



Report and Recommendation of the President to the Board of Directors

Project Number: 48490-003
August 2019

Proposed Policy-Based Loan for Subprogram 2 Republic of Fiji: Sustained Private Sector-Led Growth Reform Program

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 22 July 2019)

Currency unit	–	Fiji dollar (F\$)
F\$1.00	=	\$0.469
\$1.00	=	F\$2.132

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MITT	–	Ministry of Industry, Trade and Tourism
MOE	–	Ministry of Economy
MOWCPA	–	Ministry of Women, Children and Poverty Alleviation
MTEF	–	medium-term expenditure framework
NDP	–	National Development Plan, 2017–2036
PFM	–	public financial management
PFTAC	–	Pacific Financial Technical Assistance Centre
PPP	–	public–private partnership
RBF	–	Reserve Bank of Fiji
SOE	–	state-owned enterprise
TA	–	technical assistance
TFA	–	Trade Facilitation Agreement
WTO	–	World Trade Organization

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., FY2018 ends on 31 July 2018.
- (ii) In this report, “\$” refers to United States dollars unless otherwise stated.

Vice-President	Ahmed M. Saeed, Operations 2
Director General	Ma. Carmela Locsin, Pacific Department (PARD)
Director	Emma Veve, Social Sectors and Public Sector Management Division, PARD
Team leaders	Erik Aelbers, Country Specialist, PARD Pamela Wyatt, Principal Public Management Specialist (Governance), PARD
Team members	Yuki Ikeda, Public Management Economist, PARD Mairi MacRae, Social Development Specialist (Gender and Development), PARD Douglas Perkins, Principal Counsel, Office of the General Counsel Rommel Rabanal, Senior Economics Officer, PARD
Peer reviewer	Cigdem Akin, Senior Public Management Economist, Central West Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. PROGRAM AND RATIONALE	1
A. Background and Development Constraints	1
B. Policy Reform and ADB's Value Addition	3
C. Impacts of the Reform	8
D. Development Financing Needs and Budget Support	9
E. Implementation Arrangements	10
III. DUE DILIGENCE	10
IV. ASSURANCES	11
V. RECOMMENDATION	11
APPENDIXES	
1. Design and Monitoring Framework	12
2. List of Linked Documents	15
3. Development Policy Letter	16
4. Policy Matrix	19

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 48490-003	
Project Name	Sustained Private Sector-Led Growth Reform Program (Subprogram 2)	Department/Division	PARD/PASP
Country Borrower	Fiji, Republic of Government of Fiji	Executing Agency	Ministry of Economy
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Law and judiciary		6.00
	Public expenditure and fiscal management		29.50
	Reforms of state owned enterprises		29.50
		Total	65.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Partnerships (PAR)	Public financial governance		
Private sector development (PSD)	International finance institutions (IFI) Official cofinancing		
	Conducive policy and institutional environment		
	Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
General Intervention on Poverty	Yes		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG5, SDG10, SDG16, SDG17		
6. Risk Categorization:		Complex	
7. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		65.00	
Sovereign Programmatic Approach Policy-Based Lending (Regular Loan): Ordinary capital resources		65.00	
Cofinancing		65.70	
New Zealand Grant - Programmatic Approach Policy-Based Lending (Grant) (Not ADB Administered)		1.70	
World Bank - Programmatic Approach Policy-Based Lending (Loan) (Not ADB Administered)		64.00	
Counterpart		0.00	
None		0.00	
Total		130.70	
Currency of ADB Financing: USD			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Republic of Fiji for subprogram 2 of the Sustained Private Sector-Led Growth Reform Program.¹

2. The proposed subprogram 2 will support the government in creating an environment in which the private sector is able to develop and better drive national economic growth through investment, by improving management of public finances; strengthening the performance of state-owned enterprises (SOEs) and opening opportunities for private investment; and enhancing the policy, legislative, and regulatory environment in which businesses operate. The program supports the Asian Development Bank (ADB) Strategy 2030 operational priority on strengthening governance and institutional capacity, particularly in small island developing states.²

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Development context.** Fiji has had a stable government and policy direction for more than a decade, with uninterrupted economic growth since 2010. Fiji has become a hub for neighboring South Pacific countries, but growth remains constrained by its remote location, dispersed islands, and small population. Fiji is also vulnerable to disasters triggered by natural hazards, including cyclones and floods. The International Monetary Fund (IMF) has estimated such events may reduce Fiji's potential annual gross domestic product (GDP) growth by 2 percentage points.³ Historically, real GDP growth has been low and volatile, averaging 2.5% per year from 1980 to 2018.

4. **Economic performance.** The government has driven growth performance since 2010 through expansionary fiscal policy, including by cutting taxes and increasing public investment, and accommodative monetary policy with relatively low interest rates. Efforts to improve SOE profitability are working, but SOE productivity remains low, and they contributed just 4.0% to GDP in 2014 despite controlling up to 17% of the economy's total fixed assets.⁴ The potential gain from opening areas of the economy to the private sector is considerable. Economic growth averaged 4.5% per year from 2014 to 2018. Growth is forecast at 2.9% in 2019 and 3.2% in 2020, based on expectations of steady tourism expansion and sustained public and private enterprise growth.

5. **Fiscal situation.** Reliance on public sector-led growth has resulted in an average net fiscal deficit of 3.1% of GDP from FY2014 to FY2018 (Table 1). In FY2019, public expenditure is estimated at 28.9% of GDP, with a net fiscal deficit of 3.3% financed by external and domestic borrowings. The estimated FY2020 deficit is 2.6%, with debt equivalent to 44.8% of GDP. There is room for additional government borrowing, but the public debt ceiling is 50% of GDP. Given the limited fiscal space, and the need to build fiscal buffers to ensure adequate resources for disaster response, the government needs to carefully balance fiscal consolidation and the resultant impact

¹ The design and monitoring framework is in Appendix 1. The program is in Asian Development Bank (ADB). 2018. *Country Operations Business Plan: Fiji, 2019–2021*. Manila. The concept paper for the program was circulated to the Board of Directors on 14 November 2017.

² ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

³ D. Lee, H. Zhang, and C. Nguyen. 2018. The Economic Impact of Natural Disasters in Pacific Island Countries: Adaptation and Preparedness. *IMF Working Paper*. 18/108. Washington, DC: IMF.

⁴ ADB. 2016. *Finding Balance 2016: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila.

on public investment levels and economic growth. Domestic financing of the deficit will crowd out private investments.⁵

Table 1: Selected Economic and Fiscal Indicators

Item	FY2014	FY2015	FY2016	FY2017	FY2018e	FY2019p	FY2020p
Real GDP growth (% change)	5.6	4.7	2.6	5.2	4.2	2.9	3.2
CPI change (% annual average)	0.5	1.4	3.9	3.3	4.1	3.5	3.0
Central government budget (% of GDP)							
Total revenue	25.2	27.9	27.7	25.7	27.4	25.6	25.8
Total expenditure	29.1	29.8	31.5	27.8	31.6	28.9	28.4
Operating balance	7.0	7.0	6.7	6.4	8.9	5.6	5.8
Asset sales	0.1	1.9	1.8	0.0	0.0	0.0	0.6
Fiscal surplus (deficit)	(3.8)	(1.8)	(3.8)	(2.0)	(4.3)	(3.3)	(2.6)
Public debt (% of GDP)	42.9	44.6	43.7	42.9	44.6	45.0	44.8
of which: External debt	11.8	14.1	12.2	12.6	12.4	12.0	...
Nominal GDP (\$ million)	4,850.3	4,677.2	4,937.8	5,262.5	5,466.6	5,844.5	6,228.2

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

Note: The Fiji Bureau of Statistics released 2014–2017 GDP data, rebased from 2011 to 2014, in March 2019. Fiscal indicators are calculated using available GDP data and Asian Development Bank forward estimates, and they differ from data in the FY2019 national budget (released in June 2018) as well as from that presented in subprogram 1.

Source: Government of Fiji and Asian Development Bank estimates.

6. Macroeconomic challenges. Fiji's small size, remoteness, and susceptibility to disasters result in a high-cost business environment that discourages private sector activity, especially outside tourism and construction.⁶ From 2010 to 2017, total investment averaged 18.9% of GDP. Public investment increased from 3.3% of GDP in 2010–2013 to 5.8% of GDP in 2014–2017, but private and SOE investments declined from 13.9% of GDP to 11.4% of GDP during this period.⁷ Fiji is seeking to stimulate a sustained increase in private investment to reduce reliance on public investment to drive economic growth. This will enable more rapid, broad-based growth, while ensuring the government retains sufficient fiscal room to respond to shocks. The government acknowledges the need for more private investment to meet its long-term 5% growth target, which is estimated to require an investment–GDP ratio of 25%. In 2018, the IMF advised the government that sustaining high growth will require continuity in structural reforms that lower the cost of doing business and improve the overall business climate.⁸

7. ADB engagement. ADB has engaged in public sector management and private sector development through regional and country-specific technical assistance (TA) projects to support public financial management (PFM), SOE reform, and business climate reform.⁹ Lessons from ADB's engagement in these areas in Fiji and across the Pacific, including from implementing subprogram 1, are to (i) identify champions to strengthen reform commitment and lead implementation, particularly for SOE reform and divestment; (ii) obtain endorsement so that reforms are not derailed if leadership changes; (iii) pursue moderate, sequenced reforms, especially if institutional capacity is limited; (iv) provide sufficient time to develop capacity and institutionalize reforms; (v) meet with the government specialists responsible for undertaking

⁵ ADB has recognized the important role policy-based lending can play in these circumstances (Independent Evaluation Department. 2018. *Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design*. Manila: ADB).

⁶ ADB. 2015. *Fiji: Building Inclusive Institutions for Sustained Growth—Country Diagnostic Study*. Manila; and World Bank. 2017. *Republic of Fiji Systematic Country Diagnostic*. Washington, DC.

⁷ ADB estimates based on data from Reserve Bank of Fiji. 2019. *Quarterly Review: December 2018*. Suva.

⁸ IMF. 2019. Republic of Fiji: 2018 Article IV Consultation—Press Release and Staff Report. *IMF Country Report*. No. 19/57. Washington, DC.

⁹ ADB. [Fiji: Supporting Public Financial Management Reform](#); ADB. [Regional: Sector and Thematic Analyses in Policy Development](#); ADB. [Regional: Pacific Private Sector Development Initiative, Phase III](#).

specific reforms (in addition to senior officials) to ensure appropriate technical input; and (vi) create clear tracking tools to monitor progress toward final outcomes. The program has identified champions in each ministry and meets regularly with permanent secretaries to ensure commitment will withstand staff changes. Improved coordination of TA support from ADB and other development partners has increased government capacity to complete reforms while reinforcing the program's analytical underpinning (footnote 9).

B. Policy Reform and ADB's Value Addition

8. **Government strategy.** The government's National Development Plan, 2017–2036 (NDP) envisions inclusive socioeconomic development through a strategy to become a regional South Pacific hub for business, transport, communications, and other services; and targets a fourfold increase in per capita income by 2036.¹⁰ To achieve this goal, the government recognizes the need for greater private investment and participation by accelerating structural reforms.

