards services and especially tourism.** Fiji's gross earnings from tourism in 2013 totaled FJ\$1.3 billion, around 40 percent of total goods and non-factor service exports, while services now account for 68 percent of total exports. Visitor arrivals have increased over the past 20 years, from about 319,000 visitor arrivals in 1993 to 661,000 in 2013, an average increase of around 4.5 percent annually. More than half of Fiji's visitors each year come from Australia (340,000 in 2013), with large contingents also coming from New Zealand (108,000), the US (55,000), and Europe (46,000). Arrivals from China have grown rapidly over recent years, reaching 23,000 in 2013 from just 4,000 in 2009, and this number is set to increase with Fiji Airways launching 10 charter flights from Shanghai in 2015. Capturing a greater share of the rapidly expanding East Asian tourism market holds considerable potential as a driver of economic growth. The successful development of the tourism sector would require a significantly improved business environment, focused marketing efforts, and strong linkages between tourism and agriculture and other ancillary industries.

30. **Niche manufacturing and natural resources also show potential to contribute more to Fiji's economy.** Despite declines in the garment industry, manufacturing still accounts for about 15 percent of the country's GDP. Several firms (e.g. Pure Fiji, Fiji Water, Pacific Green Furniture) have demonstrated Fiji's potential in niche manufacturing, using careful marketing to capitalize on Fiji's exotic international reputation. Mining (gold, copper, silver) has contributed to Fiji's economy for several decades, with new prospects now being developed. Fishing contributes around two percent to Fiji's GDP, and exports of fish products total about 9.1 percent of all exports. To further develop fishing, the GoF is considering opportunities in aquaculture. The recent Developing Country preference adopted by the Australian Government will allow easier and simpler qualification requirements for duty-free entry of garment exports into the Australian market. This may generate some opportunities in garment manufacturing, despite higher costs than Asian competitors, where Fijian producers have developed a niche in small-scale, high-quality production.

31. **However, the reorientation of the economy has not been occurring at a sufficient speed to provide adequate economic opportunities for Fijians.** Slow growth and limited investment have kept the majority of Fijians outside of the formal wage economy. In 2010, only about 46 percent of the population (roughly 377,000 people) were actively participating in the Fijian economy. Of this number, only 47 percent were employed in the formal sector as regular wage earners. Approximately 44 percent were self-employed or engaged in paid or unpaid family work. A further seven percent were considered officially unemployed. Of the 178,000 formal sector jobs in the economy, approximately 15 percent were in the public sector¹². Each year the labor pool grows by an additional 17,000 people. Fiji has among the lowest rates of labor force participation in the region, particularly for women.

¹² 2010-11 Employment and Unemployment Survey, Fiji Bureau of Statistics

Improving Policy Stability and Governance

32. **The reorientation of Fiji’s economy has been hindered by low investor confidence in the context of political instability, weak governance, and an unpredictable policy environment.** Political and policy stability is essential to promote private sector confidence and investment, and increase tourism and external aid. In the most recent Enterprise Survey, 45 percent of surveyed businesses reported political instability as the main constraint to investment. In consultations, firms consistently cite an unpredictable and rapidly changing legislative environment as a constraint to investment, along with the absence of adequate consultation on major policy changes (e.g. between January 2009 and September 2012, the GoF issued 241 decrees, most without any formal public consultation). Achieving a more stable political and policy environment is the highest priority for Fiji’s economic development.

33. **Progress towards improved governance and strengthened institutions is already underway.** The September 2014 elections marked the re-establishment of parliamentary democracy in Fiji, prompting optimism about political stability. In order to ensure the durability of the new democratic system, the GoF will need to strengthen institutions and civil society to consolidate democracy, promote stability, and bolster broad legitimacy. Reflecting this need, the GoF is committed to reforming local government, public administration and law enforcement, and to strengthening women’s access to justice and leadership opportunities. New legislation on Freedom of Information and Codes of Conduct for public officials is forthcoming. The GoF also aims to build the professionalism and efficiency of the public service, and to adopt new technologies and procedures to improve service delivery and make government more accessible to citizens and businesses. Public sector reform was included as a central priority in the 2015 budget, and the recent decentralization of civil service management responsibilities to permanent secretaries provides an opportunity to strengthen capacity and human resource practices. Improved processes for policy consultation, including ongoing dialogue between government and the private sector, and the adoption of appropriate parliamentary processes for the introduction of new regulations and legislation will also be vital.

Addressing the Infrastructure Deficit

34. **Improving Fiji’s economic infrastructure is essential to boost private sector investment, create jobs, and connect people.** Investment in roads, bridges, and telecommunications is vital to providing improved access to opportunities, information and services for all citizens. Poor infrastructure impedes access to basic services, particularly in rural areas where a large proportion of the population is poor. Addressing infrastructure constraints is vital to enable Fiji to realize opportunities arising from its distinctive position as a transport, trade, and administrative hub for the Pacific region.

35. **The GoF is committed to an ambitious agenda to upgrade transport infrastructure.** Fiji’s road network consists of approximately 11,115 km of roads, including 4,250 km of main/national roads, 675 km of rural and maritime roads, 340 km of municipal roads, and 5,850 km of cane roads. For several years prior to 2012, maintenance and resealing work had been deferred and the majority of roads is now in fair or poor condition. Most of the secondary and rural roads are graveled and constructed to lower standards, making them particularly vulnerable during the wet season. Many cane roads are little more than dirt tracks without proper formation or drainage systems. Since the Fiji Roads Authority (FRA) was established in 2012, the GoF has implemented a program to reduce the backlog of road maintenance.

36. **Many of the country's estimated 950 bridges and 45 jetties are in a serious state of disrepair**, with an estimated backlog of FJ\$900 million in bridge and jetty renewals. Many bridges and jetties only received temporary repairs that were meant to last a year or two. Since the start of 2014, on average, one bridge or jetty has failed each month, causing significant local hardship. The Fiji Roads Authority (FRA) has stated that it can no longer guarantee the safety of these assets, many of which are in remote locations and harder to access and maintain. The FRA also aims to ensure that bridges and jetties are designed to be safer and more climate resilient.

37. **Although access to electricity in Fiji is relatively high at around 80 percent, poor and remote populations remain underserved, and the nation is dependent on expensive and dirty imported fossil fuels.** The generation capacity of the FEA is generally sufficient, especially on the two largest islands. The GoF is finalizing the Draft National Energy Policy that would guide investments, potentially resolve current constraints on FEA borrowing, and clarify areas for partner support to accelerate the transition to renewable energy. According to the draft policy, the GoF aims to generate 81 percent of its electricity from renewable sources by 2020 in order to reduce its reliance on imported diesel, which costs Fiji more than US\$1 billion annually. In addition, the Policy would target attention to improve access to electricity for rural populations in the smaller islands where many of the poor live.

