

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

| | | | |
|-----------------------------|--------------|----------------------|---|
| Country: | Fiji | Project Title: | Sustained Private Sector-Led Growth Reform Program |
| Lending/Financing Modality: | Policy-Based | Department/Division: | Pacific Department Urban, Social Development, and Public Management Division |

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General intervention

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

Poverty rates in Fiji are among the lowest in the Pacific, but similar to those in other upper-middle-income countries. Based on the \$3.20 per day international poverty line, 14% of the population live in poverty; based on the \$1.90 per day international poverty line, less than 2.0% of the population lived in extreme poverty in 2013–2014.^a From 2002 to 2013, the real per capita consumption of the bottom 40% grew faster than that of the average household, and this was true in both rural and urban areas. The Gini coefficient, an aggregate measure of inequality, also decreased. Although poverty and inequality have fallen, urban poverty has risen, and visible signs of inequalities are increasing, especially in urban areas. From the 2008–2009 and 2013–2014 household income and expenditure surveys, urban poverty increased (from 12%–13% based on the \$3.20 per day international poverty line) even as aggregate poverty and rural poverty declined (from 17%–14% and 22%–16%). The government, through the National Development Plan, 2017–2036^b acknowledges that it needs more private investment to meet its long-term targets of doubling real per capita income by 2035, eradicating poverty, redressing rural–urban gaps, lowering public debt, and creating more jobs. Increasing private investment and reducing reliance on public investment to drive economic growth will require improvements in fiscal management; the policy, legal, and institutional framework for state-owned enterprises (SOEs) and public–private partnerships (PPPs); and the business and investment climate. These reform areas address issues identified in the country operations business plan, 2017–2019 of the Asian Development Bank (ADB) for Fiji.^d

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. **Key poverty and social issues.** From 2002 to 2013, the per capita consumption of the bottom 40% grew faster, at 1.2% a year, than that of the population median, which grew at 0.6% a year. This pattern of inclusive growth was observed in both inter-survey periods (2002–2008 and 2008–2013) and in urban and rural areas. The Gini coefficient decreased to 38.3 in 2013, from 42.8 in 2008 and 39.6 in 2002. The increase in the Gini coefficient from 2002 to 2008 reflected the rise in inequality between rural and urban areas and within urban areas. The decrease between 2008 and 2013 reflects reductions in inequality between rural and urban areas and within urban areas. Economic growth has been the main driver of poverty reduction. Growth in per capita consumption accounted for 62% of the poverty reduction from 2002 to 2013, while the remaining 38% is explained by a decline in inequality. In addition, Fiji is vulnerable to natural disasters such as cyclones and floods. In 2016, for example, Tropical Cyclone Winston caused damage and losses estimated to equal 29.2% of gross domestic product. Rebalancing the economy from its focus on public investment toward greater private investment and private sector participation by accelerating structural reforms over the medium term will enable faster and more broad-based growth, ensure the government has sufficient fiscal room to respond to shocks, allow the maintenance of social services and social protection programs that improve access to basic public services, and lead to greater poverty reduction.

2. **Beneficiaries.** Fiji needs more private investment to accelerate and sustain high levels of economic growth, which will help achieve the government's target of doubling real gross domestic product per capita by 2035. The program is a general intervention that aims to address fiscal and structural constraints. It is countrywide in scope and will affect all citizens of Fiji through policy and institutional reforms that improve macroeconomic stability, Fiji's SOE and PPP portfolio performance, and the business and investment climate. Specific beneficiary groups include the private sector, civil society, SOE employees, and the vulnerable.

3. **Impact channels.** Improving fiscal management will ensure the government can maintain public investment in physical and human capital and protect the most vulnerable in the event of shocks and make more discretionary funding available to channel toward pro-poor expenditures, such as education and health services, and social protection programs. Improving the policy, legal, and institutional framework for SOEs and PPPs will help avoid unsustainable borrowing; create more room for private investment; and improve the reliability, efficiency, and affordability of basic public services. Improving the business and investment climate will facilitate greater access to credit.

4. **Other social and poverty issues.** None.

