

ASIAN DEVELOPMENT BANK & FIJI ISLANDS

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2008

A F A C T S H E E T

The Fiji Islands has made more progress toward the internationally agreed Millennium Development Goals (MDGs) for reducing poverty than many other Pacific countries, and is close to achieving health, education, and gender-related targets.

The economy grew an estimated 3.6% in 2006, after averaging 2.4% growth in the previous 5 years, despite a decline in tourism and the closure of the country's gold mine.

However, a series of coup d'etats has undermined investor confidence, damaged the country's tourism image, led to trade bans, and reduced international funding. Gross domestic product (GDP) fell by 6.4% in 1987 and 1.7% in 2000, reflecting the impact of coups in those 2 years. Following the coup in December 2006, the Fiji Islands endured a year of negative economic contraction of 3.9% due to a decline in tourism, sugar, construction, and gold mining earnings growth. Several funding agencies suspended most new aid proposals, although many existing projects have continued. The European Union has linked disbursement of its assistance to the sugar industry to the accomplishment of actions given in an agreed road map to general elections planned for March 2009.

To contain the budget deficit, the Interim Government implemented a series of expenditure cuts that reduced public spending by 14.2% from the 2006 level, contributing to reductions in spending on investment projects, community, social, and personal services. Monetary and fiscal policies were tightened to stabilize the economy at a cost of significant restraint. In 2007, reduced consumer and investment spending on imports had led to an overall improvement in the balance of payments and foreign reserves, and the Government's fiscal balance for 2007 is a deficit 0.4% of GDP. Given that the new administration has decided not to proceed with a rise in value-added tax, as well as the implications for revenue collection of a recession, arriving at that target has required proposing cuts in spending across all departments. The Interim Government sought to cut the wages bill by reducing pay rates and the retirement age for public servants, but has confronted labor union opposition to the proposals, and has adopted plans in the 2008 fiscal budget to reinstate much of the cut pay.

Standards of living have steadily declined in urban areas, and there is potential that the loss of jobs could raise rates of urban and rural poverty significantly over the medium term.

Overcoming the structural challenges facing the economy will require a comprehensive restructuring program, expedited progress to achieve a sound macroeconomic foundation, and an investment climate conducive to private sector-led growth and the generation of jobs.

**Table 1. Fiji Islands:
Development Indicators**

Non-MDG	
Population in millions	0.83 (2007)
Annual population growth rate (%)	-0.2 (2005–2007)
Adult literacy rate (%)	...
Percent of population in urban areas	54.0 (2006)
MDG	
Percent of population living on less than \$1 a day	25.5 (1996)
Percent of population living below the national poverty line	25.5 (1990)
Under-5 mortality rate per 1,000 live births	18 (2006)
Percent of population using an improved drinking water source	47 (2004)

... = data not available, MDG = Millennium Development Goal.

Sources: ADB. 2007. *Key Indicators 2007*. Manila.
ADB. 2008. *Basic Statistics 2008*. Manila.
UNSD. 2008. Millennium Development Indicators Database Online.

Table 2. **Fiji Islands: Economic Indicators, 2003–2007**

Economic Indicator	2003	2004	2005	2006	2007
Per capita GNI (\$)	2,290	2,820	3,170	3,300	...
GDP growth (% change per year)	1.1	5.4	0.7	3.6	-3.9
CPI (% change per year)	4.2	2.8	2.4	2.5	4.8
Unemployment rate (%)	8.1	5.8	5.9	6.4	...
Fiscal balance (% of GDP)	-5.8	-3.1	-3.3	-2.8	0.4
Export growth (% change per year)	30.1	3.5	3.6	0.7	-0.8
Import growth (% change per year)	33.9	18.3	13.1	12.8	1.8
Current account (% of GDP)	-3.6	-11.0	-12.6	-21.1	-19.6
External debt (% of GNI)	9.3	7.8	8.6	8.7	...

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2008. *Asian Development Outlook 2008*. Manila.
World Bank. 2008. Global Development Finance Online.
World Bank. 2008. World Development Indicators Online.

Table 3. **Fiji Islands: 2007 Loan, TA, and Grant Approvals (\$ million)**

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
–	–	0.25	–	0.25

– = nil.

Cumulative Lending (as of 31 Dec 2007) : \$249.90 million
Cumulative Disbursements (as of 31 Dec 2007) : \$182.86 million

Table 4. **Fiji Islands: Cumulative ADB Lending as of 31 December 2007**

Sector	Loans (no.)	Amount (\$ million)	% ^a
Agriculture and Natural Resources	3	48.20	19.29
Energy	3	36.90	14.77
Finance	3	18.60	7.44
Multisector	1	4.40	1.76
Transport and Communications	5	94.80	37.94
Water Supply, Sanitation, and Waste Management	1	47.00	18.81
Total	16	249.90	100.00

^a Total may not add up because of rounding.