38. **Fiji has relatively advanced ICT infrastructure, regulatory frameworks and institutions.** Fiji is already a hub for submarine cable connectivity with three international submarine cables landing in Fiji. The Southern Cross Cable (that connects Sydney to Honolulu with a spur to Suva) as well as the Vanuatu-Fiji, and Tonga-Fiji cables. Fiji liberalized its telecoms market in 2008, which resulted in substantial increases in coverage and access, and the lowest wholesale Internet prices in the region. Fiji has the region's only 4G mobile network. Basic mobile coverage is nearly universal at 89.5 percent; unserved areas are being addressed through a universal access program. Fiji also has the largest number of mobile broadband subscribers and is expanding its fixed broadband coverage. Fiji has a small but emerging ICT-enabled services/business process outsourcing industry; it won the 2014 European Outsourcing Association's Offshoring Destination of the Year Award, which acknowledges operators that have most successfully serviced the UK and other European outsourcing markets. The GoF has recognized the importance of ICT as an enabler of private sector investment and development, and has implemented several favorable policies and incentives, including the development of free trade zones in Kalabu and Telepark. With continued investment in human capital, physical infrastructure, and the enabling regulatory environment, Fiji has potential to provide ICT enabled services/industries and an ICT talent pool for the wider Pacific region.

39. **There is scope for the private sector to play a greater role in infrastructure investment.** The GoF has undertaken efforts to promote private participation in the water, electricity, and port sectors. Institutional changes to the road sector, including the establishment of the FRA have achieved important gains in ensuring efficiency in contracting of construction work. Continued public investment and enhanced private participation in infrastructure provision could increase new investment and economy-wide competitiveness. Priorities could include establishment of a legal and regulatory framework for independent power producers and concession contracts for airport services. Encouraging greater private sector participation in infrastructure will require updating and strengthening the existing Public-Private Partnership (PPP) framework, formulating regulatory standards, reviewing the price-setting function of the Commerce Commission, reviewing and strengthening the anti-trust framework, and building regulatory capacity within relevant government agencies.

Improving the Business Regulatory Environment

40. **Growing the private sector will require a more supportive regulatory business environment, especially in relation to starting a business.** While Fiji ranks relatively well compared to most other PICs on the World Bank's 2015 Doing Business rankings and is in the top half of countries globally, its investment climate has slipped in some areas over recent years and there is substantial room for improvement. Fiji's overall Doing Business ranking has declined from 29 in 2006 to 81 in 2015, and Fiji's "distance to frontier" scores have deteriorated from 68.2 in 2009 to 63.8 in 2015 while the scores for most Pacific island countries have improved over the same time period. Fiji scores particularly poorly against the Doing Business score for starting a business (160th out of 189 countries), with 59 days required to start a business.

41. **The establishment of a secured transaction register, reform of price controls, and streamlining of processes for paying taxes could bring benefits to private enterprises.** Even though Fiji's financial sector is the best developed in the Pacific region, micro-, small, and medium-sized enterprises, and farmers have limited access to financial services. Around 220,000 Fijians, approximately 65 percent of economically active people in the informal sector, lack access to formal banking services. Introducing a secured transactions framework that would accept movable property to serve as collateral might help those without property ownership – land, land lease or buildings – to access loans to start or expand businesses. While not introducing major price distortions, the Fiji Commerce Commission operates a complex system of price controls for a broad range of products. This system of price controls imposes compliance costs on businesses and could be rationalized and narrowed to a small range of basic products while still achieving its objective of preventing anticompetitive pricing practices by a relatively small number of wholesale import firms. Most firms in Fiji face low taxes by regional and international standards, but the administrative burden of paying taxes is heavy, requiring 38 payments and 195 hours as measured by the Doing Business survey. Simplifying tax procedures and expanding the recent simplification measures introduced for large taxpayers could both improve compliance and reduce business costs. Streamlining documentation for exporting and importing may encourage trade with Fiji. The Doing Business survey ranked Fiji 116 out of 189 countries for ease of trading across borders, due to long delays and extensive documentation requirements.

42. **Continued reforms in the State-Owned Enterprise (SOE) sector could improve services and reduce costs for business.** The SOE portfolio represents approximately 14 percent of the total assets of Fiji's economy. The FEA, the Fiji Development Bank, Fiji Airlines, and Airports Fiji Limited comprise 71 percent of total portfolio assets. A few smaller SOEs are directly competing with private sector providers. Total return on equity across the SOE portfolio has improved over recent years and is high by regional standards, reaching 5.9 percent in 2011 and 6.5 percent in 2012. SOEs are generally self-sufficient and profitable, with budgetary transfers to SOEs equal to less than 0.1 percent of GDP over the 2002-2012 period. The GoF has been pursuing SOE reform including through institutional reforms, corporatization and selective privatization. Recent progress has included: (i) corporatizing the Water Authority, FRA, and the Government Printery and Stationery Department; (ii) privatizing Fiji Dairy; and (iii) implementing an operations and maintenance contract for Suva and Lautoka ports. Moving forward, the GoF plans to offer stakes in the state-owned airports (Airports Fiji Limited) and ports (Fiji Ports Corporation Limited) and partially-privatize the FEA. The commercialization of these SOEs is expected to increase competition, improve service delivery, and reduce costs. Progress on asset sales has been slow and hampered by institutional and budgetary constraints. Maintaining progress with the SOE reform agenda is a key GoF priority.

Facilitating Competitiveness in Agriculture

43. **The latest data (2009) indicate that approximately 64,000 farmers are engaged in the agriculture sector—a drop of about one-third since 1991.** Agriculture accounts for ten percent of GDP and 28 percent of total formal sector employment. Agriculture in Fiji is dominated by small farms; about 44 percent of farms are smaller than one hectare and used for subsistence farming. About 19 percent of farms are between one and five hectares and could be described as medium-sized or larger. A shift to commercial farming to support broad-based growth would require a sector-wide approach to help farmers understand quality requirements, post-harvest handling, the marketing chain, and small scale management. Potential growth opportunities stem from: (i) increased urbanization and changes in the retail market; (ii) the development of tourism; (iii) the quality and Fiji branding of exports; (iv) the existence of successful “industry-farmer” driven operations; and (v) the “organic-green” niche market.

44. **The Fijian agricultural sector is comprised of sugar, traditional industrial crops (coconut, tobacco), and emerging exports (kava, roots, coconut oil, papaya), livestock, and subsistence farming.** Agricultural imports include dairy and meat products, cereals for human consumption and animal feed, and produce to supply the tourism sector and urban retailers. The sector faces several long-term challenges, including: (i) increased food import dependence; (ii) a decline in the competitiveness of Fiji’s agricultural exports; (iii) dependence on imported sources of fuel; (iv) changing food habits and demands; (v) the volatility of agricultural commodity markets; (vi) ineffective land use planning; and (vii) the effects of climate change and more frequent natural disasters. Processing facilities and transportation infrastructure, particularly in the sugar sector, require major upgrades. Rehabilitating basic infrastructure to facilitate market and mill access is essential to improve Fiji’s agriculture sector competitiveness.

