



# Report and Recommendation of the President to the Board of Directors

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**INTERNAL**

Project Number: 55116-001  
May 2022

## Proposed Policy-Based Loans Republic of Fiji: Sustainable and Resilient Recovery Program

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 9 May 2022)

Currency unit	–	Fiji dollar/s (F\$)
F\$1.00	=	\$0.4618
\$1.00	=	F\$2.1654

## ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
FRCS	–	Fiji Revenue and Customs Service
GDP	–	gross domestic product
IMF	–	International Monetary Fund
JICA	–	Japan International Cooperation Agency
MOE	–	Ministry of Economy
MTDS	–	medium-term debt management strategy
MWCPA	–	Ministry of Women, Children and Poverty Alleviation
P3F	–	post-program partnership framework
PFM	–	public financial management
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
UN	–	United Nations

## NOTES

- (i) The fiscal year (FY) of the Government of Fiji ends on 31 July. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2022 ends on 31 July 2022.
- (ii) In this report, “\$” refers to United States dollars, unless otherwise stated.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 55116-001	
<b>Project Name</b>	Sustainable and Resilient Recovery Program	<b>Department/Division</b>	PARD/PASP
<b>Country</b>	Fiji, Republic of	<b>Executing Agency</b>	Ministry of Economy
<b>Borrower</b>	Republic of Fiji		
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=55116-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=55116-001-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=55116-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=55116-001-PortAtaGlance</a>		
<b>2. Sector</b>		<b>Subsector(s)</b>	
✓ <b>Public sector management</b>	Law and judiciary		<b>ADB Financing (\$ million)</b>
	Public expenditure and fiscal management		45.000
	Social protection initiatives		75.000
			30.000
		<b>Total</b>	<b>150.000</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP2: Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ OP6: Strengthening governance and institutional capacity			
		<b>ADB Financing</b>	
		Adaptation (\$ million)	22.000
		Mitigation (\$ million)	10.000
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 1.3, 1.5, 1.b		Effective gender mainstreaming (EGM)	✓
SDG 5.c			
SDG 8.10, 8.3			
SDG 10.3, 10.4			
SDG 13.a			
SDG 16.6			
SDG 17.1, 17.4			
		<b>Poverty Targeting</b>	
		General Intervention on Poverty	✓
<b>4. Risk Categorization:</b>	Complex		
<b>5. Safeguard Categorization</b>		<b>Environment:</b> C	<b>Involuntary Resettlement:</b> C
			<b>Indigenous Peoples:</b> C
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>150.000</b>	
Sovereign Stand-Alone Policy-Based Lending (Concessional Loan): Ordinary capital resources		60.000	
Sovereign Stand-Alone Policy-Based Lending (Regular Loan): Ordinary capital resources		90.000	
<b>Cofinancing</b>		<b>138.300</b>	
Government of Australia - Stand-Alone Policy-Based Lending (Grant) (Not ADB Administered)		60.100	
Japan International Cooperation Agency - Stand-Alone Policy-Based Lending (Loan) (Not ADB Administered)		76.600	
New Zealand Grant - Stand-Alone Policy-Based Lending (Grant) (Not ADB Administered)		1.600	
<b>Counterpart</b>		<b>0.000</b>	
None		0.000	
<b>Total</b>		<b>288.300</b>	
<b>Currency of ADB Financing:</b> US Dollar			





## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on proposed policy-based loans to the Republic of Fiji for the Sustainable and Resilient Recovery Program.

2. The program supports Fiji in striving for green, inclusive, and climate-resilient growth after the coronavirus disease (COVID-19) pandemic and in managing its heightened vulnerability to climate and disaster risks. The program will help (i) improve public financial management (PFM) for fiscal resilience and debt sustainability, (ii) implement inclusive fiscal and social policies for community resilience, and (iii) strengthen the enabling environment for a resilient private sector recovery. It builds on the achievements of the Sustained Private Sector-Led Growth Reform Program completed in 2020, and leverages value addition and policy advice delivered since 2017 in conjunction with technical assistance (TA) from the Asian Development Bank (ADB).<sup>1</sup> Single-tranche, stand-alone policy-based loans are proposed to restore fiscal sustainability and improve the medium-term debt trajectory after COVID-19.<sup>2</sup> The program will help create fiscal space to implement a new medium-term reform program that is expected to be finalized in 2022, integrating the post-election government's reform priorities after national elections expected in the second half of 2022. It will also assist government reforms to systematically mainstream resilience (including climate resilience) into the government's budgeting and decision-making processes, as well as in its medium-term reform agenda, including through the enactment of comprehensive climate legislation.<sup>3</sup> The reform momentum will be sustained through a post-program partnership framework (P3F), ADB policy advice, and TA.

## II. PROGRAM AND RATIONALE

### A. Background and Development Constraints

3. **Development context.** Fiji is an archipelago of more than 330 islands with a population of 890,000. Prior to COVID-19, services accounted for about 69% of gross domestic product (GDP) and provided jobs for nearly 47% of Fijians in 2019. Tourism contributed about a third of GDP, employed about a quarter of the workforce, and was a major driver of growth.<sup>4</sup> The economy faces constraints common to small island developing states, such as a remote location, a geographically dispersed population, and a high-cost business environment. While Fiji has a low incidence of extreme poverty (0.2% of the population lived under the \$1.90 per person per day poverty line in 2021), significant climate and disaster risks undermine economic growth and development outcomes and jeopardize fiscal stability.<sup>5</sup>

4. **Vulnerability to climate change.** The country faces the climate-related risks of heavy rainfall, cyclones, floods, storms, and droughts, and their impacts on its economy and

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<sup>1</sup> ADB. [Fiji: Sustained Private Sector-Led Growth Reform Program, Subprogram 1](#); ADB. [Fiji: Sustained Private Sector-Led Growth Reform Program, Subprogram 2](#); ADB. [Fiji: Sustained Private Sector-Led Growth Reform Program, Subprogram 3](#); ADB. [Fiji: Supporting Public Financial Management Reform](#); ADB. [Regional: Pacific Private Sector Development Initiative, Phase III](#); and ADB. [Regional: Pacific Private Sector Development Initiative, Phase IV](#). Medium-Term Reform Program, 2017–2022 (accessible from the list of linked documents in Appendix 2).

<sup>2</sup> The program supports the implementation of a medium-term debt management strategy and will provide financing that helps meet the strategy's targets for the maturity structure and currency and interest rate composition of debt.

<sup>3</sup> The aim is to reinforce the capacity of the state, communities, and businesses to manage climate change. Fiscal resilience, through the rebuilding of buffers, will improve the government's ability to fund a green and resilient transition and respond to climate change-induced shocks. Reforms to strengthen the resilience of communities and businesses will bolster their ability to adapt and respond to future climate change impacts.

<sup>4</sup> Tourism contributed 32.0% of GDP in 2019, declining to 10.9% of GDP in 2020 because of COVID-19 impacts. World Travel and Tourism Council. 2021. [Fiji: 2021 Annual Research: Key Highlights](#) (accessed 12 April 2022).

<sup>5</sup> Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

environment.<sup>6</sup> The likelihood of a disaster caused by a natural hazard affecting Fiji in any year is estimated at 70%, with average damages equal to 1.8% of GDP.<sup>7</sup> Experience shows that it takes the country 4 years or more to recover from disasters. The situation is made worse by the expected rise in sea level that threatens people living in coastal areas and on low-lying islands. Also, low-intensity, high-frequency floods will likely increase and contribute to damages to agriculture and housing. A climate vulnerability assessment in 2017 estimated that, by 2050, an additional 3.8% of the population is likely to fall into poverty because of climate change, unless more is invested in infrastructure, coastal protection, ecosystems, and social protection programs that improve social and climate resilience.<sup>8</sup> Women face even greater vulnerability because of violence and deprivation after disasters.<sup>9</sup>

5. **Response to climate change.** Realizing the dangers posed by climate change, Fiji was the first country in the world to ratify the Paris Agreement in 2016. Climate change and green growth are crosscutting themes in the National Development Plan, 2017–2036.<sup>10</sup> The plan outlines a commitment to decarbonize the Fijian economy, to help achieve climate neutrality and a low-emission world. It sets out that Fiji will seek to mobilize public and private sector climate finance. As part of these efforts, Fiji became the first emerging market to issue a sovereign green bond raising \$50 million equivalent to support climate change mitigation and adaptation in 2017.

6. **COVID-19 situation.** Fiji recorded 64,841 cases of COVID-19 and 862 related deaths as of 19 May 2022.<sup>11</sup> The pandemic has had serious social, economic, and fiscal impacts, driven primarily by the shutdown of tourism, with disproportionate effects on women. The country is implementing its national COVID-19 vaccination strategy. As of 19 May 2022, 100% of adults had received the first vaccine dose and 95% the second. Vaccination of children starting from 12 years of age is also progressing well. Government stimulus packages have mitigated private sector employment losses and supported vulnerable households.

7. **Macroeconomic management.** During 2010–2018, Fiji experienced sustained growth at an annual average rate of 3.7% despite disaster-driven volatility. It enabled this with prudent fiscal policies that focused on macroeconomic stability and investments in physical and human capital. The tax–GDP ratio averaged 24.2% in FY2017–FY2019, higher than that of many of Fiji’s peers.<sup>12</sup> The government implemented an expenditure-based fiscal consolidation, including tightening control over current spending. Public debt was sustainable, declining from 56.2% of GDP in FY2010 to 48.7% in FY2019. The fiscal deficit averaged below 2.5% of GDP in this period. However, the COVID-19 pandemic and border closures led to international visitor arrivals falling by 83.6% and the economy contracting by an unprecedented 15.2% in 2020. Damage from Tropical Cyclone Ana and local COVID-19 outbreaks led the economy to contract further by an estimated 4.1% in 2021.<sup>13</sup> The corresponding collapse in revenue and rising COVID-19

<sup>6</sup> Fiji was struck by several severe cyclones in 2020–2021, including Tropical Cyclone Harold (April 2020; category 5), Tropical Cyclone Yasa (December 2020, category 5), and Tropical Cyclone Ana (January 2021, category 3).

<sup>7</sup> D. Lee, H. Zhang, and C. Nguyen. 2018. [The Economic Impact of Natural Disasters in Pacific Island Countries: Adaptation and Preparedness](#). *IMF Working Paper*. No. 18/108. Washington, DC: International Monetary Fund (IMF).

<sup>8</sup> Government of Fiji. 2017. [Climate Vulnerability Assessment: Making Fiji Climate Resilient](#). Washington, DC: World Bank.

