

SECTOR ASSESSMENT (SUMMARY): PUBLIC SECTOR MANAGEMENT

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. The government is responsible for maintaining macroeconomic stability and promoting long-term growth and social development. This requires the management and allocation of scarce public resources and the creation of an enabling policy environment to promote business confidence and encourage private investment. The state plays a substantial role in the economy, with government spending equal to almost 40% of gross domestic product (GDP) budgeted for FY2018.¹ Medium-term reforms need to rebalance the economy from its focus on public investment toward greater private investment and private sector participation, which is vital to Fiji's long-term economic growth prospects.

2. **Strong public financial management for Fiji.** Strong public financial management (PFM) is vital for macroeconomic stability and private sector development. It (i) promotes macroeconomic stability, which is important for sustainable growth and poverty reduction; (ii) promotes fiscal discipline and safeguards a responsible financial position; (iii) promotes the strategic allocation of resources; (iv) promotes efficient service delivery; (v) facilitates the redistribution of income through taxes and spending; and (vi) provides confidence to development partners for ongoing support.

3. **Considerable progress has been made.** Fiji adopted a new constitution in 2013, which restored formal systems for checks, balances, transparency, and accountability in the public sector following the coup in 2006. Parliamentary elections were held in 2014 and democracy has been restored. Although considerable progress has been made in adopting international practices in public sector management, the government has made it a key priority to strengthen PFM. Following the 2013 Public Expenditure and Financial Accountability assessment, the government developed the Public Financial Management Reform Programme, 2016–2019 (PFMIP) and is implementing the recommendations.²

4. **Areas for reform.** The PFMIP highlights areas where reforms are needed to (i) improve the credibility of the budget by recording and monitoring expenditure arrears; (ii) enhance the comprehensiveness and transparency of the budget by improving the transparency of relations with subnational governments and the oversight of aggregate fiscal risk from other public sector entities; (iii) strengthen the link between policy and resource allocation by incorporating a multiyear perspective in fiscal planning, expenditure policy, and budgeting; (iv) improve revenue collection and strengthen internal controls to improve budget control and execution; (v) align the accounting, recording, and reporting of financial statements to international accounting standards; and (vi) improve external scrutiny and audit, including the timely submission of audit reports.

5. **Opportunity to support.** The Asian Development Bank (ADB) has been a major reform partner and technical assistance (TA) provider in fiscal policy, state-owned enterprise (SOE) and private sector development reforms. The government plans to proceed with several reforms, using significant political capital. These reforms will provide benefits including a reduced fiscal deficit, improved debt position, and efficiencies in public service provision.

¹ The government changed its fiscal year in 2016 from the calendar year to 1 August to 31 July; fiscal data for the new fiscal year are available from 2015. All other data series are produced for the calendar year.

² Government of Fiji. 2016. *Fiji Public Financial Management Improvement Programme, 2016–2019*. Suva.

6. **Operating trends.** Reform efforts since 2010 have led to a rise in operating revenue following a low of 23.6% of GDP in 2009, increasing each year to reach 27.7% of GDP in FY2017. Reforms reduced direct tax rates and value-added tax significantly, but added transaction-based taxes such as capital gains tax and service turnover taxes. The government's operating revenue is expected to increase to 31.8% of GDP in FY2018 because of improved compliance. Operating expenditure has fallen from a high of 18.9% in 2009, as reform efforts have led to lower operating expenditures in some segments. However, measures to provide free school and transport assistance to year 1–13 students, and scholarships and loans to tertiary students, have contributed to gradual increases. The government has also improved the safety net for the disadvantaged through higher spending on welfare transfers. Rationalization of the civil service led to a reduction in wages and salaries from 10.6% of GDP in 2009 to a low of 8.5% of GDP in FY2017. Current efforts to modernize the civil service may result in wage and salary increases, but total wages and salaries are expected to remain around FY2017 levels.