45. **Sugarcane, which used to dominate the sector, now accounts for eight percent of GDP and five percent of exports, but remains a vital source of income for many Fijians.** More than 20 percent of the population is estimated to be reliant on sugar-related activities. Of the 44 percent of rural Fijians living below the poverty line, half live in the “sugar belt”. The removal of EU quotas is expected to reduce the price for Fiji sugar exports by as much as 20 percent and expose farmers to a higher level of price volatility. The sugar industry continues to pursue initiatives to place it on a path of improved commercial viability, industry competitiveness, and sustainability. While increased government investment into Fiji’s sugar industry in the last five years is beginning to help improve cane quality, strengthen the administration, and generate higher production levels, profit levels are marginal, growers are leaving the industry, and the international market for sugar continues to be highly competitive. The impact of the decline of preferential access arrangements to take place in 2017 needs to be well managed to avoid harming some of Fiji’s most vulnerable people.

46. **Improved competitiveness in the sugar sector and diversification to other agricultural activities will both be required to improve rural livelihoods.** The GoF intends to continue reforms that aim to improve farm productivity, increase mill efficiency and cane quality, and upgrade transportation and processing logistics. The 2013-2022 Sugar Action Plan (SAP) outlines an ambitious revitalization plan, although reaching its targets would require giant steps forward toward increasing cane yields, reclaiming lost cane lands, and improving the transportation systems and milling processes. With limits to the viability of current sugar production under expected lower prices, however, diversifying the agricultural economy and facilitating the transition of those working in the sugar sector to other income-generating opportunities will be critical for long-term sustainable growth in rural areas.

Managing Climate Change and Natural Hazard Risks

47. **Fiji is one of the countries at greatest risk from the impact of climate change, which has the potential to exacerbate natural hazards.** Climate change projections indicate that Fiji is likely to experience an increase in annual mean temperatures over the coming century, including a rise in the number of hot days and warm nights, and a decline in cooler weather. Projections also suggest an increase in rainfall during the wet season and a reduction in dry season rainfall over the coming century. Extreme rainfall days are likely to occur more often.

48. **Fiji is located in an area that is subject to many natural hazards, including earthquakes, cyclones, storm waves, flooding, and tsunamis.** On average, Fiji is affected by one or two cyclones every year. In December 2012, Cyclone Evan struck Viti Levu, uprooting trees, destroying homes, triggering widespread power outages and water shortages, and causing about US\$82 million in damages. Floods are regular events in Fiji – localized flash flooding occurs almost annually. Large-scale flooding in Fiji has had devastating impacts. In March 2012, torrential rains led to flooding that affected over 150,000 people, and resulted in four fatalities.

49. **Of all the natural disasters affecting Fiji, flooding causes the most damage.** On average, flooding cost Fiji US\$22 million annually between 1970 and 2006 (before the biggest floods hit in 2009 and 2012). Recent large-scale flooding in Fiji has had devastating impacts. For example, in January 2009, areas of Fiji were subject to significant floods which caused at least 11 fatalities, rendered 12,000 people temporarily homeless and caused damages of approximately US\$113 million. This included damages of around US\$81 million in the Nadi area alone. In March 2012, torrential rains led to flooding that affected over 150,000 people, and resulted in four fatalities.

50. **The impact of natural disasters in Fiji is far-reaching, affecting agriculture, housing, transport infrastructure, tourism and primary industries.** Since 1980, disaster events in Fiji have generated average annual economic losses of around US\$17 million and have affected around 40,000 people each year. During the same period, at least 186 people have been killed by flooding and storm events alone. In the next 50 years, Fiji has a 50 percent chance of suffering a loss exceeding US\$750 million and casualties in excess of 1,200 people from a natural hazard event.

51. **Natural disasters are an important source of vulnerability and impose disproportionate costs on the poor.** Poorer people suffer to a greater degree following a disaster, since they are less likely to have insurance, cash reserves, or alternative income sources that could help them recover. Furthermore, in the face of more immediate challenges such as the threat of hunger, lack of access to water or livelihood opportunities, poor people tend to underestimate or ignore the risks posed by living in hazard-prone areas. Improving Fiji's resilience to natural hazards is critical to reducing poverty and hardship.

52. **The GoF recognizes the risk posed by climate change and has developed a National Climate Change Policy (2012).** The Policy identifies potential areas for adaptation and mitigation in forestry, agriculture, marine and fisheries, tourism and infrastructure. Sustainable forest management and reforestation/afforestation are identified as “no regret” investments that provide important climate resilience and mitigation benefits. The Policy also seeks to integrate climate change issues into national planning and to guide sectors to develop climate change adaptation and mitigation strategies.

Improving Social Service Provision

53. **Continued investment in education and health is vital to improving the capacity of vulnerable populations to take advantage of new economic opportunities.** Fiji succeeds in enrolling students and in keeping them in school throughout primary grades, but the quality of learning and

completion of secondary school remains a challenge. Achieving adequate levels of literacy and numeracy are still a concern, especially for disadvantaged groups.

54. **The most important challenge to good health in Fiji is the growing incidence of NCDs.** Fiji has the third highest rates of overweight adults in the Pacific, after Samoa and Tonga, and about 18 percent of the population suffers from diabetes. Women are twice as likely as men to experience diseases that are associated with poor diets and poverty. The largest share of public health spending is directed to curative care rather than to preventative measures. The health authorities are examining measures such as higher taxes on tobacco, alcohol and sugary drinks, as well as measures to encourage better nutrition and exercise.

55. **While Fiji’s formal social protection system is the most comprehensive and sophisticated in the Pacific region, it has had limited measurable impact on reducing poverty at the national level.** The system offers programs to support various vulnerable groups, including young job seekers, families with children, and the elderly. The system provides in-kind and in-cash support, food vouchers, public employment services, and a provident fund arrangement for retirement. Fiji is the only PIC that has poverty-targeted social assistance, with eligibility based on clear and objective criteria. However, the targeting mechanism covers only the poorest 10 percent of families and excludes many who had previously been eligible for benefits. The most immediate priorities of the GoF are to determine how it can use the savings generated to reach more people, to introduce reforms that will encourage able-bodied people to participate in the labor force, to ensure the suitability of the scheme to changing demographics, and to provide assistance for those living with disabilities.