9. **Structural reform program.** Since 2007, the government has introduced substantive and progressive structural reforms to improve the business environment and opportunities for private sector-driven growth. With support from ADB and other development partners, the government is accelerating efforts to increase private investment. Priority areas for implementation of NDP reforms are (i) fiscal management, particularly PFM; (ii) the policy, legal, and institutional framework for SOEs and public–private partnerships (PPPs); and (iii) the business and investment climate.¹¹

10. **Assistance modality.** The government has requested a programmatic policy-based loan series with three subprograms (2018, 2019, and 2020) to support NDP implementation. The government, ADB, and the World Bank have agreed on substantive policy actions that require sufficient time for preparation and constituency building to garner political support. The sequencing of reforms over three subprograms (i) accommodated the financing need for FY2018, through subprogram 1, approved in June 2018 for \$15 million; and (ii) matches further program financing to anticipated budget needs, while allowing time for effective and sustained implementation. The programmatic approach allows for prioritization across multiple reform areas to account for limited implementation capacity, while providing flexibility to respond to emerging opportunities and constraints.

11. **Alignment.** The program (i) will help the government achieve inclusive socioeconomic development (para. 8); (ii) is fully aligned with the government's policy priorities in national budget documents and the NDP; (iii) is consistent with ADB's country partnership strategy, 2019–2023 for Fiji and Pacific Approach, 2016–2019 in its focus on reducing the cost of doing business, managing risks from natural and economic shocks, and enabling value creation by supporting private sector growth;¹² and (iv) with regards to Strategy 2030, (a) directly supports the operational priority of strengthening institutional capacity for governance by strengthening the quality and capacity of public institutions to undertake reforms and promote private sector development; and

¹⁰ Government of Fiji, Ministry of Economy. 2017. *5-Year & 20-Year National Development Plan: Transforming Fiji*. Suva.

¹¹ Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2); and ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 to the Republic of Fiji for the Sustained Private Sector-Led Growth Reform Program*. Business and Investment Climate Reform, and State-Owned Enterprise Reform and Public–Private Partnerships (accessible from the list of linked documents in Appendix 2). Manila.

¹² ADB. 2019. *Country Partnership Strategy, Fiji: 2019–2023—Achieving Sustained, Inclusive, and Private Sector-Led Growth*. Manila; ADB. 2016. *Pacific Approach, 2016–2020*. Manila.

(b) contributes to operational priorities on addressing remaining poverty and reducing inequalities, accelerating progress in gender equality, and fostering regional cooperation and integration.

12. **Policy actions.** Implementation of the government's structural reform agenda underpins the provision of policy-based lending from ADB and the World Bank.¹³ Subprogram 2 actions build on reforms undertaken through subprogram 1 and provide direction for subsequent indicative triggers for subprogram 3, ensuring that formal policy underpinnings are in place and reforms are credible, consistent, and predictable. Under subprogram 2, ADB supports 21 policy actions across three reform areas contained in the policy matrix (Appendix 4) and described in paras. 13–19.

13. Some indicative actions for subprogram 2 presented in the documentation for subprogram 1 were adjusted.¹⁴ Nonetheless, the overall strength of subprogram 2 has been maintained given early and overachievement of some policy actions, addition of new policy actions, changes to increase the efficiency of policy actions in supporting program outcomes, and the relatively less central nature of delayed actions.¹⁵

- (i) One indicative subprogram 3 action was brought forward to subprogram 2: the circulation of a draft investment bill to stakeholders upon the approval of an investment policy statement. The subprogram 2 policy action on divestments and PPPs was surpassed, with two transactions (only one was required).
- (ii) Two substantial actions were added to subprogram 2: (a) reforms to the recruitment method for SOE directors, which supported merit-based appointments and increased representation of women on SOE boards; and (b) passage of the Employment Relations (Budget Amendment) Act 2018, which includes reforms to maternity and family leave policies to enhance the ability of women to remain in the paid workforce and to provide men with parental leave.
- (iii) Two actions in subprogram 2 were changed to more directly support the outputs: (a) the Ministry of Economy (MOE) will not conduct a diagnostic study for the medium-term expenditure framework (MTEF) given that MTEF impediments are understood at the working level, and instead created new budget templates for use by ministries for the FY2020 budget, resulting in more immediate benefits through increased accuracy of forward estimates, and thereby supporting an effective MTEF; and (b) regarding the competition and consumer policy framework, the government will consult government stakeholders and the private sector more widely before drafting a new policy framework, which is expected to improve the quality of draft legislation and its acceptance by the private sector. The change does not impact the indicative action for subprogram 3.
- (iv) Two actions have been delayed from subprogram 2 to subprogram 3. Because of their interrelated nature, the privatization guidelines will come into force with the Public Enterprises Act 2019 during subprogram 3. Action to strengthen regulations and processes regarding building permits will now include the streamlining of all forms and their access through a new online portal, which will substantially reduce the compliance burden for applicants.

Following these changes, the government has completed all 21 actions that form subprogram 2.

¹³ The NDP forms the basis for reforms contained in the policy matrix (Appendix 4). The World Bank policy matrix for its parallel program contains seven prior actions, of which three are common to ADB's subprogram 2. The three common actions relate to ADB actions 2.1.6 (policy framework for granting government guarantees), 3.1.2 (approved investment policy statement), and 3.2.1 (regulations under the Personal Property Securities Act 2017).

¹⁴ Approved Report and Recommendation of the President to the Board of Directors: Sustained Private Sector-Led Growth Reform Program Subprogram 1 (accessible from the list of linked documents in Appendix 2).

¹⁵ Further details and reasons for the changes are summarized in Changes from Subprogram 2 Indicative Policy Actions to Final Policy Actions (accessible from the list of linked documents in Appendix 2).