7. **Higher capital spending.** Capital expenditure has increased significantly since 2009, focusing on infrastructure improvements, and reached a record allocation of 16.5% of GDP in FY2018. The capital expenditure program targets improvements to transport, water supply, and wastewater collection and treatment infrastructure. The establishment of the Water Authority of Fiji in 2007 and the Fiji Roads Authority in 2012 increased the government's capacity to implement capital projects through the private sector, including foreign contractors. This helped increase private sector capacity to deliver construction and maintenance services.³

8. **Deficit and debt outcomes.** Prudent expenditure management during 2009–2014 resulted in an average annual fiscal deficit of 2.3% of GDP despite the fiscal stimulus provided following the global financial crisis, which resulted in a deficit of 4.6% of GDP in 2009. Government debt reached 57.8% of GDP in FY2010 but has reduced over the years to 46.7% of GDP in FY2017 because of low deficits and a growing economy. An increase in non-concessional borrowing since 2009 led interest costs to peak at 3.7% of GDP in 2011. A lower interest rate environment has led to a gradual reduction in interest payments, which reached 2.9% of GDP in FY2017. Access to concessional resources since 2014 has led to a gradual reduction in financing costs.

3. Government's Sector Strategy

9. **Commitment to reforms.** The government is committed to progressing its modernization and reformist agenda to improve service delivery, government effectiveness, and efficiency. It is implementing structural reforms across key sectors to rebalance the economy from a focus on public investment toward greater private investment and private sector participation.⁴ The government's reform agenda covers the public sector and other structural reforms. Funding provisions are allocated annually in the budget to advance the reform agenda. Several major reform initiatives have been successfully implemented, including the welfare program, improving access to land, reforming the labor market, revitalizing the sugar industry, and deepening the financial sector.

10. **Revenue reforms.** The government has undertaken bold revenue reforms since 2015. It reviewed and changed the business processes and systems of its revenue collection agency, the Fiji Revenue and Customs Services, to improve efficiency and enable it to deal with the challenges

³ Capital expenditure plans have not been fully implemented between FY2014–FY2017, so such outturns are expected to be well below budgeted levels.

⁴ Government of Fiji. 2017. *Economic and Fiscal Update Supplement to the 2017–2018 Budget Address*. Suva.

of globalization, trade liberalization, the changing business environment, and increased use of technology. The World Customs Organization and the International Monetary Fund provided TA that supported revenue reforms, which led to new tax administration laws. In 2012, ambitious and extensive reforms of the tax structure included significant reductions in direct tax rates, and higher and new indirect taxes. Sustained economic growth and improved tax administration enabled a reduction in value-added tax from 15% to 9% in 2016. These reforms have resulted in increased operating revenue for the government. The reforms need to be reinforced, with greater emphasis on tax compliance, which is the focus of the Fiji Revenue and Customs Services. The government has shifted its focus to implement PFM reforms alongside efforts to encourage private sector development and investment.

11. **Shifting focus to public financial management reforms.** The government recognizes that effective PFM institutions, processes, and systems play a critical role in the implementation of national policies concerning development and poverty reduction. Good PFM ties together available resources, delivery of services, achievement of government policy objectives and ensures that revenue is collected efficiently and used appropriately and sustainably. With relatively efficient revenue collection, the government's immediate reform priorities include:

- (i) **public financial management reforms with political commitment.** The government's public sector management reforms are defined in the PFMIP, which includes all reform measures to improve PFM systems and processes in the medium to long term. The PFMIP is an implementation plan that incorporates planned reform actions for all functions and units into a single document to ensure coherence and consistency. It provides clarity on the government's plans and identifies the responsible units for implementation within the period 2016–2019. It also outlines prioritized actions to address specific weaknesses, based on a realistic assessment of available capacity and resources. Political commitment to the reform program is ensured through cabinet approval, where all ministries commit to implementing it.
- (ii) **Improving budget transparency.** This is to be achieved by (i) publicly disclosing budget kits in a national newspaper following Parliament's approval of the budget, (ii) obtaining parliamentary approval of the audit report on the whole-of-government, that is, all Government ministries, agencies and departments, financial statements and annual appropriation statement for FY2016, and (iii) publishing quarterly budget performance reports on the Ministry of Economy website. A parliamentary form of representative government and restored formal systems for checks and balances and transparency and accountability in the public sector can only bode well for participatory and inclusive decision making.
- (iii) **Diagnostic study for medium-term expenditure.** The study will evaluate the government's capacity to use a medium-term expenditure framework. The government intends to develop a policy and expenditure framework that balances what is affordable (in the aggregate) against the government's policy priorities. This approach improves policy impact and helps maintain macroeconomic stability.
- (iv) **Government planning framework.** This will assist ministries to align their service delivery, staffing, and other requirements; and pilot test the planning framework with at least two ministries to improve the link between development planning, budgeting, project preparation, and implementation. The ministerial planning framework will complement the aggregate expenditure framework.
- (v) **Debt management strategy.** The government intends to prepare, obtain parliamentary approval, and implement a rolling debt management strategy adjusted to suit annual financing needs while minimizing financing costs. The government will review and approve the debt management strategy annually along

with the budget.