<sup>9</sup> UN Women Asia and the Pacific. [Fiji](#) (accessed 1 April 2022).

<sup>10</sup> Government of Fiji, Ministry of Economy. 2017. [5-Year & 20-Year National Development Plan: Transforming Fiji](#). Suva.

<sup>11</sup> Government of Fiji, Ministry of Health and Medical Services. 2022. [COVID-19 Update—19-05-2022](#). Fiji recorded only 70 cases of COVID-19 between March 2020 and April 2021.

<sup>12</sup> Fiji’s fiscal year used to coincide with the calendar year. In 2016, it was changed to begin on 1 August and end on 31 July the following year. Except for fiscal indicators, all macroeconomic indicators are based on the calendar year.

<sup>13</sup> ADB. 2022. [Asian Development Outlook 2022: Mobilizing Taxes for Development](#). Manila.

expenditures widened the deficit to 5.9% of GDP in FY2020 and an estimated 10.8% of GDP in FY2021, driving up public debt from 61.8% of GDP in FY2020 to 79.0% of GDP in FY2021.<sup>14</sup>

8. **Prospects for recovery.** Borders reopened in early December 2021 after 21 months, which is expected to generate an economic recovery in 2022. The reopening was possible due to a high COVID-19 vaccination rate and adoption of the Care Fiji Commitment, a World Health Organization-approved standard of best-practice COVID-19 control policies and protocols. GDP is projected to grow by 7.1% in 2022, 8.5% in 2023, and 9.9% in 2024 (footnote 13). Tourism will be a key driver of recovery. Early indications are that tourists and visitors have begun to return from the country's traditional source markets—arrivals from Australia in December 2021–March 2022 were more than 50% of pre-pandemic monthly levels, and arrivals from the United States were more than a third.<sup>15</sup> But significant risks remain, not least Fiji's vulnerability to disasters and climate change, and tourism recovery may yet fall short of expectations.<sup>16</sup>

9. **Fiscal outlook.** ADB assesses the general direction of macroeconomic policies to be satisfactory and the overall fiscal outlook to be positive, projecting rising revenues, expenditure controls, and declining fiscal deficits (Table 1).<sup>17</sup> The government forecasts a fiscal deficit equivalent to 14.2% of GDP in FY2022 under the continued impacts of the pandemic, declining to 4.7% in FY2023 and 4.0% in FY2024 as the economy recovers. Targeted fiscal support may continue in the short term, but the government is committed to fiscal consolidation as recovery takes hold, including phased revenue reforms and expenditure rationalization.<sup>18</sup> The government recognizes that expenditure categories like public sector wages, grants to government entities, nonstrategic capital projects, and other operational expenditures may need to be scaled back or deferred in the medium term to ensure that the targeted deficits are met.<sup>19</sup> It plans to reduce the overall fiscal deficit to about 2.0% of GDP by FY2026 to maintain macro-fiscal stability. The exchange rate peg is expected to continue to provide a credible nominal anchor (footnote 17).

**Table 1: Selected Economic and Fiscal Indicators**  
(% of GDP unless noted otherwise)

Item	FY2018	FY2019	FY2020	FY2021e	FY2022p	FY2023p	FY2024p
Real GDP growth (% change)	3.8	(0.4)	(15.2)	(4.1)	7.1	8.5	9.9
CPI change (% annual average)	4.1	1.8	(2.6)	0.2	4.5	4.0	3.7
Total public revenue	28.5	27.0	25.1	22.1	21.9	26.4	26.6
Total public expenditure	32.9	30.6	31.0	32.9	36.1	31.1	30.6
Fiscal (deficit)	(4.4)	(3.6)	(5.9)	(10.8)	(14.2)	(4.7)	(4.0)
Public debt	45.9	48.7	61.8	79.0	88.6	85.3	85.0
of which: External debt	12.8	12.4	15.8	25.0	32.0	...	...
Nominal GDP (\$ million)	5,581.4	5,496.3	4,574.4	4,592.1	5,019.8	5,607.0	6,173.3

... = not available, ( ) = negative, CPI = consumer price index, e = estimate, FY = fiscal year, GDP = gross domestic product, p = projection.

Sources: Government of Fiji and Asian Development Bank estimates.

<sup>14</sup> External debt is estimated to be equivalent to 25% of GDP in FY2021 and is projected to increase to 32% of GDP in FY2022. Government of Fiji, MOE. 2021. [2020/2021 Annual Debt Report](#). Suva.

<sup>15</sup> Government of Fiji, Fiji Bureau of Statistics. 2022. [Provisional Visitor Arrivals – March 2022](#). Suva.

<sup>16</sup> Risks from the Russian invasion of Ukraine are limited, but an escalation or prolonged fallout could affect recovery. Given Fiji's limited trade and tourism relations with Europe and minimal dealings with the Russian Federation, the main impact of the invasion is through commodity price shocks and market volatilities. Europe accounted for about 6.1% of Fiji's tourism arrivals prior to COVID-19, and the Russian Federation's share was negligible.

<sup>17</sup> Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).

<sup>18</sup> Development partners' TA is helping fine-tune the reforms. The IMF undertook a tax policy review with recommended revenue measures to be implemented during recovery. The World Bank is supporting public expenditure reviews.

<sup>19</sup> Government of Fiji, MOE. 2021. [Medium Term Debt Management Strategy, Fiscal Years 2021–2023](#). Suva.

10. **Debt sustainability.** Fiji's debt management has been prudent (para. 7). The debt–GDP ratio has risen since FY2019, attributed to the contraction in nominal GDP and to an increase in government borrowing to offset reduced revenues and higher expenditures caused by the COVID-19 pandemic. Public debt is expected to peak at 88.6% of GDP in FY2022. The government was able to reduce the cost of its domestic and external debt, including by accessing financing from ADB and other partners, while refinancing and interest rate risks decreased (measured in average time to maturity and to refixing, respectively). Through its medium-term debt management strategy (MTDS) FY2021–FY2023, the government aims to bring the debt–GDP ratio to below 80% by FY2025, with a long-term path to cut debt to 60% of GDP by FY2036 (footnote 19). The International Monetary Fund (IMF) assessed Fiji's debt to be sustainable—although subject to significant risks—based on a steady recovery in economic growth, the implementation of a phased fiscal consolidation plan, and no new major shocks.<sup>20</sup>

11. **Binding constraints.** The government recognizes that several interrelated constraints may undermine inclusive and sustainable economic recovery, such as (i) a lack of financing and weak PFM practices for the delivery of essential public goods and services, and a green recovery; (ii) the limited ability of government, businesses, and communities to respond to future external shocks; and (iii) barriers to private sector participation in the economic recovery.

12. **Weaknesses in public financial management.** The government is also aware that fiscal consolidation is essential to maintaining macroeconomic and fiscal sustainability over the medium term. While PFM systems are generally sound, some remaining weaknesses undermine effective fiscal management and elevate debt sustainability risks.<sup>21</sup> Some elements of the legal framework for PFM are outdated and need to be better aligned with Fiji's Constitution and international best practices to achieve stronger financial control and accountability, and robust strategic direction toward fiscal sustainability.<sup>22</sup> A related issue is the lack of a medium-term perspective in borrowing and debt management. This is essential to ensure that financing needs are met at minimal cost and subject to prudent risk, particularly since debt levels have risen in response to COVID-19. Greater transparency of the government's financing objectives is also needed to better inform creditors and market participants about upcoming financing needs. On the revenue side, fiscal consolidation will require raising tax collection without impeding growth. Efforts to improve tax administration are being hampered by an outdated tax information system that hinders taxpayer compliance and undermines forecasting and planning. Given that climate change jeopardizes fiscal sustainability, a regulatory and institutional framework to mainstream climate change considerations throughout the public sector, including in procurement and budgeting processes, is needed.

13. **Inadequate support for community resilience.** The pandemic and past disasters triggered by natural hazards have shown that community resilience needs to be better supported by public policy. Although women face rising vulnerabilities because of climate change and are heavily represented in sectors impacted most by COVID-19, budget allocations are mostly not based on sound gender-responsive analysis. Tracking of gender allocations is lacking, as are revenue impact assessments. Social welfare programs cover about 14% of Fiji's population and

<sup>20</sup> International Monetary Fund Assessment Letter (accessible from the list of linked documents in Appendix 2).

<sup>21</sup> IMF. Pacific Financial Technical Assistance Centre. 2020. [Fiji: Public Expenditure and Financial Accountability Assessment](#). Suva; Government of Fiji. MOE. 2020. [Public Financial Management Improvement Plan, 2020–2025](#). Suva.

<sup>22</sup> Fiji's new Constitution, adopted in 2013, delegates responsibility for the efficient, effective, and economical management of ministries to permanent secretaries. The controls and accountability of the PFM framework need to be strengthened and brought into line with these delegated responsibilities. ADB. 2017. [Public Financial Management Systems—Fiji. Key Elements from a Financial Management Perspective](#). Manila.



play an important part in protecting the vulnerable, but the recent shocks highlighted gaps in the targeting of women and vulnerable populations. In addition, as climate-related disasters become more frequent, it is imperative to ensure that affected people receive prompt support and can recover quickly. Climate insurance has the potential to build resilience by providing more timely access to financial assistance, among other benefits. However, while the insurance industry is well established, vulnerable groups have inadequate access to insurance products. A study of farmers in Fiji found that more than two-thirds had to rely on their savings, bank loans, or financial support from friends and family for disaster recovery. More than half were interested in obtaining insurance, but affordability remained an issue.<sup>23</sup> Finally, community resilience is weakened by gaps in access to sustainable, reliable, and affordable water, sanitation, and electricity services, which will increase with climate change. Climate change is forecast to affect the quality and quantity of fresh water supply in coastal and island regions because of rising sea levels and saltwater intrusion, as well as changes in precipitation levels. While almost 90% of the population has access to electricity, some rural areas are unserved. More investment is also needed to ensure that more than 80% of electricity is generated from renewable sources. To achieve these goals, the government looks to partner more strongly with the private sector (footnote 10).