14. **Fiscal management.** The government recognizes that sound PFM systems and processes that promote fiscal discipline, strategic allocation of resources, and efficient service delivery provide the private sector with policy certainty and business confidence as well as more cost-effective public services. The following subprogram 2 policy actions support this outcome:

- (i) **Public financial management framework.** Building on subprogram 1 reform actions, the MOE completed several reforms to improve the PFM framework as part of subprogram 2 and has continued to implement the Public Financial Management Improvement Programme, 2016–2019 approved in subprogram 1 by (a) holding consultations with stakeholders as part of the review of the Financial Management Act 2004;¹⁶ the review will strengthen accountability and clarify the financial authority of the permanent secretaries, a key first step toward the devolution of decision-making authority; and (b) improving the recording and monitoring of revenue arrears, including preparing an aging debtors report with revenue summaries published in the FY2019 national budget supplement.¹⁷ In addition, updated budget templates were developed for use in preparing the FY2020 national budget,¹⁸ which will help improve the accuracy of forward estimates. Improved national budgets will provide the private sector with better economic data upon which to base private investment decisions. Finally, the Ministry of Education, Heritage and the Arts; the Ministry of Health and Medical Services; and the Ministry of Women, Children and Poverty Alleviation (MOWCPA) have participated in an operational plan framework pilot that combines and aligns service delivery, staffing, and corporate planning requirements.
- (ii) **Debt management.** In subprogram 1 the government approved the FY2018 Debt Management Strategy, a rolling debt management strategy to be adjusted with the government's annual financing needs while minimizing financing costs. Ongoing commitment to improved debt management was evidenced in subprogram 2 with the inclusion of the FY2019 Debt Management Strategy in the national budget supplement, and increased transparency by publishing quarterly debt reports on the MOE website, including updates on domestic and external debt levels and contingent liabilities. The strategy includes risk management strategies to maintain stable debt servicing costs while considering exchange rate risks, and to maintain a stable and affordable debt maturity structure to reduce the burden of resettlement and minimize exposure. The strategy is key to the government's medium-term debt policy, which focuses on maintaining debt sustainability by reducing fiscal deficits and adopting sound risk management strategies.
- (iii) **Financial management.** ADB TA enabled the government to commission a review (finalized in early 2019) of the financial management information system to assess whether this software is user-friendly and fit-for-purpose. The report was presented to the Minister for Economy in May 2019 and recommends a new system be introduced. Following the subprogram 1 focus on making payments more efficient, the government now makes 75% of payments digitally, including for private businesses that supply the government with goods and services.

¹⁶ Government of Fiji. 2016. *Fiji Public Financial Management Improvement Programme 2016–2019*. Suva. Consultations included the Ministry of Women, Children and Poverty Alleviation; the Ministry of Health and Medical Supplies; and the Ministry of Education, Heritage and the Arts.

¹⁷ Government of Fiji. 2018. *Economic and Fiscal Update Supplement to the 2018–2019 Budget Address*. Suva.

¹⁸ The public expenditure and financial accountability assessment, to be led by the IMF's Pacific Financial Technical Assistance Centre, was delayed from late 2018 to the third quarter of 2019 because of the elections. Reform progress will be assessed and the findings will guide the updating of the Public Financial Management Improvement Programme, 2016–2019.

15. Subprogram 3 will build on these reforms through Cabinet approval of the revised Public Financial Management Bill. Government public expenditure reviews will help evaluate public expenditure in terms of effectiveness, consistency with priorities, and results; and explore gender-responsive budgeting activities. Following the pilot of the new operational plan framework, it will be implemented by three additional line ministries. The MOE will begin implementing decisions from the financial management information system review by developing clear business and technical requirements and issuing a public tender. The government will continue implementing electronic payments through digital platforms. ADB (footnote 9) and development partners—including the governments of Australia and New Zealand, the World Bank, and the Pacific Financial Technical Assistance Centre (PFTAC)—are supporting these reforms.

16. **Policy, legal, and institutional framework for state-owned enterprises and public-private partnerships.** The profitability of Fiji's SOE portfolio has improved markedly since 2010, but productivity remains low in many SOEs, and the government is seeking to improve their performance (para. 4),¹⁹ including through SOE divestment, outsourcing, and PPPs to increase private sector investment, innovation, and expertise. However, progress has been hindered by a lack of consistent and predictable policies and processes. With ADB support (footnote 9), the Department of Public Enterprises has progressively implemented the following subprogram 2 policy actions to address these issues:²⁰

- (i) **State-owned enterprises reform.** A Public Enterprises Bill 2019 was tabled and passed by Parliament, with validation by the Parliament Standing Committee on Justice, Law and Human Rights for review and consultation, including gender analysis. The act is expected to come into force in the fourth quarter of 2019, establishes a clear framework to strengthen SOE governance, transparency, and accountability; and improve performance and service delivery.²¹ Recruitment methods for SOE directors have been improved, including by widening the search for eligible candidates; the percentage of female directors has increased from 8.4% in 2017 to 16.4% in 2018.²² To better monitor the fiscal risks associated with SOEs, a new fiscal risk assessment framework has been approved for use by the MOE, and the Cabinet has approved a new policy framework for government guarantees for SOEs' financial liabilities, with guarantees subject to Parliamentary authorization and written guarantee agreements with the government.
- (ii) **Divestment and public-private partnerships.** The government has completed two transactions between March 2018 and May 2019, with a concession agreement signed for the upgrade and operation of the Lautoka and Ba hospitals, and the sale of the Government Printing and Stationery Department. The PPP policy approved under subprogram 1 has come into force, and the government has appointed the International Finance Corporation as a transaction advisor to develop a PPP for affordable and climate-resilient housing.

17. Subprogram 3 provides for the Department of Public Enterprises to conduct training programs on the compliance requirements of the Public Enterprises Act 2019 for 75% of directors

¹⁹ The portfolio's average return on equity for 2011–2017 was 8.4%, with a return on assets of 3.6%. For 2002–2010, the average return on equity was –0.2% and the return on assets was 0.0%.

²⁰ The Ministry of Public Enterprises merged with the MOE in 2019 and is now the Department of Public Enterprises within the MOE.