5. **Design features.** The program prioritizes and sequences policy reforms over 36 months from January 2017 to April 2020 that will help the government to address its main macroeconomic challenges, i.e., to increase private investment and reduce reliance on public investment to drive economic growth. Short-term actions that will lay the foundation for more substantive reforms in subprogram 2 and the future include (i) implementing the Fiji Public

Financial Management Improvement Programme, 2016–2019 to enable the government to promote fiscal discipline, manage the strategic allocation of resources, and improve the efficiency of service delivery; (ii) cabinet approval of privatization guidelines and a PPP policy, both of which will create clear rules and processes for further SOE reform; and (iii) Parliamentary approval of the personal property securities bill, which facilitates greater access to credit for businesses and individuals.

C. Poverty Impact Analysis for Policy-Based Lending

1. Impact channels of the policy reforms. The program aims to rebalance the economy by accelerating structural reforms over the medium term. Improving fiscal management will ensure the government can maintain public investment in physical and human capital and protect the most vulnerable in the event of shocks. Improving the policy, legal, and institutional framework for SOEs and PPPs will strengthen governance, transparency, and accountability, and improve SOE performance and service delivery. This will help avoid unsustainable borrowing; create more room for private investment; and improve the reliability, efficiency, and affordability of basic public services. Finally, improving the business and investment climate will facilitate greater access to credit, particularly for micro, small, and medium-sized enterprises; encourage great domestic and foreign investment; strengthen Fiji's international trade competitiveness; and reduce the cost of doing business.

2. Impacts of policy reforms on vulnerable groups. Improving fiscal management and the policy, legal, and institutional framework for SOEs and PPPs will make more discretionary funding available to channel toward pro-poor expenditures, such as education and health services, and social protection programs such as the poverty benefit scheme (financial support to low-income households), social pension scheme (financial support for elderly citizens that are not receiving any form of government assistance or pension support), the food voucher program for rural pregnant mothers, and the child protection allowance (children from low-income families, single-parent families, and prisoner dependents). In the medium term, the program will indirectly benefit the poor and vulnerable through increased government capacity to respond to shocks, greater private investment and new employment creation, and more sustainable financing for the delivery of social services and social protection programs.

3. Systemic changes expected from policy reforms. The program will assist the government to shift toward greater private investment, which will help improve macroeconomic stability, strengthen the fiscal position, and reduce the impact of external shocks by allowing the government to respond effectively while maintaining basic social services. Improved fiscal management will strengthen accountability relationships between taxpayers and the government, both of which are essential for sustainable service delivery. Improved policy, legal, and institutional settings for SOEs and PPPs are expected to generate additional revenues for the government; allow more room for private sector participation in the economy; and boost the access, quality, and affordability of public services. Finally, an improved business and investment environment is expected to improve Fiji's international trade competitiveness, reduce doing business costs, accelerate growth, and create jobs.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. Social safeguard issues are not considered significant. At the impact level, the program is aligned with Fiji's National Development Plan, 2017–2036. The formulation of the development plan involved extensive consultations with a wide range of stakeholders, including business leaders, civil society, and the public, with over 730 public meetings held across the country and submissions received in writing. In addition to community meetings, dedicated consultations were carried out in major urban centers with civil society and business leaders. Technical assistance by ADB and other development partners provides support for the consultations. ADB's Pacific Private Sector Development Initiative assisted in the preparation of the development plan; and in SOE, PPP, international trade arbitration, and secured transactions reforms. Consultations with the private sector and civil society on the proposed program were undertaken through the development of the government's Structural Reform Programme, 2015–2019, in particular with regard to business and climate reforms.

2. Civil society organizations. Civil society organizations representing sectors affected by policy reform actions, such as the Fiji Council of Social Services, were consulted as part of the government's reform implementation efforts. Civil society consultations are led by the government and involve national and sector-specific consultations.

3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):

Information gathering and sharing Consultation Collaboration Partnership

4. Participation plan.

Yes No

The government will carry out participatory elements under specific reform activities, reflecting the policy-based nature of the support.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: No gender elements

A. Key issues. Given the macroeconomic nature of this program, gender issues are not likely to be relevant. However, women in Fiji have unequal access to economic opportunities and public services. The Gender Inequality Index of the United Nations Development Programme reflects gender-based inequalities in three dimensions: reproductive health, empowerment, and economic activity. Fiji scores 0.418 in the 2014 index and ranks 87 of 188 countries, better, for example, Samoa (ranked 97) and Tonga (ranked 148). According to the World Economic