However, it is highly unlikely that such program of economic and public sector reforms can be implemented under current political conditions. Furthermore, the fiscal situation in 2007–2008 has led to a slowdown in implementation of the planned investments aimed at improving the country's poor infrastructure.

Relationship with ADB

The Fiji Islands has received \$249.9 million in loans since joining the Asian Development Bank (ADB) in 1970.

A new Country Strategy and Program Update (CSPU) 2006–2008 for the Fiji Islands was approved on 17 March 2006. The framework of the CSPU supports the Government's objectives to (i) generate private sector-led growth through sound macroeconomic policies, infrastructure development, and alternative livelihoods; (ii) deliver affordable, basic social services through support for water and sanitation services, and improvements in local governance; and (iii) establish effective development institutions through a sequenced and interlinked package of technical assistance (TA).

Preparation of a new Country Partnership Strategy (CPS) 2007–2011 to support the country's Strategic Development Plan was initiated in 2006. A Country Programming Mission was successfully conducted in October 2006 jointly with the AusAID and the Pacific Financial Technical Assistance Project, and a draft CPS prepared. Preparation was suspended, however, after the military coup of 5 December 2006. Processing of all new lending and nonlending operations is on hold, pending management's instructions on the reengagement process.

In January and February 2007, the Interim Government said "the current Interim Administration intends to honor existing commitments between the previous Government and the Asian Development Bank ... and Government's obligations under existing loans guarantees and project agreements will continue to be honored." The Government has concerns with its "escalating debt" and, therefore, "the direction set by the current Interim Administration will be on an aggressive fiscal consolidation path." In this regard, "a review of the Government loan portfolio with ADB is currently being undertaken by the Ministry of Finance, National Planning, Sugar Industry and Public Utilities."

As requested by the Interim Government, the Alternative Livelihoods Project was canceled in 2007.

The CSPU for 2006–2008 can be found at www.adb.org/Documents/CSPs/FIJ/2006/csp0300.asp.

Consistent with ADB's response to the coup of 2000, and its *Guidelines for Dealing with De-Facto Governments*, ADB is implementing a two-stage reengagement strategy in the Fiji Islands approved on 5 April 2007. Under the first stage, ADB has continued to support ongoing operations, as it ascertained that the Interim Government (a) is in effective control of the country, (b) generally recognizes the country's existing international obligations, (c) is willing and able to assume all its predecessor's obligations to ADB, (d) is able to ensure the continued implementation of ongoing projects and programs, and (e) duly authorizes a representative for the purpose of making withdrawals.

Impact of Assistance

As a key development partner and supporter of public sector programs, ADB has helped the Fiji Islands grow its economy, attract private sector investment, and make progress toward the MDGs.

Ongoing road rehabilitation and upgrading programs have helped disadvantaged groups throughout the country participate in the cash economy. The projects have resulted in reduced transport costs and journey times, and increased access to employment opportunities and social services. They have also helped improve the efficiency of markets and given educational, health, and business services a boost.

The recently completed Fiji Ports Development Project has resulted in more efficient and competitive ports, with savings on operational costs already being realized. Work was also implemented to review and update the tariffs system.

In 2005, heads of government at the Pacific Islands Forum gave regionalism a boost by approving the Pacific Plan for Strengthening Regional Cooperation. ADB supports programs under the Plan, which emphasizes regional public goods and services. Collective management of increased aviation safety and security requirements is a good example of this potential. Under an ADB loan and TA grant

package totaling \$1.95 million approved in 2005, ADB is helping Fiji Islands, Cook Islands, Kiribati, Papua New Guinea, Samoa, Solomon Islands, and Vanuatu establish the Pacific Aviation Safety Office to help the region meet international standards.

Future Directions

A draft CPS 2007–2011 was agreed with the democratically elected Government during the Country Programming Mission in October 2006. Priority projects agreed would cover economic and public sector reforms, the transportation sector, poverty in rural areas and outer islands, improvement of water and sanitation, and the development of renewable energy.

However, with respect to ADB's engagement with the Fiji Islands for new operations, some of the conditions for reengagement have still not been met, including (i) the number of countries (particularly ADB member countries and neighboring countries) that have recognized the *de facto* government or dealt with it as the government of the country; and (ii) the attitude of other international organizations toward the *de facto* government. ADB is closely following the progress of Government in connection with the criteria set forth in the reengagement approach and, in turn, is regularly informing its shareholders of the progress made. When ADB is in a position to reengage with the Fiji Islands in new operations, particularly when ADB's shareholders have expressed confidence in the new regime, ADB will take speedy action to finalize the Country Partnership Strategy.

In practice, the lending and nonlending pipeline will require renegotiation under the future CPS once reengagement in new Country operations is authorized, under the guidelines issued by ADB's management. Further assistance by ADB under a future CSP will need to take into account the important risks to the Fiji Islands economy: increased poverty; the decay of key sectors (sugar, textile, and clothing); vulnerability of tourism; government budgetary risks; and the potential for structural financial crisis.