²¹ Among other key features, the bill (i) harmonizes different forms of SOEs under a single framework; (ii) establishes a framework for the identification, costing, contracting, and financing of community-service obligations that applies to all SOEs; (iii) makes the minister for public enterprises solely responsible for SOEs, with clear duties and responsibilities; and (iv) strengthens the director appointment processes and directors' duties and responsibilities.

²² As of 31 December 2017, 9 of 107 directors were female (8.4%); by 31 December 2018, 20 of 122 directors were female (16.4%).

and senior management of SOEs.²³ To strengthen financial oversight of SOEs, the government will develop and implement a new policy framework for onlending. Privatization guidelines will come into force and be made available to the public. The government will reform at least one more SOE (through corporatization, partial privatization, divestment, liquidation, or substantial restructuring; or formation of a PPP). It will develop PPP implementation guidelines, including on the PPP procurement process, and appoint transaction advisors to support potential PPP transactions. ADB will continue to support these actions (footnote 9).

18. **Business and investment climate.** Foreign direct investment in Fiji averaged 7.1% of GDP from 2012 to 2017 and is inadequate to support the targeted economic growth rates (para. 6). This reflects a weak investment climate affected by policy uncertainty, delays in addressing underlying structural constraints, and gaps in the commercial legal framework. The government has introduced progressive structural reforms since 2007 (para. 9), and (supported by ADB and other development partners) has taken steps to improve the business and investment climate in consultation with the private sector through the following subprogram 2 policy actions:

- (i) **Foreign investment and trade.** To boost investor confidence and reduce uncertainty regarding the resolution of international commercial disputes, the International Arbitration Act 2017 (which provides for arbitrations seated in Fiji and the enforcement of foreign arbitral awards in Fiji) has come into force.²⁴ To comply with its World Trade Organization (WTO) Trade Facilitation Agreement (TFA) commitments, the government has completed four category B commitments.²⁵ In addition, the Ministry of Industry, Trade and Tourism (MITT) consulted stakeholders on a draft investment bill, following Cabinet approval of the investment policy statement. Collectively these reforms support an improved business environment and specifically assist trade across borders.
- (ii) **Access to finance.** Regulations under the Personal Property Securities Act 2017 appoint the Reserve Bank of Fiji (RBF) as the registrar. The act will enable lenders to accept movable assets as security for loans more easily, cheaply, and securely. This is of particular benefit to businesses owned by women, who are less likely to have fixed assets, such as land.
- (iii) **Ease of doing business.** The government has circulated draft bills to enhance the legal framework for trademarks, designs, and patents for stakeholder comments, and consultations have been held regarding the review of the Fijian Competition and Consumer Commission Act 2010, both of which are fundamental for private sector development and entrepreneurship. A new action under subprogram 2 seeks to make it easier for mothers to enter and remain in the paid workforce. The government has increased paid maternity leave from 84 to 98 days, and introduced paternity leave and family care leave through an amendment of the Employment Relations Act 2007, which was passed by Parliament.²⁶

²³ A significant improvement over 2017, when less than 25% of directors and senior managers were trained.

²⁴ International arbitration provides an alternative, cost-effective, and time-efficient means of dispute resolution between parties. It is recognized in 160 countries, including Fiji's major sources of foreign direct investment. Fiji's International Arbitration Act 2017 implements Fiji's treaty obligations under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, known as the New York Convention, which it acceded to in 2010. Fiji's chief justice has also established high court rules on international arbitration proceedings defining the court's powers and responsibilities.

²⁵ Category B commitments are provisions that the WTO member will implement after a transitional period following the entry into force of the TFA. The four category B commitments implemented are: Article 6.1 on General Disciplines on Fees and Charges Imposed on or in Connection with Importation and Exportation; Article 8 on Border Agency Cooperation; Article 10.6 on Use of Customs Brokers; and Article 12 on Customs Cooperation.

²⁶ To ease the extra cost to businesses related to these changes, the government introduced a 150% tax deduction for all businesses for salaries and wages paid to employees during paternity and family care leave. According to ADB.

19. Under Subprogram 3 Cabinet will approve legislation for tabling in Parliament, including bills related to investment, trademarks, designs, and patents. Four additional WTO TFA category B commitments will be achieved. The Regulation of Building Permits Act 2017 will come into force, members will be appointed to the Building Permits Evaluation Committee, regulations will be put in place that include standardized forms, and an online information portal will be launched. The government will establish the personal property securities registry, which will coincide with coming into force of the Personal Property Securities Act 2017, thus completing the reform. The Cabinet will also approve a new policy framework relating to competition and consumer law.

20. **Gender.** Subprogram 2 is classified *effective gender mainstreaming* and improves women's access to services, opportunities, and decision-making by: (i) including open consultation and gender analysis (validated by the Standing Committee on Justice, Law and Human Rights) of all legislation (the Public Enterprises Act 2019, International Arbitration Act 2017, and Personal Property Securities Act 2017); (ii) when reviewing fiscal management systems, consulting with the MOWCPA, and prioritizing the trialing of new planning frameworks by the MOWCPA to aid with service delivery, staffing, and planning requirements; (iii) strengthening recruitment methods and merit-based appointments for SOE directors, leading to women's increased representation on SOE boards (para. 16(i)); (iv) improving women's economic empowerment and access to finance through the Personal Property Securities Act 2017, which enables lenders to more easily, cheaply, and securely accept movable assets as security for loans, which will particularly benefit businesses owned by women; and (v) enacting new provisions in Fiji's Employment Relations Act 2007 to support women in the workforce by extending maternity leave and introducing paternity and family leave.