14. **Barriers to private sector-led recovery.** The private sector has a critical role in supporting the country's economic recovery and building resilience to shocks (including disasters caused by natural hazards) through economic diversification. However, recovery prospects are weakened when otherwise healthy businesses lack sufficient access to working capital. A study found that businesses of all types—but especially tourism enterprises—need short-term cash to meet rental and utility costs and to have enough working capital to avoid bankruptcy and for financial recovery.<sup>24</sup> Access to longer-term financing for growth is limited by an underdeveloped corporate bond market. While the Companies Act 2015 created the opportunity to issue corporate bonds, the regulatory framework lacks clarity on the process and on the legislative requirements for issuing bonds in the primary market and trading them in the secondary market. Further, the cost of doing business remains high because of complicated licensing requirements, outdated stamp duties, and high and complex customs duties. Fiji's legislation is outdated, does not adequately address new payment instruments, and cannot deal with the speed and volume of electronic transactions. This hinders the adoption of digital solutions and the longer-term growth of the payment system.

15. **Alignment with national and ADB strategy.** The program aligns with the National Development Plan, 2017–2036, which envisions inclusive socioeconomic development and green growth with a strategy to become a regional hub for business and transport while strengthening infrastructure, service delivery, and community resilience (footnote 10). Fiji has a prominent voice in international forums on the need to act against climate change.<sup>25</sup> The government moved rapidly to mitigate the COVID-19 impacts through containment, fiscal stimulus, and an assertive vaccination strategy, while intensifying reforms to rebuild fiscal buffers, support community resilience, and foster economic recovery. Informed by an assessment done in 2020, it has finalized a new PFM Improvement Plan 2020–2025 (footnote 21). The program is aligned with ADB's Strategy 2030 operational priorities of (i) addressing remaining poverty and reducing inequalities; (ii) tackling climate change, building climate and disaster resilience, enhancing environmental sustainability; (iii) strengthening governance and institutional capacity; and

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<sup>23</sup> United Nations (UN) Capital Development Fund. 2021. [Summary of Demand Study Reports: Farmers. Fiji Climate Disaster Risk Financing and Insurance](#). New York.

<sup>24</sup> International Finance Corporation. 2020. [Fiji COVID-19 Business Survey: Tourism Focus. Impacts, Responses and Recommendations](#). Washington, DC.

<sup>25</sup> Fiji presided over the Conference of the Parties to the UN Convention on Climate Change in 2017.

(iv) accelerating progress in gender equality.<sup>26</sup> It also aligns with the three strategic objectives of ADB's country partnership strategy for Fiji, 2019–2023.<sup>27</sup>

## B. Policy Reform, ADB's Value Addition, and Sustainability

16. **Program description.** The program supports Fiji's efforts to restore fiscal sustainability and inclusive, climate-resilient economic growth—both undermined by the COVID-19 pandemic and coinciding disasters—while building fiscal, community, and private sector resilience to climate change and future shocks. It covers three reform areas (paras. 17–21), and builds on and complements ADB's previous engagement while responding to policy challenges intensified by the pandemic.<sup>28</sup> All program policy actions have been completed and reforms are under implementation.

17. **Reform area 1: Public financial management for fiscal resilience and debt sustainability.** The program supported the government in undertaking various reforms to help restore fiscal and debt sustainability.

- (i) The Financial Management (Amendment) Act 2021, which amends the Financial Management Act 2004, was passed by Parliament and came into force on 1 April 2022. The preparation of the act was supported by TA from ADB (para. 24). The amendments align Fiji's legal framework for PFM with international good practice. Building on the principles of responsible fiscal management, they are consistent with achieving medium-term fiscal and debt sustainability, and require the government to set measurable indicators to measure progress. They raise transparency by increasing parliamentary oversight over budget planning and execution. The amended act increases accountability by making the minister and permanent secretary for finance responsible for publishing government accounts and expanding the responsibilities of all permanent secretaries and other key authorities to align with the roles set out in the 2013 Constitution. Further, it mandates that all budget sector agencies must provide a procurement and cash flow forecast to the Ministry of Economy (MOE) within 2 weeks after passing the budget.
- (ii) Recognizing the need for prudent borrowing policies and proactive debt portfolio management to reduce borrowing costs, the cabinet approved Fiji's first MTDS (for FY2021–FY2023) in January 2021, for implementation with immediate effect (footnote 19). Also, MOE is implementing an annual borrowing plan in FY2022, approved in April 2022, consistent with the cost and risk targets of the MTDS that map out the financing requirements throughout the year, and defines the debt instruments to be used. The plan has domestic and external financing components that will be monitored against targets set out in the MTDS. The MTDS recognizes the importance of strategic foreign currency borrowings to build resilience to climate change and to respond to disasters and other emergencies.
- (iii) The Fiji Revenue and Customs Service (FRCS) has established and operationalized a new tax information system that covers pay-as-you-earn tax on employment income from February 2021. It facilitates taxpayer compliance by

<sup>26</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila. The program also contributes to addressing remaining poverty and reducing inequalities.

<sup>27</sup> ADB. 2019. [Country Partnership Strategy: Fiji, 2019–2023—Achieving Sustained, Inclusive, Private Sector-Led Growth](#). Manila. The strategic objectives are (i) promoting private sector investment and growth, (ii) broadening access to quality services and economic opportunities, and (iii) building resilience and reducing economic volatility.

<sup>28</sup> The policy design and monitoring framework is in Appendix 1. More detail on previous policy actions is in the Medium-Term Reform Program, 2017–2022 (accessible from the list of linked documents in Appendix 2).

enabling online filing of taxes and helps boost domestic resource mobilization. It also covers interest withholding tax from March 2021 and capital gains tax from November 2021.

- (iv) Fiji's Climate Change Act 2021, prepared with TA support from ADB (para. 24), was passed by Parliament on 23 September 2021. The Act provides a basis for Fiji to progressively realize its international commitments towards a greener planet and blue economy through the establishment of suitable institutional and governance structures. It mandates the mainstreaming of climate change considerations in the national budget, agencies' budget submissions, and public procurement; and contains a gender-sensitive framework for resilience building and mitigation. It is a comprehensive climate legislation, covering issues like long-term net-zero commitments, carbon budgets, carbon market establishment, nature-based solutions, climate finance, and intergovernmental resilience building. The act will assist Fiji in meeting its obligations under the Paris Agreement, i.e., its commitment to net-zero carbon emissions by 2050. It also supports Fiji in meeting its international obligations to sustainably manage and enhance the resilience of its land, coastal and marine biological diversity, and ecosystems.<sup>29</sup>

**18. Reform area 2: Public policy for community resilience.** The government undertook several reforms under the program to more effectively support and protect women, the poor, and vulnerable people, especially in the face of shocks.

- (i) Building on the gender-responsive budgeting pilot supported through the previous ADB program (footnote 1), the government extended the rollout to five additional ministries as part of the budget process for FY2022.<sup>30</sup> The gender-responsive budgeting framework includes a new budget submission template and requires gender analysis of programs and budget allocations based on sex-disaggregated data. Experience from other parts of the world shows that this can be key to informing a more equitable allocation of resources.<sup>31</sup>
- (ii) Cabinet approved in February 2021 and the Ministry of Women, Children and Poverty Alleviation (MWCPA) is implementing an overarching social assistance policy to fill gaps in the targeting and efficiency of social assistance programs and to make programs better adapted to economic and climate-related shocks. The policy defines strategic priorities; cost-effective selection processes; information system requirements; and the capacity building, monitoring, and evaluation approaches. The policy's implementation is overseen by the National Social Protection Coordination Committee, which is chaired by the permanent secretary, MWCPA, and includes representatives of key ministries and agencies.
- (iii) Fiji became the first country in the Pacific, and one of the first globally, to launch a new market-based climate risk parametric microinsurance product in August 2021 to increase the financial protection of women and vulnerable people from disasters triggered by natural hazards. The microinsurance product initially targets smallholder farmers, fishers, and market vendors. It will then be expanded to other livelihood sectors and small and medium-sized enterprises (SMEs), to support private sector resilience. The United Nations (UN) Capital Development Fund is

<sup>29</sup> These reforms will also support a resilient private sector recovery by mandating company disclosure requirements for financial risks of climate change under the Climate Change Act 2021, and by lowering tax compliance costs.

<sup>30</sup> The seven ministries are the two ministries that piloted the methodology in FY2021 (Fisheries; and Commerce, Trade, Tourism and Transport), plus the ministries of Agriculture; Education, Heritage and Arts; Forestry; Youth and Sports; and Women, Children and Poverty Alleviation).

<sup>31</sup> UN Economic and Social Commission for Asia and the Pacific. 2018. [Gender-Responsive Budgeting in Asia and the Pacific](#). Bangkok.

facilitating the rollout of the product through aggregator partners, including the Department of Social Welfare.<sup>32</sup> Two local insurance companies, FijiCare and Sun Insurance, are underwriting the risk. Also, to make parametric insurance products more affordable for low-income and vulnerable populations, Parliament passed legislation to exempt parametric insurance products from value-added tax. The Value-Added Tax (Budget Amendment) Act 2021 came into force on 1 August 2021.

- (iv) In June 2021, the cabinet approved a new Rural Water and Sanitation Policy, which is being implemented by the Water Authority of Fiji through the government-subsidized Rural Water Supply Program and nongovernment organizations. It ensures the sustainable development of water resources and sewerage systems to benefit rural communities. The policy requires that water supply schemes take a holistic account of water sources and the impact of climate change and be designed to include the careful disposal of wastewater. It also clarifies the responsibilities of the Water Authority of Fiji and different ministries and provides coordination mechanisms to ensure proper implementation. The policy supports Fiji in meeting its commitment to the UN Sustainable Development Goal 6.<sup>33</sup>
- (v) To boost reliable, sustainable, and inclusive power supply throughout Fiji, the government partially divested its ownership stake in Energy Fiji Limited in June 2021. The private sector partner will bring its operational expertise and experience into play, including the introduction of independent power producer projects, technology, financial capacity, and human resource system. This will help Energy Fiji Limited meet growing national electricity demand and realize renewable energy targets more efficiently and without need for government guarantees, while also providing reliable, renewable, and affordable electricity to all Fijians. The government is implementing an agreement with Energy Fiji Limited, entered into in April 2021, to maintain and expand services to underserved rural communities. This includes a noncommercial obligation scheme to ensure the provision of electricity services to rural and remote communities that otherwise would remain unserved because costs are not covered by the uniform tariff.

19. The Climate Change Act 2021 also supports community resilience objectives (para. 17), for instance through actions to (i) enhance the adaptive capacity of communities to manage the impact of climate change; (ii) support gender equality and the empowerment of women; and (iii) promote access of communities to health, education, water, and sanitation services. It pays particular attention to the conservation of communities, as a fundamental guiding principle in decision-making, and to safeguarding the rights and welfare of vulnerable communities who are acutely exposed to the impacts of climate change.

