

VIII. COUNTRY CHAPTERS

A. Country Chapter: Fiji

Table 10. Country Summary

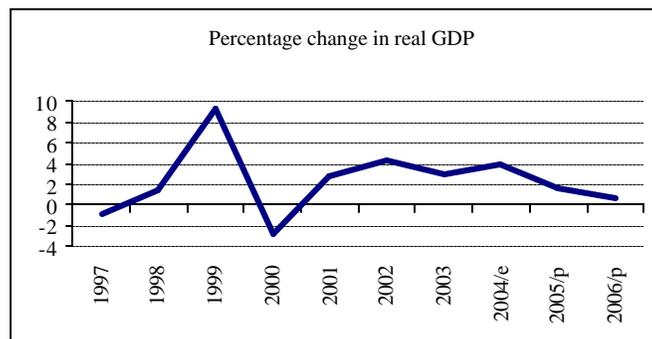
Country	Republic of the Fiji Islands
Prime Minister	Laisenia Qarase (since 10 September 2000)
Head of State	The President, Ratu Josefa ILOILOVATU (appointed by the Great Council of Chiefs, 2000)
Independence	October 10, 1970 (from the UK)
Government	Bicameral parliament comprising an appointed upper house, the Senate (32 members), and an elected lower house, the House of Representatives (71 members). Voting is compulsory and preferential.
Land area	Total land area of 18,270 sq km.
Population	848,000 (2004 est.). Population growth rate is 1.5% (2004 est.).
Cities	Capital: Suva (Viti Levu)
Provinces	4 divisions and 1 dependency: Central, Eastern, Northern, Western and Rotuma.
Languages	English (official), Fijian, and Hindi.
Natural Hazards	Cyclonic storms can occur from November to January.
Natural Resources	Timber, fish, gold, copper, offshore oil potential, hydropower.
Major Products	Sugar and garment exports, and a growing tourist industry are the major sources of foreign exchange.

1. Economic Overview

72. Fiji's economy is the largest of the Bank Pacific Island member countries, and it is the least aid dependent of the Bank's Pacific clients (aid per capita averaging US\$38 over 1999-2002). A coup in 2000 that saw the democratically elected government unseated plunged the country into economic decline. Business confidence collapsed and significant numbers of Indo Fijians emigrated, many of them skilled workers. The political fallout is continuing as charges are brought against those involved.

73. Following the coup-induced contraction of 2.8 percent in 2000, expansionary fiscal activities allowed a quick turnaround in Fiji's real GDP growth in 2001 (Figure 4) and the economy continued to show strong growth in subsequent years. However, growth of less than 2 percent in 2005 and 2006 is forecast, reflecting the expected impact of the loss of preferential trade arrangements in the sugar and garment industries. Inflation declined from 4 percent in 2003 to 2 percent in 2004, as the supply-side effect of Cyclone Ami on food prices subsided.

74. The government's efforts to stimulate economic growth following the coup resulted in a strain on the budget deficit (averaging 7 percent of GDP in 2001-02) and public debt (49 percent of GDP in 2003). The budget deficit is projected to narrow to 4 percent of GDP in 2005, reflecting stronger fiscal discipline.

Figure 4. Growth in Fiji's Real GDP during 1997-2006

75. The current account deficit has been volatile over 2001-03, largely owing to swings in the trade balance. The deficit is estimated to be about 6 percent of GDP in 2004. Foreign reserves stood at just about three months of imports of goods and services in 2003-04.

76. Agriculture, textiles, tourism, construction and mining have been the backbone of Fiji's productive sector. Although sugar has been the most important crop (30 percent of agricultural GDP in 2001), the industry faces several challenges. These include the loss in 2005 of preferential trade arrangements with the EU which have subsidized the industry, deterioration in sugarcane quality and quantity from the effects of drought, the ongoing non-renewal of land leases and the unfavorable trends in world markets. The Fiji Government has committed itself to the reformation of the sugar industry and has a package of measures in place which it hopes will address these challenges.

77. The export garment industry based on tax breaks and concessional access to the Australian and US markets, overtook sugar as the biggest export earner in 2002, accounting for 26 percent of domestic exports. However, the industry faces increasing international competition, particularly with the termination of preferential trade arrangements with the US at the end of 2004 (a preferential agreement with Australia has recently been extended).

78. Tourism (10 percent of GDP), Fiji's main foreign exchange earner, continues to expand. Given the growing supply of tourist accommodation and the entry of an additional airline into the regional market, a growth in tourist arrivals of 7 percent was expected for 2004.