56. **Although the 2013 Constitution prohibits discrimination on the basis of gender, inequalities and gender discrimination prevail in custom, law, and in legal interpretation.** While women are well represented in the lower and middle ranks of local and government levels, they continue to be under-represented at executive levels and in the legislature. Women tend to be employed in low paid care giving, sales and clerical work. Only about 30 percent of economically active females are engaged in the formal economy, and many work in semi-subsistence or self-employment. The manufacturing sector is a large employer of women but it pays poorly. The GoF ratified the Convention on the Elimination of All Forms of Discrimination against Women (UNCEDAW) in 1998, and has a progressive Family Law Act with proper court structures to address gender-based violence (GBV). However, the current prevalence rate for GBV is approximately 60 percent, and a USP study estimated that family violence cost the GoF FJ\$498 million in 2011.

III. THE WORLD BANK GROUP COUNTRY ENGAGEMENT

Government Priorities and Development Plan

57. **The “Fiji First Manifesto”¹³ describes the vision of Prime Minister Bainimarama’s party.** While Fiji’s political situation has been volatile since its independence, the most recent period under Mr. Bainimarama saw relatively stable economic management, reductions in crime and some forms of corruption, and concerted efforts to eliminate ethnically-based policies and institutions. The newly elected GoF aims to make Fiji the “most modern and advanced nation in the South Pacific”, to create an “inclusive and economically strong Fiji” for all Fijians, and to “move to a genuine democracy in our nation for the first time.”

¹³ Fiji First, “Fiji First Manifesto”, <https://fijifirst.com/our-manifesto/#toggle-id-10>

58. **The GoF will be formulating a Five Year Development Plan over the course of 2015 to further prioritize and cost its initiatives.** Under the direction of the Prime Minister and with the support of the ADB, a “Green Growth Framework for Fiji” was formulated and endorsed by Cabinet in July 2014 following an extensive consultative process. The Framework aims to guide the design of the Development Plan, recognizing the need to manage population growth and urbanization, unsustainable consumption and resource use, the infrastructure deficiency, and the impact of climate change and natural disasters. The Five Year Development Plan is expected to benefit from consultation with the public, development partners, private sector representatives, and NGOs.

59. **In his 2015 Budget Address on November 21, 2014¹⁴, the Minister of Finance confirmed the GoF’s intention to create an environment conducive to private sector led growth.** The 2015 budget aims to “target investment to areas that encourage economic activity and growth, improve safety, increase living standards, and lift the poor and marginalized.” The program outlined in the Budget Address reiterates the GoF’s priorities to expand its infrastructure rehabilitation program and initiate a “major overhaul of the civil service to make it more efficient and responsive.”

60. **The WBG will collaborate with development partners as it deepens its engagement in Fiji.** The WBG is already working closely with the ADB, which has an office in Suva and was able to remain engaged in Fiji through implementing its ongoing transport and water projects. The WBG held country strategy consultations together with the ADB in May 2014, and the ADB and WBG intend to co-finance the *Transport Infrastructure Investment Project*. The ADB recently launched a new CPS, focused on transportation, urban water and sanitation, energy, and public sector management. Other bilateral donors, including Australia, the EU, Japan, and New Zealand, are also preparing to reengage and/or scale up their support.

Findings from Stakeholder Consultations

61. **WBG consultations were held in May 2014 and in November 2014 with government officials, development partners, and representatives of the private sector and civil society.** The WBG met with the newly elected Prime Minister and the Minister of Finance during the November, 2014 consultations, which validated and fleshed out the GoF’s priorities for collaboration with the WBG, as outlined below:

- Expand the role for the private sector to enable Fiji to become more competitive and to deliver sustainable growth.
- Upgrade transport infrastructure to set the stage for private sector led growth and to improve access to goods and services for vulnerable populations.
- Deepen public administration reform to strengthen accountability.
- Provide alternatives to sugar to improve rural livelihoods and to reduce poverty.
- Promote tourism and develop domestic supply chains to foster inclusive growth.
- Protect Fijians from natural disasters and the impact of climate change.
- Seek technical assistance to strengthen the business environment, build on Fiji’s position as a regional hub, deliver public services in an efficient and effective manner, provide adequate social services, and protect Fiji’s natural resources.

¹⁴ Aiyaz Sayed-Khaiyum, “2015 Budget Address”, <http://aiyazsayedkhaiyum.org/2015-budget-address/>

Proposed World Bank Group Approach

62. **A decade ago, the WBG’s engagement in the Pacific was governed by a “Regional Engagement Framework FY2006-2009 for Pacific Islands” that was prepared in May 2005.** The objective of WBG assistance to Fiji at that time was to help the government improve the country’s growth prospects that had begun to recover in the aftermath of the 2000 coup, by helping to improve the business environment, remove regulatory barriers to business formation, and support telecommunications reform. Beginning in FY09, the World Bank began preparing individual country strategies for each PIC to launch a deeper engagement across the Pacific and to acknowledge each country’s specific development challenges and opportunities.

63. **Democratic elections present an opportunity for the WBG to reengage with Fiji at a critical moment.** Political uncertainty has deterred investment in Fiji, discouraged tourism, and strained important international relationships. The current political transition represents an opportunity for Fiji to re-establish its role as the preeminent regional hub, increase private sector confidence and investment, and build sustainable improvements in living standards. To address Fiji’s socio-economic challenges, the GoF will need to build broad legitimacy by providing new economic opportunities and supporting shared prosperity for all Fijians. The goals of growth and inclusiveness must be tackled together: growth can only be achieved and sustained if political stability can be consolidated; a sustainable political settlement depends on growth that delivers economic opportunities across ethnic and geographic divisions.

64. **The WBG’s engagement with the GoF has been extremely limited for the past eight years.** The constrained country program and lack of presence on the ground have prevented the WBG from developing a deep relationship with the GoF and key stakeholders, making it difficult for the WBG to commit to medium-term objectives and results in Fiji.

65. **The WBG proposes a 24-month CEN reengagement strategy that aims to rebuild the WBG’s partnership with the GoF and deepen its knowledge base.** Through the CEN, the WBG intends to update its knowledge about the extent and drivers of poverty, and deepen its understanding of the political economy of Fiji. The WBG commissioned two background studies to inform the design of the CEN program: (i) an independent analysis of the political economy context in Fiji; and (ii) an agriculture scoping study to help identify potential entry points in the rural sector that would complement the work of other development partners to generate sustainable improvements in rural livelihoods.

66. **Operationally, the WBG program will focus on two broad themes: (i) strengthening the foundations for inclusive private sector-led growth; and (ii) protecting vulnerable populations.** These themes are linked to Fiji’s specific needs as well as to the WBG twin goals of boosting shared prosperity and eliminating extreme poverty. Under the first theme, the WBG will focus on supporting the GoF to open avenues for growth and connect people to opportunities and services. Under the second theme, the WBG will assist the GoF to build resilience and protect vulnerable populations and resources from the impacts of natural disasters and other shocks.