20. **Reform area 3: Enabling environment for resilient private sector recovery.** Supporting the recovery of businesses and fostering the creation of new enterprises is critical for economic recovery and resilience. Several actions were completed as part of the program.

- (i) The government, in August 2021, established and operationalized through the Reserve Bank of Fiji a loan facility with a 2-year interest rate subsidy to improve businesses' access to working capital. All SMEs that continued to operate from December 2019 are eligible, but priority is given to applicants who demonstrate an

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<sup>32</sup> Other aggregator partners include the government's Sugarcane Growers Fund, Fiji Rice Limited, Fiji Coconut Millers Association, and Tailevu Dairy Farmers Cooperative Association Limited.

<sup>33</sup> The goal is to ensure the availability and sustainable management of water and sanitation for all.



- ability to create employment. The loan can be used to pay wages and salaries, rent, utilities, and working capital needs.
- (ii) Customs duties were reduced on more than 2,000 items, including inputs relevant to businesses' economic recovery, such as machinery, mechanical appliances, and mechanical parts. It was done through the Customs Tariff (Budget Amendment) Act 2020, which was passed by Parliament and came into force on 18 July 2020. This aligns with the government's strategy of moving to a simpler and lower tariff structure that encourages compliance and increases transparency.
  - (iii) To encourage formalization and the creation of new businesses, the government abolished business licenses under the Business Licensing (Repeal) Act 2020, which was passed by Parliament and came into force on 1 August 2020.<sup>34</sup> The move is part of the government's strategy to reduce the regulatory burden and shift the focus from control to enforcement.
  - (iv) New regulations under the Companies Act 2015 came into force on 22 January 2021 and will simplify the issuance of corporate bonds in the primary market and trading in the secondary market and give businesses better access to long-term finance. They provide the legal framework for issuance and set out the eligibility requirements, the information memorandum, and trust deed arrangements that must be filed with the central bank before issuing corporate bonds.
  - (v) To ensure efficient transactions, cut transaction costs for businesses, and foster innovation in digital payment solutions, Parliament passed the National Payment System Act 2021 on 12 February 2021.<sup>35</sup> Digital payment system enable consumers, government entities, and businesses to transfer funds in real time between accounts in different financial institutions and are essential to the day-to-day business of the economy. Payment systems can also play an important role in the response to disasters and extreme weather events by ensuring that affected communities, especially those in climate-vulnerable locations, quickly and efficiently receive payments and access to finance to better cope with impacts and recover faster. While these systems can bring efficiency gains, they require strong oversight and a regulatory framework. The act allows the Reserve Bank of Fiji to implement and regulate a safe national payment system and associated infrastructure to ensure reliable, efficient, and convenient clearing and settlement as well as consumer protection. Also, the Stamp Duties (Repeal) Act 2020, abolished stamp duties on government documents, making transactions faster and cheaper for all, was passed by Parliament and came into force on 1 August 2020.

21. The Climate Change Act 2021 supports private sector resilience by facilitating evidence-based consideration of climate change issues in private sector decision-making (para. 17). It includes actions to (i) enable private players to evaluate the physical and financial risks of climate change and take measures to reduce them, (ii) develop and disseminate resources to assist the private sector in complying with the act, (iii) create an enabling environment for public-private partnerships that are consistent with achieving the objectives and principles of the act, and (iv) share knowledge and experience between public and private actors. The act includes measures to raise awareness of and increase consultations with the private sector and civil society on climate change issues.

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<sup>34</sup> Businesses will still be required to register a legal entity with the registrar for companies and the tax office, and to comply with regulatory requirements, such as those related to fire safety or occupational health and safety. However, business licenses granted by municipalities will no longer be needed to start operations.

<sup>35</sup> The Reserve Bank acquired and installed the core national payment system software, and training and testing have begun. The regulations for the implementation of the National Payment System Act 2021 are in place, and stakeholder consultations were held. The act is expected to come into force in the third quarter of 2022.

22. **Post-program partnership framework.** The government is committed to continuing the design and implementation of reforms across the program's three reform areas (paras. 17–21) through the P3F.<sup>36</sup> Under reform area 1, the government plans to revise key regulations for financial management and procurement to align with the Financial Management (Amendment) Act 2021 and to integrate the climate change considerations prescribed by the new Climate Change Act 2021; implement project appraisal frameworks, including climate and disaster risk considerations for budgeting and planning; adopt measures to improve domestic resource mobilization through voluntary tax compliance, including assessing gaps in the implementation of the tax information system through continuous stakeholder engagement; and prepare the regulations for the full operationalization of the Climate Change Act 2021. Under reform area 2, the government plans to continue the phased rollout of gender-responsive budgeting, monitoring, and reporting to additional ministries and programs; establish a social registry, supported by a digital management information system, to better target social assistance programs; continue the rollout of the market-based climate risk parametric microinsurance product; and approve and begin implementing a new National Water Resources Management and Sanitation Policy and a new National Energy Policy to improve service delivery, in line with Fiji's climate change commitments. Under reform area 3, the government plans to design and start implementing a comprehensive tax policy reform package to improve tax collections while supporting private sector recovery; enact legislation to improve access to finance for SMEs; and approve a new oversight framework for payments, and guidance on retail payment instruments and services.

23. ADB TA will directly support several reforms in the P3F (para. 22). This includes the operationalization of the Climate Change Act 2021, the revision of climate-mainstreamed financial instructions and procurement regulations, the rollout of gender-responsive budgeting, and a new legal framework for capital raising by SMEs. Other reforms outlined in the P3F will be supported through ongoing policy dialogue with the government and close coordination with development partners. The agreed framework will support the progression of reforms, contribute to the achievement of development impacts, and provide the basis for continuous reform dialogue between the government and ADB.

24. **Value addition.** The program sustains and builds on reforms supported by earlier TA and programs (footnote 1).<sup>37</sup> ADB has advised MOE on fiscal policy and PFM, including through TA, to finalize the Financial Management (Amendment) Act 2021, expand the strategic perspective in debt management, and institutionalize gender-responsive budgeting.<sup>38</sup> ADB TA is helping the government draft regulations to implement the act.<sup>39</sup> ADB also supported MOE in drafting the Climate Change Act 2021 and consulting on it, and supported MWCPA in analyzing how Fiji's laws and policies promote gender equality in climate change and disaster risk management.<sup>40</sup> Regional TA facilitates reforms in the finance sector, competition policy and law, and policy and regulatory frameworks for state-owned enterprises.<sup>41</sup> ADB also assists the FRCS in strengthening compliance risk analysis and management.<sup>42</sup>

<sup>36</sup> The P3F is included in Appendix 1.

<sup>37</sup> The program contains several reforms that align with the P3F of ADB's previous program—ADB. [Fiji: Sustained Private Sector-Led Growth Reform Program, Subprogram 3](#)—such as the Financial Management (Amendment) Act 2021, the continued rollout of gender-responsive budgeting, and the partial privatization of Energy Fiji Limited in line with the government's privatization policy (footnote 1).

<sup>38</sup> ADB also provided training to MOE: ADB. [Regional: Debt Analytics and Technical Capacity Building](#).

<sup>39</sup> ADB: [Fiji: Supporting Public Financial Management Reform](#).

<sup>40</sup> ADB. [Regional: Legal Readiness for Climate Finance and Climate Investments](#); and ADB. [Regional: Strengthening Women's Resilience to Climate Change and Disaster Risk in Asia and the Pacific](#).

<sup>41</sup> ADB. [Regional: Pacific Private Sector Development Initiative, Phase IV](#).

<sup>42</sup> This is funded by direct charge to the [Domestic Resource Mobilization Trust Fund](#).

25. Various other measures help Fiji achieve its economic recovery and greater resilience to shocks. To reduce the risks of further health shocks, ADB supported the Ministry of Health and Medical Services and other border agencies to establish a border health protection unit.<sup>43</sup> An Asia Pacific Disaster Response Fund grant committed in 2020 allowed Fiji to respond to and manage its COVID-19 cases.<sup>44</sup> In 2021, ADB committed a \$40 million nonsovereign loan to Fiji Airways, cofinanced by a \$25 million loan from the Leading Asia's Private Infrastructure Fund.<sup>45</sup> This was critical in ensuring that Fiji Airways had funds to survive the operational shutdown and to ramp up its flight capacity as the economy recovers. In addition, a grant financed by the Japan Fund for Prosperous and Resilient Asia and the Pacific will strengthen the capacity of Fiji to safely reopen to tourists and rebuild the economy by investing in the reopening of Nadi International Airport with COVID-19 measures, and boosting the testing capacity for the tourism industry.<sup>46</sup>

26. **Lessons.** Policy-based operations in Fiji and in the Pacific more widely (including COVID-19 pandemic response operations) highlight the need for (i) allowing flexibility in planning, budgeting, and financing given the evolving pandemic situation; (ii) enabling the private sector to play a critical role in recovery; (iii) promoting reforms beyond short-term COVID-19-related challenges to strengthen domestic resource mobilization, the targeting and quality of public expenditures, and debt management to rebuild buffers; and (iv) providing targeted TA.<sup>47</sup> Based on these lessons, the program focuses on policy actions prioritized by the government and accommodates political economy considerations in its design. It assists the role of a resilient private sector in recovery.

27. **Past engagement and future directions.** The program is embedded in the medium-term reform agenda supported by ADB's earlier programmatic approach, which was implemented from January 2017 to October 2020 (footnote 1). The earlier program supported reforms to strengthen fiscal management, improve the policy framework for state-owned enterprises and public-private partnerships, and enhance the business climate. The new program further strengthens fiscal management by deepening PFM reforms (including regulatory frameworks to foster debt sustainability and the rebuilding of fiscal buffers), gender-responsive budgeting and planning processes, and management of fiscal risks. On the business enabling environment, the program advances reforms to reduce the regulatory burden and improve access to finance for the private sector. It supports the government's privatization program based on the strategic and transparent expansion of private sector participation established under the earlier program. Building on the foreign investment reforms of the earlier program, it helps modernize outdated customs duty regimes. Given the importance of climate change, recognized by the government in its planning and policy framework as well as its commitments to global and regional agreements (para. 5), the program also builds on support for recovery from external shocks that was provided earlier in the context of COVID-19. It mainstreams climate and disaster resilience into all reform areas, aiming to foster fiscal, community, and private sector resilience. The P3F continues to design and implement reforms across various areas and fosters ongoing dialogue between the government and ADB, including on a new medium-term reform engagement from 2023 onward.