- (vi) **Increased use of digital payments.** The government intends to review and improve its payment system to increase the use of digital platforms to improve efficiency and productivity. An updated information system would facilitate this.

12. **State-owned enterprise reforms progressing.** SOEs present a substantial fiscal risk to the government when their operations are inefficient. Some SOEs have explicit government guarantees while others have implicit guarantees. The government intends to review its guarantee policies for SOEs with explicit guarantees. Some privatization transactions are also under consideration, and the government intends to formalize privatization guidelines based on its experience from ad hoc transactions. It is also considering a public–private partnership (PPP) framework to provide high-level guidance to discussions on possible PPPs.

4. ADB Sector Experience and Assistance Program

13. **Ongoing assistance.** Knowledge and support TA amounting to \$750,000 was approved in November 2017 for the implementation of Fiji’s PFMIP, 2016–2019.⁵ The TA will support the recruitment of international and national experts in fiscal policy, budget management, financial management, public procurement, and knowledge management to help the Ministry of Economy improve its institutional capacity to implement the PFMIP and strengthen reform coordination. It will also support the implementation of subprograms 2 and 3 of the programmatic policy-based loan operation. Likely areas of support to be reflected in the subprograms include public expenditure reviews, the adoption of a medium-term expenditure framework, and the potential replacement of the government’s financial management information system. ADB has supported improvements in public sector management in Fiji through country TA.⁶

14. **Assistance through regional facilities.** The Private Sector Development Initiative, cofinanced by ADB with the governments of Australia and New Zealand, focuses on enhancing the business environment through the development of financial markets and services; modernization of business laws; SOE reform; and the promotion of public–private partnerships, competition policy, and the economic empowerment of women.⁷ The initiative has continued to support Fiji in SOE reform by providing advice on the development of privatization guidelines and the PPP framework, and assisting with a draft law for SOE governance and monitoring. The initiative also conducts private sector assessments for Fiji, and Fiji participates in the initiative’s SOE benchmarking exercises.⁸ In addition, ADB has supported Fiji with the drafting of the Green Growth Framework through the Pacific Economic Management TA Phase II,⁹ following extensive consultation. The framework is a tool to accelerate integrated and inclusive sustainable development, strengthen environmental resilience, and reduce poverty, support economic growth, and strengthen capacity to withstand and manage the adverse effects of climate change. ADB helped Fiji draft its national development plan and project the impact of the policies on the economy using a computer-generated equilibrium model. Regional TA on Sector and Thematic Analysis in Policy Development supported this.¹⁰

⁵ ADB. 2017. *Technical Assistance to the Republic of Fiji for Supporting Public Financial Management Reform*. Suva.

⁶ ADB. 2012. *Technical Assistance to the Republic of Fiji for Implementing Reforms of State-Owned Enterprises*. Manila; ADB. 2016. *Technical Assistance Completion Report: Implementing Reforms of State-Owned Enterprises in Fiji*. Manila.

⁷ ADB. 2013. *Technical Assistance for Pacific Private Sector Development Initiative, Phase III*. Manila.

⁸ ADB. 2013. *Re-invigorating Private Sector Investment: A Private Sector Assessment for Fiji*. Manila.

⁹ ADB. 2013. *Technical Assistance for Pacific Economic Management, Phase II*. Manila.

¹⁰ ADB. 2014. *Technical Assistance to Fiji for Sector and Thematic Analyses in Policy Development*. Manila (TA 8819-REG).

Problem Tree for Public Sector Management

EFFECTS

Slow public financial management reform

CORE PROBLEM

Inefficient allocation of public sector resources with weak accountability

CAUSES

Weak link between planning and budgeting

Limited non-budget fiscal reporting

Resource allocation is not linked to government policies and priorities

SUB CAUSES

Link between planning and budgeting is weak

Limited expertise to enable effective fiscal reporting

Limited institutional capacity for fiscal management