21. **ADB engagement.** ADB has a long-standing engagement with the government on SOE and business climate reforms. Support for fiscal management and PFM reforms increased during 2018 and 2019. ADB's strong relationship with the government has helped ADB play an important role in identifying and implementing critical structural reforms. Specifically, ADB has directly supported drafting of policy or legislation on PPPs, SOEs, international arbitration, and personal property securities; and ADB has provided implementation support. The programmatic approach has enabled the sequencing of complex reforms, with ADB TA involvement across all reform areas in support of all subprograms, aligned with development partners.

22. **Development partner coordination.** The program is part of a multi-development partner package of support for structural reform. It is aligned with the World Bank's development policy operation, also planned for approval in 2019, and the Government of New Zealand's grants for 2019 and 2020. The World Bank aligned three of its seven actions to ADB actions (footnote 13), and the Government of New Zealand disbursed in August 2019 based on the completion of the ADB policy actions. ADB is working closely with the World Bank, the governments of Australia and New Zealand, and PFTAC to support implementation.²⁷

C. Impacts of the Reform

23. Implementation of the policy actions for the overall reform program will improve the quality of budget systems and institutions; improve the productivity and competitiveness of SOEs; and help create new businesses and formal job growth, including for women.²⁸ Research indicates

2018. *Women and Business in the Pacific*. Manila, maternity leave provisions are important for women's continued participation in the workforce. Women were recognized to be underrepresented in the Pacific workforce.

²⁷ The IMF confirmed on 9 May 2019 that the Staff Report for the 2018 Article IV Consultation (footnote 8) may serve as the International Monetary Fund Assessment Letter (accessible from the list of linked documents in Appendix 2).

²⁸ Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

that strong budget institutions help improve fiscal balances and public external debt outcomes, supporting expectations that fiscal management reforms will improve the fiscal balance.²⁹ Improving the policy, legal, and institutional framework for SOEs will strengthen governance, transparency, and accountability; improve performance and service delivery; reduce contingent liabilities; create room for private investment; and improve the reliability, efficiency, and affordability of public services. Fiji's business environment reforms are expected to increase its ease of doing business score from 60.71 in 2017 to at least 64.0 by 2020,³⁰ which would bring Fiji close to the performance of Malta (65.43) and South Africa (66.03) in 2018. An analysis of whether business regulatory changes are linked to economic outcomes found that a 10-point improvement in the ease of doing business score is linked to a 0.5–0.6 increase in new businesses per 1,000 working-age adults.³¹ When applied to Fiji, this suggests a 3-point improvement in the ease of doing business score can be expected to create about 95–114 additional businesses per year. This would create jobs and income-earning opportunities and thereby help address remaining poverty and achieve inclusive socioeconomic development.

D. Development Financing Needs and Budget Support

24. The government has requested a regular loan of \$65 million from ADB's ordinary capital resources to help finance subprogram 2.³² The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement.

25. Parallel collaborative partner cofinancing from the World Bank consists of up to \$64 million for subprogram 2, and the Government of New Zealand will provide a grant of \$1.7 million (NZ\$2.5 million).³³ The subprogram 2 financing will help meet the government's total financing requirements for FY2020 and FY2021, projected at F\$1.6 billion. The gap will be filled by concessional project loans and domestic bonds. The program has considered the government's financing needs, its ability to rebuild fiscal buffers to respond to disasters triggered by natural hazards, the availability of alternative financing and estimated financial support from other partners, and debt sustainability.

²⁹ E. Dabla-Norris et al. 2010. Budget Institutions and Fiscal Performance in Low-Income Countries. *IMF Working Paper*. 10/80. Washington, DC: IMF; T. Prakash and E. Cabezón. 2008. Public Financial Management and Fiscal Outcomes in Sub-Saharan African Heavily-Indebted Poor Countries. *IMF Working Paper*. 08/217. Washington, DC: IMF.

³⁰ Reforms under the program are expected to improve scores for the following Doing Business topics: (i) getting credit (personal property securities reform); (ii) enforcing contracts (international arbitration reform); (iii) trading across borders (WTO TFA implementation); and (iv) dealing with construction permits (building permits reform). The name "distance to frontier" was changed to the "ease of doing business" in 2019. The process for calculating the score is unchanged (World Bank. [Doing Business](#)).

³¹ The analysis of 2003–2013 panel data for more than 180 countries used the "distance to frontier" score (footnote 30). R. Divanbeigi and R. Ramalho. 2015. Business Regulations and Growth. *Policy Research Working Paper*. 7299. Washington, DC: World Bank.

³² Before its 7 June 2019 FY2020 budget announcement, the government requested that ADB financing be rebalanced between subprograms 2 and 3, with \$10 million brought forward from subprogram 3 to subprogram 2 to reflect revised forecasts of financing needs.

³³ At the time of approval of the programmatic approach and subprogram 1, the World Bank was expected to provide cofinancing of \$35 million for subprogram 2. The government requested that the World Bank add its International Development Assistance allocation to the operation. The Government of New Zealand is a new cofinancing partner.

E. Implementation Arrangements

26. The implementation period for subprogram 2 is March 2018–March 2020, which covers the preparation and completion of the policy actions for subprogram 2 that was carried out from March 2018 to May 2019. The corresponding period for subprogram 3 is expected to be from May 2019 to March 2020. The MOE will continue to be the executing agency for subprogram 2. The MOE has taken the lead in coordinating subprogram 2 action implementation, engaging in progress meetings with the MITT and the RBF as implementing agencies, and providing updates to ADB. The MOE has also actively coordinated policy dialogue and needed technical support for the program reforms with partners, including ADB, the governments of Australia and New Zealand, IMF’s PFTAC, and the World Bank. Proceeds of the policy-based loan will be withdrawn in accordance with ADB’s Loan Disbursement Handbook (2017, as amended from time to time).³⁴

III. DUE DILIGENCE

27. Following ADB’s Safeguard Policy Statement (2009), subprogram 2 is classified *category C* for the environment, involuntary resettlement, and indigenous peoples. Program activities will be confined to policy and institutional reforms. No activity will result in or lead to involuntary resettlement, or negatively affect indigenous peoples or the environment.