28. **Development partner coordination.** The program was developed in close collaboration and coordination with development partners—the governments of Australia and New Zealand; the European Union; the IMF and its Pacific Financial Technical Assistance Centre; the Japan

<sup>43</sup> ADB. [Regional: Developing the Health Sector in the Pacific](#).

<sup>44</sup> ADB. [Regional: COVID-19 Emergency Response](#).

<sup>45</sup> ADB. [Fiji: Fiji Airways COVID-19 Liquidity Support Facility](#).

<sup>46</sup> ADB. [Fiji: Enhancing COVID-19 Preparedness for Tourism Recovery](#).

<sup>47</sup> Footnote 1 and ADB. 2014. *Fiji: Review of ADB Engagement, 2006–2013*. Manila; and Independent Evaluation Department. 2019. [Fiji Country Partnership Strategy Final Review Validation, 2014–2018](#). Manila: ADB.

International Cooperation Agency (JICA); and the World Bank. The Government of Australia provided a grant linked to the completion of policy actions supported by the ADB program, JICA provided a loan, and the Government of New Zealand will provide a grant. Regular development partner meetings are held to coordinate reforms. ADB discusses policy issues and macroeconomic projections with the IMF during the IMF's annual Article IV consultations, and also discussed the reform program with the IMF.<sup>48</sup> The IMF provided an assessment letter for the program (footnote 20).

### C. Expected Outcome of the Reforms

29. The program is aligned with the development objective of inclusive socioeconomic development and green growth (footnote 10). The expected development outcome is fiscally sustainable, climate-resilient, private sector-led economic growth restored in Fiji. Program reforms will bolster (i) fiscal resilience by strengthening the legal framework for PFM, expenditure and debt management, and domestic resource mobilization; (ii) community resilience by fostering inclusive public spending and sustainable access to basic services, including for women, the poor, and vulnerable people; and (iii) business resilience by providing recovery support to businesses, increasing their financial protection, and improving the business environment. Improving the response and adaptive capacities of the state, communities, and businesses will enhance climate resilience. The program supports a reduction in the projected climate and disaster impacts through reforms across all three policy areas.<sup>49</sup>

### D. Development Financing Needs and Budget Support

30. The program will help meet the government's development financing requirements for FY2022, which are estimated to be \$675.2 million based on the fiscal deficit (Table 2).<sup>50</sup> The government plans to cover \$409.5 million through external financing from multilateral and bilateral development partners, and to fund the rest through domestic borrowing. The program will finance 36.6% of the planned external borrowing. JICA provided a budget support loan of \$76.6 million equivalent, the Government of Australia provided a grant of \$60.1 million equivalent, and the Government of New Zealand will provide a grant of \$1.6 million equivalent linked to the completion of policy actions supported by the ADB program.<sup>51</sup> The World Bank is expected to conduct a separate budget support operation.<sup>52</sup> Public debt is expected to remain sustainable (para. 10).

31. The government has requested (i) a concessional loan of \$60 million, and (ii) a regular loan of \$90 million from ADB's ordinary capital resources to help finance the program.<sup>53</sup> The concessional loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan agreement. The regular loan will have a 15-year term, including a grace period of 3 years; an interest rate determined in accordance with ADB's Flexible Loan Product; a

<sup>48</sup> Development Coordination (accessible from the list of linked documents in Appendix 2).

<sup>49</sup> Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

<sup>50</sup> In view of projected declines in the fiscal deficit because of fiscal consolidation and the government's attention to debt sustainability (paras. 9–10), both the timing and magnitude of potential future external borrowing is uncertain.

<sup>51</sup> The Asian Infrastructure Investment Bank is considering providing additional cofinancing for the program in FY2023.

<sup>52</sup> World Bank. 2021. [Fiji Recovery and Resilience First Development Policy Operation with a Catastrophe-Deferred Drawdown Option](#). Washington, DC. The first World Bank operation in a planned series of two was approved in March 2021 for \$145 million equivalent. The second, totaling \$100 million equivalent, is expected to be presented to the World Bank's board of directors in FY2022. Several policy actions are aligned with the ADB program, although the overall focus of the World Bank operations is somewhat different.

<sup>53</sup> ADB. 2021. [Fiji: Country Classification](#). Manila. Fiji was reclassified from group C to group B under ADB's Graduation Policy, effective 1 January 2022.

commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 9.25 years, and there is no maturity premium payable to ADB. ADB loan proceeds will support development financing needs, excluding ineligible items.

**Table 2: Development Financing Needs, FY2022**  
(\$ million)

Item	FY2022(e)
Total revenues	1,040.5
<i>Of which</i>	
Government of Australia (cofinancing)	60.1
Government of New Zealand (cofinancing)	1.6
Total expenditure	1,715.6
Fiscal deficit	675.2
<b>Financed by:</b>	
Net domestic borrowing	265.7
Net external borrowing	409.5
<i>Of which</i>	
ADB program	150.0
Japan International Cooperation Agency (cofinancing)	76.6
World Bank development policy operation	100.0
Other (including ADB and World Bank project loans)	82.9

( ) = negative, ADB = Asian Development Bank, e = estimate, FY = fiscal year.

Note: Numbers may not sum precisely because of rounding.

Sources: Government of Fiji and Asian Development Bank estimates.

## E. Implementation Arrangements

32. MOE will be the executing agency. It will lead in coordinating program implementation, engage in progress meetings with implementing agencies—the FRCS; the Ministry of Commerce, Trade, Tourism and Transport; the MWCPA; and the Reserve Bank of Fiji—and provide updates to ADB. The program is expected to be implemented from July 2020 to June 2022. The proceeds of the policy-based loan will be disbursed in accordance with ADB’s *Loan Disbursement Handbook* (2017, as amended from time to time).

## III. DUE DILIGENCE

33. **Governance.** The 2020 Public Expenditure and Financial Accountability assessment indicated that Fiji’s PFM system is generally functional, and is on track to have strong control over the execution of the budget (footnote 21). There are some weaknesses relating to budget reliability, public finance transparency, the timeliness of annual financial statements, and the quality of revenue forecasts, although in-year budget execution reporting is good. A functioning internal audit framework was established. Reform area 1, complemented by development partner TA, will address some of these weaknesses. The World Bank Worldwide Governance Indicators ranked Fiji in the 72.6th percentile on control of corruption in 2020, a significant improvement from 2015, when it was in the 62.5th percentile.<sup>54</sup> Reforms in fiscal planning and budgeting, and amended PFM legislation supported by the program will further strengthen the basis for accountability and transparency, and reduce mismanagement and corruption risks.

34. **Poverty and social.** The public sector is a key provider of services to low-income and vulnerable households, especially at times of shocks and disasters caused by natural hazards.

<sup>54</sup> World Bank. [Worldwide Governance Indicators](#) (accessed 1 April 2022). Governance indicators percentile rank among covered economies ranges from 0 (lowest) to 100 (highest). The higher the percentile rank, the higher is the assessed control of corruption.



Reform areas 1 and 2 will help strengthen PFM and improve the coverage and effectiveness of support, especially for women, the poor, and vulnerable people. Reform area 3 will support the recovery of the private sector, which will increase fiscal, community, and business resilience; poor households' access to employment opportunities; and the government's capacity to respond to shocks through better revenue collections. The Climate Change Act 2021 will boost resilience to disasters and climate emergencies that have particularly adverse impacts on the poor.

35. **Gender.** The program is classified *effective gender mainstreaming*. The Climate Change Act 2021 reflects gender equity principles and mainstreams gender into resilience building and mitigation. The rollout of gender-responsive budgeting, complemented by a social assistance policy, improves the targeting of expenditure programs to women, including after climate-related disasters. The new market-based climate risk parametric microinsurance product in the informal sector will disproportionately benefit women. In addition, the new policy for rural water and sanitation provides for the participation of women in rural water committees. Reforms to reduce compliance requirements and transaction costs under reform area 3 to support the formalization of businesses and the resilience and growth of small businesses will also benefit women.<sup>55</sup>

36. **Safeguards.** Following ADB's Safeguard Policy Statement (2009), this program is classified *category C* for the environment, involuntary resettlement, and indigenous peoples. Program activities will be confined to policy and institutional reforms. The prior policy actions have been assessed and are not expected to result in or lead to involuntary resettlement, or negatively affect indigenous peoples or the environment.

37. Major risks and mitigating measures are summarized in Table 3 and described in detail in the risk assessment and risk management plan.<sup>56</sup>

**Table 3: Summary of Risks and Mitigating Measures**

Risks	Mitigation Measures
Further health shocks or disasters because of natural hazards undermine economic growth, community resilience, and Fiji's fiscal position to the point that they divert political and administrative focus and capacity away from reforms.	Fiji is successfully implementing its national COVID-19 vaccination strategy. New case numbers are low, allowing economic activity to resume. The government prioritizes investments in climate and disaster resilience, guided by its National Adaptation Plan and the Climate Change Act 2021. The country's adaptive social protection system is functional. ADB will monitor national and global economic developments and respond promptly and in coordination with partners to government requests for assistance if downside risks are realized. Technical assistance will be mobilized by ADB and development partners as needed. The post-program partnership framework will also help sustain the ongoing policy dialogue and reform momentum.
Community spread of COVID-19 or its variants locally and/or in major tourism source markets derails the resumption of international tourism.	Fiji and its major tourism source markets have high rates of vaccination, which help mitigate this risk. To reduce the risk of community spread, the government also put in place a COVID-19-safe economic recovery framework and tourism industry guidelines for safe business operations. ADB will monitor COVID-19 developments and respond promptly and in coordination with other development partners to government requests for assistance should needs arise.

ADB = Asian Development Bank, COVID-19 = coronavirus disease.

Source: Asian Development Bank.

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

<sup>55</sup> ADB. 2018. *Women and Business in the Pacific*. Manila.

<sup>56</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

#### **IV. ASSURANCES**

39. The government has assured ADB that the implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement, as described in detail in the draft loan agreements.