Strengthen the Foundations for Inclusive Private Sector Led Growth

67. **The Fiji First Manifesto, the 2015 Budget Address, and CEN consultations all point to the importance of creating an environment for private sector led growth for Fiji.** The most immediate impediments to private sector investment include political uncertainty, failing transport infrastructure, and policies that hinder business start-up and administration. The September 2014 elections represent a key step toward establishing a stable and predictable political environment. Assistance to upgrade key

infrastructure, and to modernize the regulatory framework and government institutions will be essential to consolidate Fiji's transition to develop a private sector led economy to benefit all Fijians.

68. **The WBG will partner with the GoF to conduct a poverty assessment that will help inform a Systematic Country Diagnostic (SCD) for Fiji.** The poverty assessment will be based on the 2013/14 HIES data to be released in 2015. A Country Economic Memorandum (CEM) will also be prepared to develop better understanding of Fiji's comparative advantage and constraints to realizing potential in key areas. The SCD would set the stage for a Country Partnership Framework (CPF) in FY17 to define a comprehensive 4-6 year country program aligned with the GoF's Five Year Development Strategy.

69. **Fiji is eligible to borrow from IBRD, with an overall envelope of about US\$100-125 million over the two year CEN period.** Consistent with the GoF's priority to upgrade key transport infrastructure, the first IBRD operation that will accompany the CEN to the Board is the proposed *Transport Infrastructure Investment Project*, a US\$50 million project that aims to increase the resilience and safety of project roads, bridges and jetties. By upgrading and/or rehabilitating main, municipal, and rural roads, bridges, and jetties, Fijians' access to economic opportunities, information and services will be improved. The project would ensure that climate and disaster resilience are incorporated into the designs for roads and bridges to be rehabilitated, which would increase the reliability and safety of these assets. Improvements in rural locations, where the majority of poor people live, would help to reduce inequality by targeting Fiji's most vulnerable communities, and contribute directly to the Bank's twin goals of reducing poverty and increasing shared prosperity. It is proposed that this first major operation in nearly a decade would be co-financed with ADB. The Project would finance straightforward transport investments and provide an opportunity to build trust and demonstrate visible results quickly.

70. **In addition to the *Transport Infrastructure Investment Project*, one other IBRD operation will be delivered over the CEN period.** The second project could support the GOF in agriculture/rural development, renewable energy, tourism, fisheries, or another priority sector; the project would aim to promote social inclusion as well as reduce poverty and promote shared prosperity as Fiji consolidates democratic rule. In agriculture, in collaboration with donors such as ADB and the EU, the WBG could support carefully selected interventions that aim to deliver higher growth, shared prosperity for agricultural households, and sustainable landscape management. Potential options include projects that would support agricultural diversification, revitalize the sugar industry (as feasible), and/or develop productive alliances between smallholders and the private sector to improve market access for small farmers. In renewable energy, the WBG anticipates supporting the GoF to evaluate the scope for geothermal energy. In tourism, the WBG expects to undertake a regional assessment of the tourism potential in the Pacific, which could inform a potential investment in Fiji. Currently the WBG supports regional IDA operations in fisheries and aviation, and although Fiji is not eligible to benefit from IDA financing, there may be scope for Fiji to utilize its IBRD financing or trust funds to participate in some manner in these regional programs. The WBG will work with the GoF to prioritize its IBRD borrowing, considering Fiji's development priorities, the results of the WBG's political economy and rural assessments, the comparative advantage of the WBG, and the role of Fiji's development partners.

71. **The World Bank would also assist the GoF to improve the efficiency and effectiveness of its public sector.** The GoF faces human capacity pressures resulting from "brain drain", weak and outdated systems, as well as fiscal pressures. The GoF requested World Bank technical assistance to help enhance the leadership and performance of the public service and make government more efficient and accessible to citizens and businesses. If the GoF is successful at implementing key reforms, the WBG could consider financing a Development Policy Operation (DPO) as the second IBRD operation during the CEN period (in lieu of a second investment project). Building on its experience with DPOs in the Pacific, the World Bank may have a key role to play in providing the analytical basis for multi-

donor budget support structured around key public administration, private sector or fiscal management reforms.

72. **After a long period of limited engagement, the GoF has a backlog of technical assistance needs across several areas of core governmental functions.** The World Bank has already provided assistance to the Ministry of Finance with a Debt Management Performance Assessment, which could be followed by technical assistance to help the GoF develop a debt management reform plan. The GoF has also requested that the WBG launch a Public Expenditure Review, for which the first stage would include a rapid review of the macro-fiscal situation and expenditure trends in the education and health sectors, followed by more in depth work for these sectors as well as potentially for agriculture in a second phase. The WBG will have a key role to play in responding to further technical assistance requests in areas of its comparative advantage and participating fully in coordination mechanisms established to promote the economic policy dialogue between the government and its partners.

73. **IFC's engagement will focus on reactivating a dynamic and vibrant private sector.** IFC will provide advisory support and pursue potential investments in Fiji. In particular, IFC intends to help the GoF undertake a sector prioritization diagnostic to identify 1-2 sectors to improve competitiveness. To reduce business costs and encourage private sector activity, IFC expects to provide technical assistance in regulatory and administrative reform (e.g. improving business regulation, trade facilitation, tax administration, corporate governance, investor protections, and investment policy). IFC could provide technical assistance to strengthen the GoF's PPP policies and procedures to improve their capacity to tender PPP projects, develop PPP-related fiscal incentives and rules, and improve coordination mechanisms of sector PPP plans. (IFC is currently exploring an early stage partnership with a New Zealand sponsor who is actively engaged with FEA regarding a large-scale hydropower project using an Independent Power Producer). IFC will deepen its work with the Reserve Bank of Fiji to strengthen the national payment system and promote women's financial literacy and access to finance. IFC will also pursue opportunities for transaction support and investments involving the private sector in infrastructure, tourism, fisheries, agriculture and other industries, building on IFC's successes in other Pacific countries. IFC will also seek to assist Fiji-based companies, where appropriate, in the expansion of their operations into new markets, strengthening Fiji's position as a regional hub. MIGA will pursue opportunities for guarantees to support investments involving the private sector in infrastructure, tourism, fisheries, agriculture and other industries.

Protecting Vulnerable Populations

74. **The GoF has requested further support from the WBG to improve the reach and effectiveness of its social welfare programs.** Innovative poverty mapping, based on the most recent HIES, could include overlaying maps of deprivation, health and education services, transportation infrastructure, migration; and other social welfare indicators, to help the GoF design cross-sectoral responses to improve welfare. The World Bank could support the GoF to determine the potential to expand coverage of its social protection scheme, including the extent to which it can incorporate natural disaster and climate change considerations.