28. The program is expected to have positive social outcomes (para. 23). The public sector is a key provider of infrastructure and services to low-income households. Improved fiscal management will help ensure that the government has the resources to respond to economic shocks and disasters triggered by natural hazards (which tend to have an adverse effect on the poor) while maintaining critical public services. Improving policies and institutions for SOE reforms and private sector participation will increase competition and make basic goods and services more affordable, while creating more jobs and opportunities in Fiji. The government also agreed to comply with ADB information disclosure and consultation requirements.

29. **Risks.** Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.³⁵ PFM systems are assessed as capable of supporting reliable service provision. Policy reforms and TA support will address other fiduciary risks. The overall risk of the operation is *moderate*. To mitigate risks, the program focuses on areas where the government has a strong record, selects options for policy actions in subprogram 3 that will continue to maintain reform momentum, and facilitates strong coordination with other development partners to ensure timely provision of TA to support implementation.

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
The government cannot implement the policy reform actions because of inadequate institutional capacity.	The FY2018 budget included civil service reforms, such as an adjustment to civil service wages, and some improvements in retention are being seen. Technical assistance from ADB and other development partners will build capacity in the ministries engaged in the proposed program.
Progress and commitment to performance improvements and ongoing public enterprise reforms are halted or reversed.	Reforms to further commercialize SOEs will be supported by the government through introduction of the Public Enterprises Bill 2019, supported by new policies on government guarantees and monitoring of fiscal risks associated with SOEs. The merger of the Ministry of Public Enterprises with the Ministry of Economy in 2019 is likely to provide a better focus on reform.

ADB = Asian Development Bank, FY = fiscal year, SOE = state-owned enterprise.
Source: Asian Development Bank.

³⁴ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

³⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

30. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, the MOE, the MITT, and the RBF.

IV. ASSURANCES

31. The government and the MOE have assured ADB that implementation of subprogram 2 shall conform to all applicable ADB policies, including those concerning anti-corruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement. It is a condition of loan effectiveness for the government to meet the policy actions before the release of the tranche for the second subprogram, and these policy actions continue to be in effect.

V. RECOMMENDATION

32. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$65,000,000 to the Republic of Fiji for subprogram 2 of the Sustained Private Sector-Led Growth Reform Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; 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.

21 August 2019

Takehiko Nakao
President

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Inclusive socioeconomic development achieved (National Development Plan 2017–2036) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Effect of the Reform Private sector-led economic growth sustained	By 2021: a. Improvements in the PEFA ratings for Fiji from D+ to C for PI-9, PI-12, PI-18, and PI-22 (2013 baseline: D+) ^b b. Ease of doing business score ^c in the World Bank Doing Business report increased to at least 64 (2017 baseline: 60.71) c. Financial institutions lending to private sector for commercial purposes maintained or increased (2016 baseline: 48.3% of GDP)	a. PEFA assessment (or comparable assessments) b. World Bank Doing Business reports c. Reserve Bank of Fiji Economic Review reports	Macroeconomic shocks shift government priorities away from performance improvements and ongoing reforms.
Reform Areas under Subprogram 2 1. Fiscal management	Key Policy Actions By 30 May 2019: 1a. New operational plans reflecting the new planning framework to better align service delivery, staffing, and corporate planning requirements pilot tested by the Ministry of Women, Children and Poverty Alleviation (2018 baseline: not approved) 1b. Quarterly debt reports showing domestic and external debt and contingent liabilities published by the Ministry of Economy on its website as part of the implementation of the Debt Management Strategy FY2019 (2018 baseline: not previously published) 1c. At least 75% of government payments were made through digital platforms (2018 baseline: 70%)	1a. Letter from the permanent secretary for economy 1b. Copies of quarterly debt reports 1c. Letter from the permanent secretary for economy	Leadership and political will to complete the reforms is lacking because of vested interests.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>2. Policy, legal, and institutional framework for SOEs and PPPs</p> <p>3. Business and investment climate</p>	<p>By 30 May 2019:</p> <p>2a. Public Enterprises Bill 2019 has undergone a gender analysis validated by the Standing Committee on Justice, Law and Human Rights and has been submitted to Parliament. (2018 baseline: not approved)</p> <p>2b. Fiscal risk assessment framework approved (2018 baseline: none)</p> <p>2c. Policy framework for government guarantees for public enterprises approved (2018 baseline: not approved)</p> <p>2d. Increased representation of women as directors on SOE boards (2017 baseline: 8% or 9 out of 107 directors)</p> <p>By 30 May 2019:</p> <p>3a. Investment policy statement approved by Cabinet (2018 baseline: not approved)</p> <p>3b. Regulations under the Personal Property Securities Act 2017— which enables lenders to accept movable assets as security for loans more easily, cheaply, and securely, thereby benefiting businesses owned by women—approved (2018 baseline: not approved)</p> <p>3c. Leave entitlements for all Fijians improved, including longer maternity leave, and introduction of paternity and family care leave (2018 baseline: 84 days maternity leave, no paternity leave, no family care leave)</p>	<p>2a. Standing Committee on Justice, Law and Human Rights Report on the Public Enterprises Bill 2019</p> <p>2b. Letter from the permanent secretary for economy</p> <p>2c. Policy framework for government guarantees for public enterprises</p> <p>2d. Letter from the permanent secretary for economy</p> <p>3a. Investment policy statement</p> <p>3b. Regulations under the Personal Property Securities Act 2017</p> <p>3c. FY2019 national budget</p>	
<p>Budget Support ADB: \$65.0 million (regular OCR loan) World Bank: \$64.0 million (loan) \$35.0 million (IBRD)</p>			

\$29.0 million (IDA)

Government of New Zealand: \$1.7 million (NZ\$2.5 million equivalent) (grant)

ADB = Asian Development Bank; GDP = gross domestic product; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; OCR = ordinary capital resources, PEFA = public expenditure and financial accountability; PPP = public–private partnership; SOE = state-owned enterprise.