#### **V. RECOMMENDATION**

40. I am satisfied that the proposed policy-based loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve:

- (i) the loan of \$60,000,000 to the Republic of Fiji for the Sustainable and Resilient Recovery Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 2.0% per year during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years, and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) the loan of \$90,000,000 to the Republic of Fiji for the Sustainable and Resilient Recovery Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's Flexible Loan Product; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa  
President

31 May 2022

## POLICY DESIGN AND MONITORING FRAMEWORK

<b>Country's Overarching Development Objective</b> Inclusive socioeconomic development and green growth achieved (National Development Plan 2017–2036) <sup>a</sup>		
<b>Outcome</b> Fiscally sustainable, climate-resilient, private sector-led economic growth in Fiji restored	<b>Risks and Critical Assumptions</b> R1: Further economic shocks, including those from natural hazards or other health risks, lead government to divert resources away from the program and derail the economic and fiscal recovery. R2: Community spread of COVID-19 or its variants locally and/or in major tourism source markets derails resumption of international tourism.	
<b>Policy Actions</b> Completed July 2020–June 2022	<b>Outcome Indicators</b> By June 2023	<b>Post-program Partnership Framework</b> July 2022–June 2023
<b>Reform Area 1: Public financial management for fiscal resilience and debt sustainability</b>		
1.1. Parliament passed the Financial Management (Amendment) Act 2021 which commenced on 1 April 2022, which (i) mandates a fiscal strategy that considers the impact of policy decisions on present and future generations, (ii) strengthens controls and accountability of permanent secretaries, and (iii) introduces new legal requirements to improve procurement and cash management, to foster fiscal sustainability and the rebuilding of buffers. <sup>b</sup>	a. At least 70% of budget sector agencies submit procurement plans and cash flow forecasts to the Ministry of Economy within 2 weeks after the commencement of the fiscal year. <sup>c</sup> (FY2020 baseline: NA [requirement to submit procurement plans and cash flow forecasts not yet legislated]). Source: Ministry of Economy reports.	The Ministry of Economy will develop, and the Minister responsible for finance will approve, revised Financial Instructions and Procurement Regulations to align with the Financial Management (Amendment) Act 2021, and which will integrate climate change considerations prescribed by the new Climate Change Act 2021.
1.2. To increase fiscal sustainability and resilience by lowering debt servicing costs and refinancing risks, <ul style="list-style-type: none"> <li>1.2.1 Cabinet approved in January 2021 Fiji's medium-term debt management strategy for FY2021–FY2023 for implementation with immediate effect, and the Ministry of Economy has published it on its website to enhance fiscal transparency; and</li> <li>1.2.2 the Ministry of Economy is implementing an annual borrowing plan in FY2022, approved in April 2022, consistent with the medium-term debt management strategy, and integrated into its medium-term fiscal strategy.</li> </ul>	b. Government borrowing complies with target cost and risk indicators, including maintaining external debt at less than 35% of total debt, having at least 65% of debt incurred on fixed interest rates, and maintaining an average term to maturity of 8 years or more, as set out in the medium-term debt management strategy (FY2020 baseline: NA [medium-term debt management strategy not yet developed]).	The Ministry of Economy will implement an improved infrastructure project appraisal framework for budgeting and planning, which will include climate and disaster risk considerations.  The Fiji Revenue and Customs Service will approve and implement a new tax compliance improvement strategy to enhance voluntary compliance by taxpayers. <sup>e</sup>
1.3. The Fiji Revenue and Customs Service has established and operationalized a new tax information system that		



<b>Policy Actions</b> Completed July 2020–June 2022	<b>Outcome Indicators</b> By June 2023	<b>Post-program Partnership Framework</b> July 2022–June 2023
<p>covers pay-as-you-earn tax on employment income from February 2021, to improve domestic resource mobilization by facilitating taxpayer compliance and to collect real-time data for better decision-making, forecasting, and planning.<sup>d</sup></p> <p>1.4. Parliament passed the Climate Change Act 2021 on 23 September 2021 to establish a gender-sensitive framework for resilience building and mitigation that safeguards the future of Fiji by mainstreaming climate change throughout the public sector, including by introducing requirements for the inclusion of climate change considerations in public procurement, the national budget, and agencies' budget submissions.<sup>f</sup></p>	<p>Source: FY2022 and FY2023 national budgets.</p> <p>c. At least 25% of ministries include estimates of climate-relevant expenditures in budget submissions for FY2023 (FY2021 baseline: NA [estimates not yet required to be included in budget submissions]) Source: Ministry of Economy reports.</p>	<p>The Ministry of Economy will draft implementing regulations, which will be made by the minister responsible for climate change, for the Climate Change Act 2021, including in relation to reporting of financial risks of climate changes and measures adopted to reduce them by companies and financial institutions.</p>
<b>Reform Area 2: Public policy for community resilience</b>		
<p>1.5. Five additional ministries (beyond the two included in the pilot phase) have implemented and are monitoring gender-responsive budget allocations for 10 programs in FY2022, (effective from 1 August 2021), building on lessons from the pilot run in FY2021, to institutionalize the new gender-responsive budgeting methodology through the public financial management system that enables a more equitable allocation of resources and strengthens the resilience of women, the poor, and vulnerable people.<sup>g</sup></p> <p>1.6. Cabinet has approved in February 2021, for implementation with immediate effect by the Ministry of Women, Children and Poverty Alleviation, an overarching social assistance policy that guides gender-responsive targeting of social assistance programs to increase the resilience of women, the poor, and vulnerable people, including to climate-related disasters.<sup>h</sup></p> <p>1.7. To provide immediate financial relief to vulnerable people (including farmers, fishers, and market vendors) following disasters caused by natural hazards:</p>	<p>a. At least 30% of ministries prepare quarterly budget expenditure reports which include specific gender target monitoring and reporting (2020 baseline: 0) Source: Ministry of Economy reports.</p> <p>b. At least 1,000 people, including at least 500 women, take out climate risk parametric microinsurance cover (2020 baseline: 0) Source: Ministry of Economy reports.</p> <p>c. Government guarantees for Energy Fiji Limited have been reduced to zero (2020 baseline: F\$50.2 million) Source: Ministry of Economy national budget documentation.</p>	<p>The Ministry of Economy will continue the phased rollout of the gender-responsive budgeting, monitoring, and reporting to additional ministries and programs.</p> <p>The Department of Social Welfare will develop a social registry, supported by a digital management information system, to better target social assistance programs, including as part of post-disaster response.</p> <p>The government will support the continued roll out of the market-based climate risk parametric microinsurance product, complemented by a financial literacy training and insurance awareness program in local communities across Fiji through the Consumer Council of</p>

<b>Policy Actions</b> Completed July 2020–June 2022	<b>Outcome Indicators</b> By June 2023	<b>Post-program Partnership Framework</b> July 2022–June 2023
<p>1.7.1 the government has launched a new market-based climate risk parametric microinsurance product in August 2021 that transfers risks from individuals and small businesses to the private (re)insurance market, in partnership with local private sector insurance companies; and</p> <p>1.7.2 Parliament passed the Value-Added Tax (Budget Amendment) Act 2021 that came into force on 1 August 2021, which exempted from value-added tax, the premiums on climate and disaster risk parametric insurance products to accelerate their rollout.<sup>i</sup></p> <p>1.8. Cabinet has approved in June 2021, for implementation with immediate effect, the Rural Water and Sanitation Policy, and the Water Authority of Fiji, through the government-subsidized Rural Water Supply Program and non-government organizations has begun implementing the policy to sustainably manage rural water resources and provide reliable, safe, and affordable water and sanitation services to all Fijians (including women, the poor, and vulnerable people).<sup>j</sup></p> <p>1.9. To safeguard and expand the provision of reliable, affordable, and renewable electricity to all Fijians (including women, the poor, and vulnerable people), and in line with its ongoing privatization program, the government has:</p> <p>1.9.1 undertaken the partial privatization of Energy Fiji Limited through a share sale agreement in June 2021 with private investors that brings in private sector financing as well as technological and operational expertise in renewable energy and network optimization to improve performance and service delivery; and</p> <p>1.9.2 entered into in April 2021 and is implementing an agreement with Energy Fiji Limited for maintaining</p>		<p>Fiji, the Reserve Bank of Fiji and other insurer/aggregator partners.</p> <p>Cabinet will approve a new National Water Resources Management and Sanitation Policy and it will be implemented under the oversight of the Department of Water and Sewerage of the Ministry of Infrastructure and Meteorological Services to guide the provision of water supply and sanitation to all Fijians, while managing Fiji’s water resources sustainably, and recognizing the impact of climate change.</p> <p>Cabinet will approve a new National Energy Policy to be implemented by the Department of Energy of the Ministry of Infrastructure and Meteorological Services and other sector stakeholders to further expand the provision of reliable, affordable, and renewable electricity to all Fijians, in line with Fiji’s climate change commitments.</p>

<b>Policy Actions</b> Completed July 2020–June 2022	<b>Outcome Indicators</b> By June 2023	<b>Post-program Partnership Framework</b> July 2022–June 2023
and expanding services to underserved rural communities, in line with an agreed methodology and payment mechanism for non-commercial obligations. <sup>k</sup>		
<b>Reform Area 3: Enabling environment for resilient private sector recovery</b>		
<p>1.10. To provide immediate relief to and support the medium-term recovery of existing businesses and the creation of new businesses (including those run by women) from COVID-19 impacts,</p> <p>1.10.1 the government has established and made operational through the Reserve Bank of Fiji effective from 1 August 2021, a working capital facility that provides a 2-year interest rate subsidy and can be accessed through licensed financial institutions, and</p> <p>1.10.2 Parliament passed the Customs Tariff (Budget Amendment) Act 2020 which came into force on 18 July 2020, to simplify compliance and reduce customs and fiscal duties on a range of imported inputs relevant for business recovery.</p> <p>1.11. Parliament passed the Business Licensing (Repeal) Act 2020 which came into force on 1 August 2020, to remove the requirement for new businesses to apply for business licenses and promote the formalization and creation of new enterprises (including those run by women).<sup>l</sup></p> <p>1.12. The minister responsible for companies made regulations under the Companies Act 2015, the Companies (Wholesale Corporate Bonds) Regulations 2021, which came into force on 22 January 2021, to clarify the process and regulatory requirements for issuing corporate bonds in the primary market and trading in the secondary market, to improve the financial health and resilience of businesses by enhancing their access to long-term finance.</p>	<p>a. At least 5,000 businesses, at least 35% of which are owned or managed by women, receive working capital support to meet liquidity needs during the COVID-19 shock (2020 baseline: NA [working capital facility not yet in place]). Source: Reserve Bank of Fiji reports.</p> <p>b. At least 20% increase in the number of EFTPOS and mobile money transactions (2019 baseline: 5.4 million EFTPOS transactions, 2.3 million mobile money transactions).<sup>m</sup> Source: Reserve Bank of Fiji reports.</p> <p>c. At least 1 corporate bond issued. (2020 baseline: 0) Source: Reserve Bank of Fiji reports.</p>	<p>The government will design, with assistance from development partners, a comprehensive tax policy reform package—conducive to a resilient private sector recovery and facilitates business compliance and formalization while restoring tax collections to pre-pandemic levels to support fiscal sustainability and resilience—and phased implementation will commence.</p> <p>The government will draft a new Small Business Access to Capital Bill, which will be approved by Cabinet for tabling in Parliament, to improve access to finance for small and medium enterprises.</p> <p>The National Payment System Act 2021 will commence, and the Reserve Bank of Fiji will conduct public awareness, establish the National Payment System Council, finalize the National Payment System Strategy, and establish software required for the operationalization of the national payment system.</p>