Operational Challenges

Prior to the December 2006 coup, while acknowledging challenges in managing reforms, development partners expressed support for the commitment from the Government and the Reserve Bank of Fiji to implement a comprehensive set of economic and public sector reforms that would lay the foundation for strong private sector-led growth needed to tackle poverty.

There were clear signs that external assistance was adjusting to the challenges and opportunities facing the Fiji Islands. Firstly, the development partners have increasingly been exchanging information and harmonizing their strategies in compliance with the Paris Declaration on Aid Effectiveness. Secondly, the Government had given indications that, for the first time ever, it was willing to discuss development assistance with development partners on a multilateral basis. This was reflected in the inclusion of donors in the Economic Restructuring Taskforce. These signs provided a strong indication that the SDP 2007–2011 could become the focus for the alignment of external assistance with the Government's reform program and a stronger reference for a harmonization of strategies among development partners.

Progress in pursuing reform is possible provided a path for democracy is quickly reestablished and there must be a focus

Table 5. Fiji Islands: Project Success Rates

By Sector	Percentage	No. of Rated Projects/Programs
Agriculture and Natural Resources	0.0	2
Energy	100.0	3
Finance	50.0	2
Multisector	0.0	1
Transport and Communications	100.0	3
Total	63.6	11
By Year of Approval		
1980s	100.0	1
1990s	33.3	6
2000s	100.0	4

Table 6. Fiji Islands: Portfolio Performance Quality Indicators for Sovereign Lending, 2006–2007

Number of Ongoing Loans (as of Dec 2007)	2006 (\$ million)		2007 (\$ million)	
	2006 (\$ million)	2007 (\$ million)	2006 (\$ million)	2007 (\$ million)
Contract Awards/Commitments	9.07	5.61	9.07	5.61
Disbursements	9.68	12.61	9.68	12.61
Loans at Risk (%)	50.0	100.0	50.0	100.0

on building institutional capacity and for participatory dialogue between the private and public sectors and among beneficiaries and stakeholder groups at large.

Partnership

ADB maintains a permanent dialogue with key development partners on the Fiji Islands country operations and has worked with the Government on the creation of a Public Sector Key Stakeholder Group.

ADB cooperates extensively with civil society organizations (CSOs). The PIRCCM comprises members of government, nongovernment organizations (NGOs), the private sector, and multilateral and bilateral development partners working together to fight HIV/AIDS, tuberculosis, and malaria, supported by the Global Fund. At the meeting, ADB informed NGOs from the region of ADB's grant for NGO initiatives on HIV/AIDS in Asia and the Pacific, which resulted in a winning proposal from the Fiji Red Cross on HIV/AIDS Prevention for Youth. The project will be implemented in 2007–2009.

Cofinancing and Procurement

Cofinancing operations enable ADB's financing partners—government or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing of ADB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products.

As of year-end 2007, cumulative direct value-added cofinancing for the Fiji Islands amounted to \$6.5 million for one investment project and \$100,000 for one TA project.

A summary of investment projects with cofinancing is available at www.adb.org/Documents/Fact_Sheets/FijiIslands/cofinancing.asp.

A summary of procurement contracts awarded to companies and consultants from Fiji Islands for goods and works, and consulting services can be found at www.adb.org/Documents/Fact_Sheets/FijiIslands/procurement.asp.

About the Fiji Islands and ADB

The Fiji Islands is the 29th largest shareholder among regional members and the 37th largest shareholder overall.

ADB Membership

Joined	1970
Shares held	2,406 (0.07%)
Votes	15,638 (0.35%)

Ceppie K. Sumadilaga is the Executive Director and **C. J. (Stan) Vandersyp** is the Alternate Executive Director representing the Fiji Islands on the ADB Board of Directors.

The South Pacific Subregional Office (SPSO) was opened in 2004 and provides the primary operational link between ADB and the government, private-sector, and civil-society stakeholders in its activities. SPSO engages in policy dialogue and acts as a knowledge base on development issues in the Fiji Islands, Cook Islands, Kiribati, Samoa, Tonga, and Tuvalu.

Sirpa H. Jarvenpaa is the Regional Director of SPSO.

The Fiji Islands government agency handling ADB affairs is the Ministry of Finance and National Planning.

About the Asian Development Bank

ADB is a multilateral development bank owned by 67 members, 48 from the region and 19 from other parts of the world. ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance (TA). Over the last 4 years (2004–2007), ADB's annual lending volume averaged \$7 billion, with TA averaging \$218 million and grant-financed projects \$616 million. In 2007, lending volume was \$10 billion, with TA at \$243 million and grant-financed projects at \$673 million.

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Useful ADB websites

Asian Development Bank
www.adb.org

Country website
www.adb.org/fijiislands

Asian Development Outlook
www.adb.org/Documents/Books/ADO/2008/FIJ.pdf

Annual Report
www.adb.org/Documents/reports/annual_report/2007/