75. **The WBG will undertake a gender assessment in collaboration with the GoF.** The assessment would aim to understand gender-related barriers to poverty reduction and economic growth in Fiji to help identify priority interventions. The WBG would also ensure that WBG operations systematically consider gender issues to incorporate them into the analysis, actions, and monitoring and evaluation framework for the project.

76. **The GoF would like to strengthen its disaster risk management (DRM) capabilities to better protect its citizens from natural hazards.** In Nadi, which is susceptible to severe flooding, poor squatters live in the highly flood prone areas downstream of Nadi town. In addition, the Nadi International Airport serves as the main entry point for international travelers to Fiji. In 2009 and 2012, flooding closed the Nadi airport and trapped tourists for days, causing serious immediate consequences for the economy and at least temporarily affecting the image of Fiji as a safe tourist destination. Trust fund financing provided by Global Facility for Disaster Risk Reduction (GFDRR) will allow Nadi to serve as a case study for developing an integrated flood management system. The GoF also wishes to participate in the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), which provides highly detailed geospatial information and access to insurance that offers a limited, but rapid, insurance payout based on modeling of damage caused by a major cyclone, earthquake or tsunami. The GoF is open to consider participating in successor disaster insurance products.

77. **The GoF has applied for assistance from the Forest Carbon Partnership Facility (FCPF) to protect its forest resources.** The FCPF promotes sustainable land use management, community-based livelihood programs, and DRM programs. The Fiji FCPF grant would support an analysis of the drivers of deforestation, forest governance and REDD+ strategy options, a potential grievance redress mechanism, and benefit monitoring.

IV. RISKS

78. **The successful elections present a window of opportunity for Fiji to lay the foundation for inclusive and sustainable development based on private sector led growth, and the WBG is committed to help the GoF make the most of this opportunity.** The WBG needs to establish an effective engagement with the GoF after a long period of limited interaction. Social and economic divisions have contributed to political instability since Fiji's independence, and it will be important that the WBG program is well informed in order to promote broad-based economic development and social inclusion. For this reason, the WBG commissioned an independent assessment of the political economy context in Fiji as well as an agriculture scoping study to assess the potential to support the sugar and non-sugar sectors. These studies, together with the planned poverty analysis and SCD will help build the WBG's knowledge base and inform a longer-term engagement with Fiji.

79. **There are three key risks to the implementation of the CEN:**

- **First, the fragility of reforms.** The 2013 Constitution did not benefit from broad consultations, and the September 2014 elections are only the start of Fiji's path back to democracy. Fiji will need support from all of its partners to strengthen its institutions and civil society, and its return to full democracy. Key institutions, including the public service, the press, and the judiciary will need support and capacity building through the democratic transition. The GoF will need to make concerted efforts to shift from top-down decision-making to a more participative approach. It is unclear whether the reform process will be sustained and deepened. Therefore, the CEN aims to support efforts to strengthen Fiji's public service institutions and systems to promote accountability, dialogue, and transparency.
- **Second, the potential for political instability in the medium term.** While the election and CEN consultations confirm the GoF's clear commitment to continue with the development agenda that is outlined in the Fiji First Manifesto, Fiji has been prone to coups following elections, and will need to build on its efforts to heal historical cultural and economic divides. The GoF's agenda is ambitious and could lead to popular frustration if development gains are not widely shared and visible in a timely fashion. Thus, the CEN proposes to undertake a

relatively straightforward project as the first IBRD operation, which would help the GoF demonstrate visible results on the ground. WBG financing and technical assistance would aim to foster inclusive growth for all social groups (iTaukei and Indo-Fijian, urban and rural) and to promote public transparency and accountability.

- **Third, the WBG is initiating an engagement without ever having a strategic and comprehensive country program or presence on the ground in Fiji.** The rapid scale up of assistance to Fiji could pose huge coordination challenges for the GoF. The WBG will need to collaborate closely with key stakeholders on the ground, including government, civil society, private sector, and development partners to design and implement an effective country program. Thus, the CEN provides a short-term initial engagement to enable the WBG to better understand the critical development and poverty issues facing Fiji, and to foster a close and effective partnership with the GoF as well as other key stakeholders.

80. The overall risk rating is **significant**. Table 2 summarizes risk ratings, based on the Systematic Operations Risk-Rating Tool.

Table 2: Systematic Operations Risk-Rating Tool

Risk Categories	Rating (H, S, M, L)
Political and governance	S
Macroeconomic	M
Sector strategies and policies	S
Technical design of project or program	S
Institutional capacity for implementation and sustainability	S
Fiduciary	M
Environment and social	M
Stakeholders	M
Overall	S

81. **The September 2014 elections represent a turning point for Fiji.** The CEN will enable the WBG to help the GoF deliver economic gains to all of its people, and to consolidate efforts to promote social cohesion and stability. Over the CEN period, the WBG will engage with Fiji to undertake a limited number of interventions to build trust and lay the foundation for a sustainable medium-term partnership and program.

Annex 1: Indicative Activities and Milestones FY15-FY16

Activities	WB/IFC	Financing/ Instrument	Benchmark/Milestones	Timing
Strengthen the Foundations for Inclusive Private Sector Led Growth				
Financing				
Transport Infrastructure Investment Project	WB	IBRD US\$50m	25 km of FRA roads constructed to revised standards for resilience and safety At least five fewer bridges requiring high priority attention	Jun. 2017 Jun. 2017
IBRD Project	WB	IBRD US\$50-75m	TBD – Board approval of an investment in Agriculture, Energy, Tourism, or Fisheries, or a DPO in Public Sector Reform	TBD
Facilitate Private Sector Investment	IFC	Debt/Equity	Identify 1-2 priority sector needs and opportunities Pilot InfraVentures intervention with partners in hydro PPP Sign at least one mandate with private sector sponsor	Jun. 2015 Dec. 2015 Jun. 2017
Analytic and Advisory Services				
Shared Prosperity	WB	AAA	CEM and SCD	Jun. 2016
Public Sector Management	WB	AAA	PER and Sector Analysis including macro-fiscal, education, health, agriculture Civil Service Programmatic Technical Assistance	Jun. 2016 Jun. 2017
Business Environment	IFC	Advisory Services	Evaluate and rank PPP opportunities based on likelihood of success Develop regulations and operations of the remittances sector to ensure compliance with global requirements Support regional mobile banking to facilitate remittances National payment system legislation provided to the Attorney General Develop implementing regulations to promote remittances and mobile banking for under-banked.	Mar. 2015 Mar. 2015 Apr. 2015 Sep. 2015 Dec. 2016
Renewable Energy	WB	Technical Assistance	Conduct a preliminary assessment of potential energy resources	Dec. 2015