<b>Policy Actions</b> Completed July 2020–June 2022	<b>Outcome Indicators</b> By June 2023	<b>Post-program Partnership Framework</b> July 2022–June 2023
<p>1.13. To improve financial health of businesses and resilience of the private sector by reducing transaction costs for businesses,</p> <p>1.13.1 Parliament passed the National Payment System Act 2021 on 12 February 2021 to empower the Reserve Bank of Fiji to regulate, provide oversight over, and supervise the national payment system in a transparent and efficient manner that fosters digital payment solutions;<sup>n</sup></p> <p>1.13.2 Parliament passed the Stamp Duties (Repeal) Act 2020 that came into force on 1 August 2020 to abolish stamp duties on government documents.</p>		
<p><b>Budget Support</b></p> <p>ADB: \$150 million loan (\$60 million concessional ordinary capital resources loan and \$90 million regular ordinary capital resources loan)  Government of Australia: \$60.1 million equivalent grant  Government of New Zealand: \$1.6 million equivalent grant  Japan International Cooperation Agency: \$76.6 million equivalent concessional loan</p>		

A = assumption, ADB = Asian Development Bank, COVID-19 = coronavirus disease, EFTPOS = electronic funds transfer at point of sale, FY = fiscal year, NA = not applicable, R = risk.

<sup>a</sup> Government of Fiji, Ministry of Economy. [5-Year & 20-Year National Development Plan: Transforming Fiji](#). Suva.

<sup>b</sup> The Act increases accountability by making the minister and permanent secretary for finance responsible for publishing government accounts, and expanding responsibilities of all permanent secretaries and other key authorities. Further it mandates that all budget sector agencies must provide a procurement and cash flow forecast to the Ministry of Economy within two weeks after passing of the Budget.

<sup>c</sup> Submission is required per section 28A of the Financial Management (Amendment) Act 2021. If the head of a budget sector agency does not submit the required procurement plans and cash flow forecasts, the permanent secretary responsible for finance can limit the power of that head to incur expenditure. Given that this is a new requirement, this provision will be rolled out in a phased manner. However, the government aims for full compliance.

<sup>d</sup> The system will also facilitate filing by and lower compliance costs of households and the private sector, which has been identified as a barrier in the formalization of micro businesses, many of which are run by women, and a significant cost factor for small businesses. Other phases include interest withholding tax from March 2021 and capital gains tax from November 2021.

<sup>e</sup> The Fiji Revenue and Customs Service will continue to assess performance of the new tax information system and correct gaps in implementation through regular stakeholder engagement as part of the compliance improvement strategy.

<sup>f</sup> The Parliamentary Standing Committee on Justice, Law and Human Rights carried out a gender-sensitive review of the bill. The Act also strengthens climate resilience of the private sector, including through company disclosure requirements for financial risks of climate change and measures adopted to reduce them. The Act is based on gender-sensitive principles—recognizing the inextricable links between gender equity, social inclusion, and climate change action; and promoting gender equality and responsiveness, women’s human rights, and the empowerment of women—and will require sex-disaggregated implementation reporting, gender-balanced composition of the National Adaptation Plan Steering Committee and the National Ocean Policy Steering Committee, the development of a gender-sensitive national climate change policy, and gender-responsive consultation and participatory processes for the relocation of at-risk communities.

The government is working with affected stakeholders to prepare for the implementation of the Act. Given the breadth of impact that the Act will have parts of the Act are expected to come into force in a phased manner.

- <sup>g</sup> The seven ministries comprise the two ministries that piloted the methodology in FY2021 (Fisheries; and Commerce, Trade, Tourism and Transport) and five additional ministries (Agriculture; Education, Heritage and Arts; Forestry; Youth and Sports; and Women, Children and Poverty Alleviation). The design of the gradual rollout approach was supported by ADB. [Fiji: Sustained Private Sector-Led Growth Reform Program, Subprogram 3](#) and is based on global evidence on gender-responsive budgeting, which highlights the need for systematic capacity development to build technical skills for mainstreaming and quality assurance to generate targeted impacts (see, e.g., Combaz. 2013. [Impact of gender-responsive budgeting](#)). The ministries were selected from the total of 23 ministries based on their participation in an institutional capacity building program on gender-responsive planning and policy making, led by the Ministry of Women, Children and Poverty Alleviation. The gradual rollout will continue over the medium-term. Ministries' budget implementation will be monitored through new quarterly budget expenditure reports that include specific gender target monitoring and reporting.
- <sup>h</sup> The improved targeting under the policy framework will increase fiscal affordability of the government's various social assistance programs while maintaining their inclusiveness as well as poverty and equity impacts. The policy is being implemented by the National Social Protection Coordination Committee. The committee is chaired by the permanent secretary of the Ministry for Women, Children and Poverty Alleviation, and includes representatives of key ministries and agencies.
- <sup>i</sup> Fiji is one of the first countries globally to exempt climate and disaster insurance products from value-added tax, in line with the recommendation of the V20-led Sustainable Insurance Facility. The microinsurance product, which has been developed with support from the Pacific Insurance and Climate Adaptation Programme of the United Nations Capital Development Fund initially covers farmers, fishers, and market vendors from September 2021 to August 2022. Subsequently, the cover will be expanded to other livelihood sectors and micro, small, and medium-sized enterprises. FijiCare and Sun Insurance are the two primary private sector insurers underwriting the product. The insurance is expected to disproportionately benefit women as they predominantly work in the informal areas of small-scale fishing and fish processing, food production, agriculture, hospitality, and tourism (see ADB. 2018. [Women and Business in the Pacific](#), which highlights the need for specific insurance to protect self-employed women). In Fiji, 85% of market vendors are women and 40% of rural women in Fiji work as farmers (COVID-19 Response Gender Working Group. 2020. *Gendered Impacts of COVID-19 on Women in Fiji*. Suva). The pilot is expected to be expanded to Tonga, Vanuatu and other Pacific island countries in a phased manner.
- <sup>j</sup> Apart from benefitting poor and vulnerable households, which are often headed by women, the Rural Water and Sanitation Policy requires all rural water committees to have two female members.
- <sup>k</sup> The increased sustainability, affordability, and reliability of electricity services will also have positive impacts for the private sector. The partial divestment will further reduce fiscal risks, including by removing all government guarantees for Energy Fiji Limited loans as part of the transition from Fiji Electricity Authority to the partially private owned Energy Fiji Limited. The government agreed on a subsidy scheme that ensures the provision of electricity services to rural and remote communities that otherwise would remain unserved because of a lack of cost recovery potential under the government's uniform tariff policy.
- <sup>l</sup> Businesses will still be required to register a legal entity with the registrar for companies and the tax office, and to comply with regulatory requirements related to fire safety, occupational health and safety, etc. However, business licenses granted by municipalities will no longer be needed to start operations. Most businesses operated by female employers in Fiji are in the informal economy. Studies have shown that the complexity of business licensing is a barrier for women starting and formalizing their own businesses in many Pacific island countries, and particularly in Fiji, with a key strategy recommending simplifying company formation for small businesses (ADB. 2018. [Women and Business in the Pacific](#)).
- <sup>m</sup> The implementation of the legal and regulatory framework for payment systems through the National Payment System Act is expected to lead to the growth of digital payments, including EFTPOS and mobile money transactions.
- <sup>n</sup> The Parliamentary Standing Committee on Justice, Law and Human Rights carried out a gender-sensitive review of the bill. The Reserve Bank has acquired and installed the core national payment system software, and training and testing have commenced. Regulations for the implementation of the National Payment System Act have been developed and stakeholder consultations have been held. The Act is expected to come into force in Q3, 2022. Studies further show that electronic payments and the use of mobile platforms are particularly important for small businesses, which are often run by women, and are therefore key strategies for empowering women in business (ADB. 2018. [Women and Business in the Pacific](#)).

**Contribution to Strategy 2030 Operational Priorities:** Operational priority indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=55116-001-3>

1. Loan Agreement: Ordinary Operations (Concessional)
2. Loan Agreement: Ordinary Operations
3. Sector Assessment (Summary): Public Sector Management
4. Contribution to Strategy 2030 Operational Priorities
5. Development Coordination
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Program Impact Assessment
9. Risk Assessment and Risk Management Plan
10. List of Ineligible Items

### **Supplementary Document**

11. Medium-Term Reform Program, 2017–2022



## DEVELOPMENT POLICY LETTER



### Attorney-General and Minister for Economy, Civil Service, Communications, Housing and Community Development

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13 May 2022

#### By E-mail

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

Dear Mr. President

#### Government of the Republic of Fiji Development Policy Letter

1. Prior to the pandemic, Fiji recorded the longest period of economic expansion in its history—nine straight years of growth. As a result, per capita income levels rose, and unemployment fell to a 20-year low of 4.5%. Socioeconomic conditions improved, and Fijians had better and more equitable access to education, health care, roads, transportation, electricity, safe and clean water, and digital connectivity. This period of sustained growth was underpinned by rising productivity and investment and improved private sector confidence. Fiscal policy played an important role in this journey, with Government maintaining a low and attractive tax regime to support private sector investment, while also channeling public spending toward infrastructure development and improving public service delivery for all Fijians.
2. The pandemic and the closure of international borders however, resulted in a 20% economic contraction. After achieving the highest level of tourism readiness in the Asia our borders are once again open and visitor arrivals are nearing pre-pandemic levels. Following the same policies and philosophy that created economic and developmental gains for us before the COVID-19 pandemic, we are optimistic about the recovery of our economy over the short and medium term. We are grateful to partners such as ADB for increasing their support to us at this critical juncture and helping us avoid a deep crisis.
3. However, we are not out of the woods yet. Though our macroeconomic fundamentals remain stable, we project a fiscal deficit equivalent to 14.2% of GDP in financial year (FY) 2022, with debt expected to peak at 88.6% of GDP in FY2022. The Government is committed to fiscal consolidation as recovery takes hold, including phased revenue reforms and expenditure rationalization. In the medium-term, we plan to reduce the overall fiscal deficit to about 2% of GDP by 2026 to maintain macrofiscal stability. While the Government must fund its priorities, it also must set the proper conditions for the people to thrive. It must change laws, regulations, and administrative procedures to meet the demands of a changing society. It must embrace new knowledge and technology. It must have the discipline and the wisdom to do what Government does best and to let the private sector

do what it does best. We look forward to strong support from ADB and our development partners to continue these reform efforts.