79. Construction activity, contributing 4.3 percent of GDP in 2002, increased by 38 percent in 2003 as a result of government spending on physical infrastructure and the implementation of several large private investment projects in tourism. Higher gold production and strong international gold prices boosted gold export earnings by 18 percentage points to 2 percent of GDP in 2004, compared with the previous year.

80. Forestry, while representing just 0.6 percent of GDP in 2002, has the potential to play an increasing role as Fiji's mahogany plantations reach maturity. Harvesting commenced in 2004 and continues under the management of the Fiji Hardwood Corporation. Issues related to native

land tenure and ethnic Fijian involvement in the industry are sensitive and require careful handling.

2. Outlook

81. Fiji's economy has probably the greatest long-term potential among the Pacific nations, but faces some major challenges in reaching this. The expected slowdown in economic growth and the steady increase in public debt suggests the need for a tighter fiscal policy. The government's program of civil service and related reforms provides an opportunity to reduce the large share of the wage bill in the budget. Structural reforms focusing on lowering costs for business, improving private sector employment prospects, and encouraging sustainable strong economic growth would also boost the medium-term prospects for Fiji's economy. The expiry of trade concessions for the sugar and garment sectors may present social and economic challenges (many thousands are employed in these industries). Fiji has the opportunity to further capitalize on its tourism potential to sustain a strong and vibrant economy, provided that key reforms can be progressed and prudent economic management can be maintained.

4. Key Issues Shaping the World Bank's Involvement

82. As the most populous nation and largest regional economy, Fiji is a key Pacific client for the World Bank. Since it became a Bank member in 1971, 14 projects have been completed, primarily in the infrastructure, telecommunications and electric power sectors. Of these, 13 were IBRD-financed (totaling US\$146.4 million). Since the late 1990s the Bank's program in Fiji has been limited, in part a reflection of the ready availability of support from other development partners, but also of Fiji's status as an IBRD eligible borrower (Fiji does not have access to IDA resources).

83. The Bank is seeking to strengthen its engagement with Fiji over the life of this strategy (2005-08) by identifying, in consultation with the government, a number of specific areas where it can make a contribution in accordance with its comparative advantages. The government has indicated that its immediate demands will be for high quality technical advice and analytical support provided on a grant-financed basis. This is expected to be the focus of the Bank's assistance.

84. The Bank program aims to assist the government to address two key challenges to economic growth: (a) responding to fiscal pressures which dictate an urgent need for the government to deliver services more efficiently and effectively; and (b) identifying opportunities to remove impediments to private sector development.

85. The Bank approach also recognizes that having emerged from the political upheavals surrounding the 2000 coup, promoting national stability is a key concern. While strengthening the preconditions for sustained economic growth is fundamental to Fiji's long-term prosperity, recent history has implications for the way in which economic reform can be undertaken.