Activities	WB/IFC	Financing/ Instrument	Benchmark/Milestones	Timing
Protect Vulnerable Populations				
Financing				
Disaster Risk and Natural Resources Management	WB	GFDRR TF (TBD)	Flood master plan developed for Nadi	Sep. 2015
		TBD	Participation in PCRAFI insurance risk pilot	Nov. 2015
		FCPF TF US\$3.8m	Analysis of drivers of deforestation, forest governance and REDD+ strategy options	Dec. 2016
Analytic and Advisory Services				
Poverty and Gender Assessments	WB	AAA	Poverty Assessment completed based on 2013/14 HIES	Dec. 2015
			Gender Assessment	Dec. 2016
Social Protection	WB	AAA	Evaluation of the 2012 reforms and recommendations to improve coverage.	Dec. 2015

Annex 2: Republic of Fiji: Selected Economic Indicators 2009 - 2019

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Est.	Est.			Proj.			
Output and prices (percent change)											
Real GDP (at constant factor cost)	-1.4	3.0	2.7	1.8	4.6	3.8	2.5	2.4	2.6	2.7	2.7
GDP deflator	2.6	2.5	3.8	2.4	3.8	3.5	3.5	3.5	3.5	3.5	3.5
Consumer prices (average)	3.7	3.7	7.3	3.4	2.9	1.2	3.0	3.0	3.0	2.9	2.9
Output gap (percent of actual output)	-1.2	-2.3	-1.8	-1.5	1.3	3.3	2.2	1.2	0.1	0.0	0.0
Savings and investment 1/											
	(In percent of GDP)										
National savings	9.8	10.5	11.2	14.7	2.3	8.4	9.7	9.6	9.4	9.3	10.2
Public	1.8	3.5	6.2	6.5	7.3	6.9	6.7	6.6	6.6	6.6	6.5
Private	8.0	7.1	5.0	8.2	-5.0	1.5	3.0	3.0	2.8	2.7	3.6
Gross investment 2/	14.0	15.0	16.5	16.5	23.0	18.4	18.4	18.5	18.5	18.5	19.5
Public	6.0	5.0	5.9	7.0	7.8	8.9	9.4	8.3	8.2	8.2	8.2
Private	8.0	10.0	10.6	9.5	15.2	9.5	9.0	10.2	10.3	10.3	11.3
Foreign savings	4.2	4.5	5.3	1.8	20.7	10.0	8.7	8.9	9.1	9.2	9.3
Central government budget (in percent of GDP)											
Revenue	25.2	25.5	27.6	28.0	28.2	28.6	28.4	28.0	28.0	27.9	27.9
Expenditure	29.3	27.7	29.0	29.1	28.7	30.6	31.1	29.7	29.6	29.6	29.5
Net acquisition of nonfinancial assets	6.0	5.0	5.9	7.0	7.8	8.9	9.4	8.3	8.2	8.2	8.2
(As a percent of total expenditure)	20.4	18.0	20.3	24.1	27.3	29.1	30.3	27.9	27.8	27.9	27.9
Of which: Fiji Sugar Corporation	...	0.7	1.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expense	23.3	22.1	21.4	21.5	20.9	21.7	21.7	21.4	21.4	21.4	21.4
Compensation of employees	10.6	9.4	8.7	8.7	8.4	9.3	9.3	9.3	9.3	9.3	9.3
Interest	3.5	3.6	4.1	3.8	3.5	3.2	3.0	2.7	2.7	2.7	2.7
Other	9.2	9.1	8.7	9.0	9.0	9.2	9.4	9.4	9.4	9.3	9.3
Overall balance 3/	-4.1	-2.5	-1.4	-1.1	-0.5	-2.1	-2.7	-1.7	-1.7	-1.7	-1.7
Primary balance	-0.7	1.5	2.7	2.7	3.0	1.1	0.3	1.0	1.0	1.0	1.0
Central government debt outstanding	55.8	56.2	54.5	53.3	51.4	49.4	48.5	47.7	46.9	46.0	45.3
Balance of payments (in percent of GDP)											
Trade balance 2/	-21.9	-23.3	-23.3	-20.4	-38.9	-25.2	-23.4	-23.2	-23.2	-23.2	-23.2
Services plus income (net)	11.5	14.1	14.1	13.1	13.1	10.9	10.3	9.8	9.4	9.1	8.8
Transfers (net)	6.2	4.8	3.9	5.5	5.1	4.3	4.4	4.5	4.7	4.9	5.0
Current account balance 2/	-4.2	-4.5	-5.3	-1.8	-20.7	-10.0	-8.7	-8.9	-9.1	-9.2	-9.3
Capital and financial account balance	15.8	9.3	13.1	8.8	10.5	9.9	9.0	9.2	9.5	9.6	9.3
Of which: FDI (net)	4.8	11.0	11.0	9.7	6.6	7.0	7.4	7.8	8.2	8.6	9.0
Of which: Portfolio investment (net)	0.0	0.0	2.8	-0.9	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Of which: Other investment (net) 2/	10.9	-1.7	-0.8	-0.1	4.3	3.3	2.0	1.9	1.7	1.5	0.7
Errors and omissions	-2.2	-1.3	-4.6	-5.2	6.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	9.5	3.5	3.2	1.8	-4.0	-0.1	0.3	0.4	0.3	0.4	-0.1
Memorandum items:											
Gross official reserves (in millions of U.S. dollar:	565	716	831	915	755	750	764	780	795	816	813
(In months of retained GNFS imports)	4.4	4.7	5.2	5.7	4.4	4.0	4.0	3.9	3.8	3.8	3.6