4. We are requesting a stand-alone policy-based loan from ADB. This will help the Government to stabilize public finances, enhance support to build resilience in our communities and restore sustainable and inclusive growth led by the private sector which has been adversely affected by the COVID-19 pandemic.
5. We have a strategic plan over the medium to long term to steadily reduce our debt burden as our economic recovery continues. We are committed to strengthening our public financial management (PFM). To this end, Parliament approved the Financial Management (Amendment) Act 2021. The amendments build in principles of responsible fiscal management consistent with achieving medium-term fiscal and debt sustainability and requiring Government to set measurable indicators to measure progress against these. It also raises transparency by increasing parliamentary oversight over budget planning and execution. ADB is supporting us in revising the Financial Instructions 2010 and Procurement Regulations 2010 to implement the new provisions. Government has also adopted Fiji's first medium-term debt management strategy (MTDS) 2021–2023. The MTDS articulates the Government's debt objectives and outlines the framework for formulation and implementation of a prudent borrowing program for fiscal years 2021-2023. It expresses Government's intention to source financing needs and payment obligations at the lowest possible cost, balanced with acceptable levels of risk. To implement this strategy, we prepared and published an annual borrowing plan for FY2022 consistent with the MTDS that maps out the financing requirements throughout the year and identifies appropriate debt instruments to be used, consistent with the cost and risk targets of the MTDS.
6. Boosting revenues will be an important part of our efforts to place Government finances on a surer footing. A new tax information system is being implemented to facilitate taxpayer compliance by enabling online filing of taxes and revenue planning, which is expected to also contribute to increasing revenue collections. We are also working on a new tax compliance improvement strategy to strengthen tax administration.
7. One lesson we have learnt from the pandemic is the need to build resilience. Our economy has suffered much for disasters caused by natural hazards in the past. These constitute a continuing threat to our growth and development, and to Government finances. Realizing the dangers posed by climate change, Fiji was the first country in the world to ratify the Paris Agreement in 2016. Climate change and green growth are crosscutting themes in the National Development Plan 2017–2036. You will be happy to note that Parliament approved, and the Government will be implementing a new Climate Change Act 2021 (Act). The Act is among the world's most comprehensive pieces of climate legislation, covering issues such as long-term net-zero commitments, carbon budgets, carbon market establishment, climate-induced human mobility, nature-based solutions, climate finance and intergovernmental resilience building. The Act will help Fiji meet its obligations under the UNFCCC, legally binding Fiji to meet its commitment of net-zero carbon emissions by 2050.
8. However, we have shown through our actions that we recognise that resilience is also about protecting and supporting women, the poor, and vulnerable segments of our population when shocks hit. Supported by ADB and other partners, the Government had



piloted gender-responsive budgeting in 2020. We found this has helped us better target policies, as well as identify gaps in coverage of our social policies when it came to women. We have now expanded the pilot to cover five additional ministries, and will progressively roll it out to more Government ministries and agencies. The Government is also implementing an overarching social assistance policy to address gaps in targeting and efficiency of social assistance programs, and making programs better adapted to economic and climate-related shocks. We will be building up our capacity and enhancing monitoring, and evaluation to support better targeting of social assistance to the vulnerable, including to scale support after climate-related disasters. This is aligned with our vision to promote the progressive realization of the universal right to social protection and promoting security so that Fijians are able to fully participate economically, socially and culturally in society.

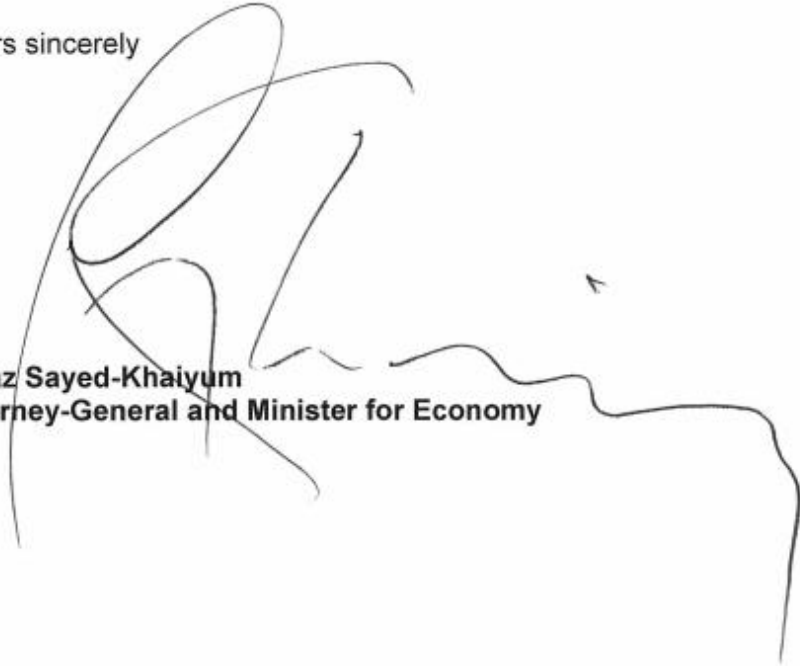
9. One important initiative the Government of Fiji has taken in this regard is the launch of a new market-based climate risk parametric microinsurance product to provide incentive for increased financial protection for women and vulnerable people from disasters triggered by natural hazards. This is being implemented with the support of the UN Capital Development Fund and the UNWFP, and in conjunction with local insurance companies. This makes Fiji the first country in the Pacific to pilot this. The beneficiaries for this parametric product are the underserved communities which include the sugarcane, rice, copra farmers, dairy farmers, fishermen, and market vendors through their associations or cooperatives. We hope this will provide timely financial assistance to vulnerable groups and encourage private insurance companies to reach out to this hitherto uncovered segment. The Government has exempted these products from value-added tax to make them more affordable. We are very hopeful that we will soon be able to roll this out on a larger scale. To increase its uptake, financial literacy training, awareness initiatives and marketing materials will be undertaken to inform potential beneficiaries about the product and additional actions that can be taken to reduce basis risks which will also help improve understanding of insurance products in general.
10. Fiji's water infrastructure is aging and is in need of expansion and upgrading, especially in rural areas. There is often no replacement or preventive maintenance. Climate change can only make the problem more acute. To address this, we are implementing a new Rural Water and Sanitation Policy with the aim of providing an efficient and effective management system and mechanism to ensure the sustainable development of water resources and sewerage systems to benefit rural communities. The policy supports Fiji in meeting its commitment to the UN Sustainable Development Goal 6.
11. Government remains committed to provide affordable, reliable, modern, and sustainable energy services for all Fijians, with 100% national coverage by 2026. This is essential to improve standards of living and increase economic opportunities. To this end, Government is partnering with the private sector in Energy Fiji Limited (EFL). The private sector partner will help us with its operational expertise, project delivery experience including introduction of IPP projects, technology, financial capacity and human resource system to support the company in meeting the growing electricity demands of the nation and its renewable energy targets with higher management efficiency. We have made provisions in the budget to ensure that the EFL continues to extend the grid to cover communities not currently served, and to meet its social obligations to cover rural communities connected to the grid. We are working on a new National Energy Policy to further expand the provision of reliable, affordable, and renewable electricity to all Fijians, increase electricity generation from renewable energy sources to 100 percent by 2036, make electricity infrastructure projects

climate resilient and promote private sector participation and raise efficiency and service delivery.

12. We are proud that after two years, we are seeing the green shoots of recovery in our economy. Sectoral performance is positive supported by agriculture, forestry, and manufacturing. Visitor arrivals are picking up and airline and hotel bookings from April show that we might be able to recover to pre-COVID-19 levels. The private sector has to lead recovery and the Government is committed to supporting them to do this. We heard businesses complain about access to finance. Government has established a loan facility in partnership with financial institutions with a 2-year interest rate subsidy to improve businesses' access to working capital. The loan can be used to pay wages and salaries, rent, utilities, or cover any other working capital needs. We target assisting around 20,000 businesses under this facility. We are also taking steps to improve access to longer term bond financing. Parliament recently passed the Companies (Wholesale Corporate Bonds) Regulations 2021 to clarify the process and regulatory requirements for issuing corporate bonds in the primary market and trading in the secondary market. We hope clarity on the regulatory framework will help strengthen the corporate bonds market and increase liquidity. At the same time, we are working on a new Small Business Access to Capital Bill to improve access to finance for small and medium enterprises, and will be happy to consult with the ADB on this.
13. We are also making important changes to our tax regime. Government announced an entirely new tariff structure in the FY2021 national budget that was centered around liberalizing and simplifying and making inputs more affordable. Duty was reduced on more than 2000 lines of items including machinery, mechanical appliances, and mechanical parts. This is part of Government's plans to introduce a comprehensive tax policy reform package that supports private sector recovery and facilitates business compliance and formalization. We look forward to assistance from all our development partners in this regard.
14. Finally, the Government is committed to reducing regulatory costs and encourage growth of new and old businesses. To encourage formalization and the creation of new businesses, Government repealed the Business Licensing Act 1976. We recently passed a new National Payment System Act 2021 to facilitate efficient transactions, reduce transaction costs for businesses, and foster innovation in digital payment solutions. The Act allows the Reserve Bank of Fiji to implement and regulate a national payments system, establish a modern and safe national payment system infrastructure that offers reliable, efficient, and convenient clearing and settlement mechanisms and protect consumers. These payment reforms are expected to lead to increased use of electronic payments and increase efficiency and speed of financial transactions. In addition, we also passed the Stamp Duties (Repeal) Act 2020. This abolished stamp duties on any Government document, making transactions faster and cheaper for all.
15. The Government is firmly committed to implementing this program and looks forward to working closely with ADB to support Fiji's rapid recovery from the economic difficulties of the past two years, and to promote further reforms to achieve our longer-term growth objectives. We would be happy to continue our partnership with ADB beyond the program to enhance and sustain our reform efforts.

Thank you.

Yours sincerely



**Aiyaz Sayed-Khaiyum**  
**Attorney-General and Minister for Economy**