86. The Bank's program of assistance to Fiji is set out in Table 11.

Table 11. Summary of World Bank Assistance Program to Fiji

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening government capabilities in service delivery.</p> <p>Improving the effectiveness of public expenditures in the social sectors.</p> <p>Improving the public expenditure management of infrastructural assets.</p> <p>Safeguarding service delivery by improving resilience to natural hazards.</p>	<p>Increasing efficiency of public expenditure (TA, initiated 10/18/2004). A continuation of the upward trends in fiscal deficit and public debt would pose a risk to economic growth. The government has launched a far-reaching program of public sector reform consisting of financial management reform, civil service reform and public enterprise reform. The Bank is looking to develop a program of targeted assistance for public sector reform to help the government achieve its objectives for fiscal consolidation, in particular a reduction in wages and salaries from 11 to 9 percent of GDP. Such a reduction will be key to the government's ability to provide sufficient resources for key MDG areas in service delivery, maintenance and capital expenditure. The Bank and the government are in discussions on a range of areas where the Bank could potentially contribute to this agenda.</p>	<ul style="list-style-type: none"> • Introduction of an integrated and fiscally sustainable public sector reform program resulting in enhanced capacity of the government to manage public expenditures.
<p>Improving the incentives for private sector growth and employment.</p> <p>Reducing the costs of doing business.</p>	<p>Developing alternative sources of private sector growth (TA). To cushion the employment and poverty impact of a contraction of the sugar and textiles sectors structural reforms to boost private sector growth and job creation will be important. To contribute to this agenda the Bank is working with FIAS to provide technical assistance for a private sector development program focused on regulatory reform, initially supporting the government's reforms to the foreign investment legislation and approval process (broadening to other 'Doing Business' priorities as this work develops).</p>	<ul style="list-style-type: none"> • Dialogue between Government and the private sector resulting in collaborative action to reduce obstacles to private sector development.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
Strengthening the management and sustainability of the resource-based sectors.	<p>Reducing telecommunications costs (TA, initiated 10/29/2004). Reducing Fiji's high telecommunications costs and improving access could significantly boost private sector investment and growth. There is currently a monopoly arrangement for the provision of telecommunication services with the government, including holdings controlled by the National Provident Fund, being the main shareholder. This arrangement constrains the ability to introduce a more competitive cost regime and improve services. The Bank is providing the government with technical advice to highlight the options possible through a more liberalized sector.</p> <p>Support to small and medium enterprises. The IFC's programme in Fiji will continue to be delivered by the Pacific Enterprise Development Facility (PEDF). PEDF, as in the past, will work on private sector development with a focus on small and medium enterprises (SMEs). The key focus areas for Fiji will be on SME finance, tourism and IFC investment.</p> <p>Sustainable forest management (AAA; initiated 06/30/2005). Fiji's plantation (mahogany and pine) and indigenous forests resources are substantial. However, the sustainability of current exploitation is of concern – which has implications for Fiji's ability to tap into higher-value overseas markets (many of which rely on the ability to comply with certification regimes). The Bank has offered to develop a modest program of capacity building and technical assistance for the Forestry Department to strengthen its ability to play the policy and management oversight role.</p>	<ul style="list-style-type: none"> • Improved government understanding of the fiscal effects of telecoms liberalization and appreciation of approaches to encourage greater competition in this sector • Improved conditions to enable domestic (and foreign) investment to occur more rapidly. • Improved consideration of the role of forest products in national development and poverty reduction • Improved capacity to implement sustainable forest management practices.
Improving access to regional labor markets.		

4. Donor Coordination

87. Table 12 describes the nature of the assistance provided by Fiji's other development partners.

Table 12. Activities of Other Development Partners

<i>Development partner</i>	<i>Primary Activities</i>
ADB	The Country Strategy and Program Update 2005-2007 (August 2004), identifies the following priority sectors: Transport and communications, energy, agriculture, natural resources, water and sanitation and finance. The ADB has three active lending operations in Fiji with ADB commitments totaling US\$103.8 million (Suva-Nausori Water Supply and Sewerage project, closing 30.06/2009; Third Road Upgrading project, closing 31/12/2005; and; the Fiji Ports Development project, closing 30/06/2006.). Three lending operations are scheduled in 2005 (Rural Electrification, US\$10 million; Airports Rehabilitation and Upgrading, US\$32 million; and Road Upgrading, US\$26 million). Two further lending operations are scheduled in 2006 (Urban Sector Development, US\$22 million) and 2007 (Rural and Outer Islands Development, US\$26 million).
Australia	Australia provides bilateral assistance concentrated in the health, education and justice sectors with an emphasis on improved service delivery of public services to rural and peri-urban areas. Programs include: support to civil society groups; support of the Government's law and order strategy; planning, management, provision of monitoring of education services; Australian Development Scholarship program; training of community health staff, refurbishment of an existing hospital and construction of a new facility; capacity building support to the Fiji Ministry of Health; and a technical assistance program provided by Australian volunteers.
European Union	The European Community's Country Strategy Paper 2003-2007, identifies education as the priority or "focal" area for Euro 21 million assistance with activities proposed to improve the quality and standard of formal and non-formal education programs (especially in rural areas). Fiji is also expected to benefit from support from the European Investment Bank and the Center for the Development of Enterprise. Approximately Euro 525,000 has been set aside to fund related technical assistance and analytical work.
Japan	In FY03 (April 1, 2003-March 31, 2004), JICA provided TA programs equating to US\$10.13 million involving programs in basic education; rural health services; industrial development (volunteer programs in agriculture, livestock management, infectious disease control; marine resources development; vocational training; and SME development); environmental conservation and waste management. During the same period, the Ministry of Foreign Affairs provided grant funding of US\$7.58 million. JBIC has one active lending operation in Fiji with US\$7.08 million in commitments outstanding.
New Zealand	NZAID provides NZ\$4.1 million in bilateral assistance to Fiji with programs providing support to the Government's priorities in law and justice; community and economic development; education; training; and health.
Others	The following UN agencies have activities: FAO, ICAO, IFAD, ILO, IMO, ITU, UNESCO, UPU, WHO, WIPO, WMO, WTO, UNEP, ITC, UNIDO, UNFPA, UNICEF, UNDP