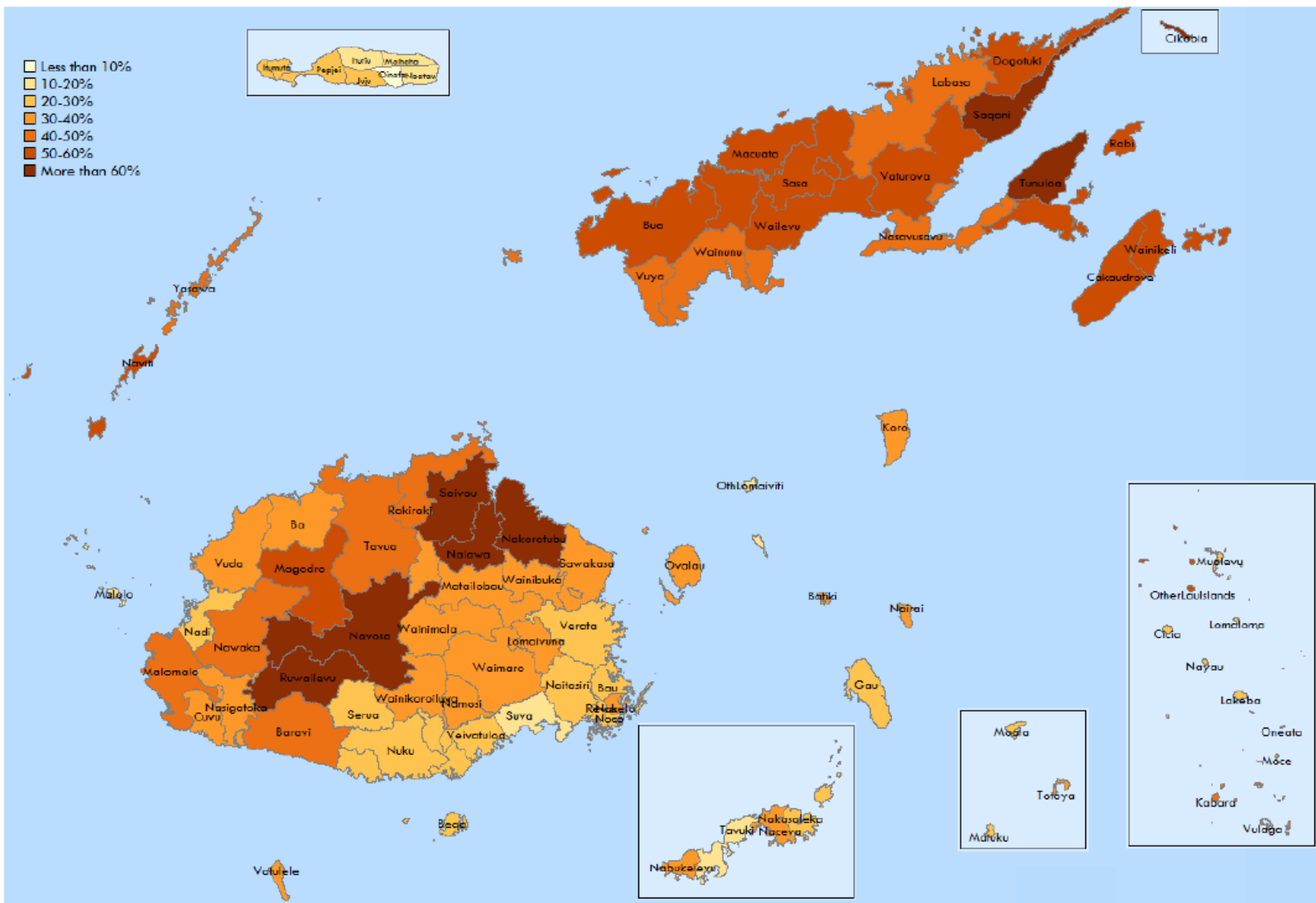
Sources: Reserve Bank of Fiji; Ministry of Finance; and IMF staff estimates.

1/ Saving-investment balances are not available and are estimated by staff. Foreign savings is equivalent to the current account deficit, with private savings as a residual.

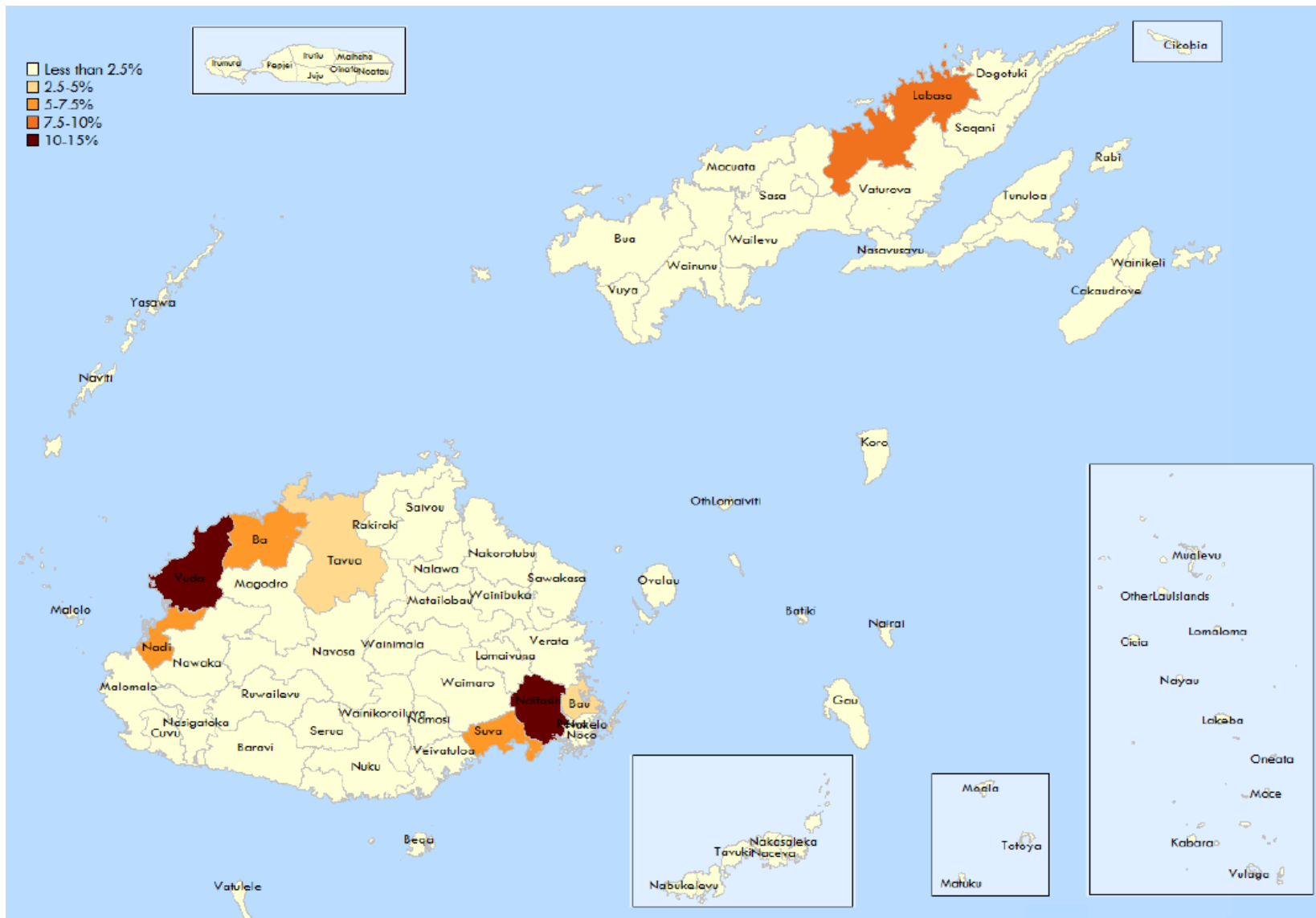
2/ Includes planned purchase of aircraft by Fiji Airways in 2013.

3/ Reserve Bank of Fiji holdings only.

Annex 3: Poverty Headcount Ratio at the Tikina level



Annex 4: Distribution of the Poor at the Tikina Level



Annex 5: Republic of Fiji: Map IBRD 33407