^a Government of Fiji, Ministry of Economy. *5-Year & 20-Year National Development Plan: Transforming Fiji*. Suva

^b PEFA indicator: PI-9: Oversight of aggregate fiscal risk from other public sector entities; PI-12: Multiyear perspective in fiscal planning, expenditure policy, and budgeting; PI-18: Effectiveness of payroll controls; PI-22: Timeliness and regularity of accounts reconciliation.

^c The name “distance to frontier” was changed to “ease of doing business score” in 2019 to better reflect the main idea of the measure—a score indicating an economy’s position as compared to the best regulatory practice. The process for calculating the score remains unchanged (World Bank. [Doing Business](#)).

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=48490-003-3>

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter¹
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Approved Report and Recommendation of the President to the Board of Directors: Sustained Private Sector-Led Growth Reform Program (Subprogram 1)

Supplementary Documents

11. Program Impact Assessment
12. Changes from Subprogram 2 Indicative Policy Actions to Final Policy Actions

¹ The IMF confirmed on 9 May 2019 that the attached Staff Report for the 2018 Article IV Consultation may serve as the IMF assessment letter.

DEVELOPMENT POLICY LETTER



**Attorney-General and Minister for Economy,
Civil Service and Communications**

P O Box 2213, Government Buildings, Suva, Republic of Fiji
Telephone: +679 330 9866 Fax: +679 331 0807 E-mail: info.ag@govnet.gov.fj

11 July 2019

By E-mail

President Takehiko Nakao
Asian Development Bank
6 ADB Avenue
Mandaluyong, 1550 Metro Manila
Philippines

Dear President Nakao

Government of the Republic of Fiji Development Policy Letter

1. Fiji is an upper-middle-income country with a population of approximately 884,887 people. Small and remote, we have a total land area of about 18,273 square kilometres consisting of 332 islands, of which only 110 are inhabited. The services sector, and tourism in particular, is the main driver of economic growth and accounts for around 70% of our gross domestic product ('GDP') and is a major contributor to employment. Major trade and investment markets such as New Zealand and Australia are between 2,000 to 3,000 kilometres away. Our small size and remoteness has led to a high-cost business environment for the private sector.
2. Since independence in 1970, economic growth has been low and volatile. Between 1970 and 2018, real GDP grew at an average of 3.0% a year while per capita income grew at an average of 1.8% a year. Low levels of investment, particularly private sector investment, and Fiji's vulnerability to natural disasters such as cyclones and floods, have been major factors. Despite this, poverty rates have declined between 2002 and 2014 and Fiji is ahead of most countries in the region in terms of social development.
3. Economic growth has picked up recently, averaging about 4.5% a year during 2014–2018. The economic revival since 2010 has been supported by the public sector, largely through accommodative fiscal and monetary policies, as well as pick up in private sector investment, which was historically low. In addition, fiscal room to continue to finance large public investment programs and deal with shocks is constrained. The key macroeconomic challenges facing Fiji, therefore, are to increase private investment and reduce reliance on public investment to drive economic growth. Addressing these challenges will enable faster and more broad-based growth, while ensuring the Government has sufficient fiscal room to respond to shocks. This focus on rebalancing Fiji's economic growth is central to our National Development Plan for 2017–2036 that sets out a vision for growth and shared prosperity through a strategy that positions Fiji to become a regional hub of the South Pacific and centre for business, transport, communications and other services.


4. In relation to public financial management, we have developed an action-oriented Fiji Public Financial Management Improvement Programme 2016–2019 ('**PFMI Programme**') which has been reviewed to accommodate changes and new initiatives to enhance our public finance management systems. In the fourth quarter of 2019, Fiji will undertake a new Public Expenditure and Financial Accountability Assessment and the PFMI Programme will be updated and reforms progressively undertaken to further strengthen public finance management in Fiji. Key focuses of the PFMI Programme are macroeconomic stability, improving governance, effective expenditure management, financial accountability and transparency. This provides the needed thrust to our broad reform agenda for implementation in key areas such as (i) fiscal management, (ii) the policy, legal and institutional framework for Fiji's state-owned enterprises ('**SOEs**') and public-private partnerships ('**PPPs**'), and (iii) business and investment climate. Although steady progress is being made, there is room to further accelerate the pace of reform implementation, which has also been affected by the impacts of natural disasters such as Cyclone Winston and stretched our administrative capacity. We believe that policy-based lending from ADB will help reinvigorate the implementation of these critical structural reforms. Not only has ADB had a longstanding engagement with Fiji on SOE and business climate reforms, but you are a trusted development partner, one in which the Fijian Government has much confidence.
5. We therefore seek ADB's favourable consideration of Fiji's policy-based loan for a total of US\$180 million. Subprogram 1 disbursed US\$15 million in 2018. For subprogram 2 we seek US\$65 million in 2019, and for subprogram 3 we seek US\$100 million in 2020. The attached program policy matrix which contains confirmed actions for subprogram 2 and indicative actions for subprogram 3, as agreed between the Fijian Government and ADB, is in line with the Government's policy reform agenda. The policy matrix is appropriate for Fiji's context and within our capacity to accomplish.
6. The Government has agreed to substantive policy actions in the policy matrix and completed all the actions in subprogram 2 by the agreed date of 30 May 2019. To improve fiscal management, reforms completed under subprogram 2 included (i) consultations on the review of the Financial Management Act 2004; (ii) improved recording and monitoring of revenue arrears; (iii) updated budget templates; (iv) piloting of a new planning framework for Government ministries; (v) implementation of the debt management strategy; (vi) a review of the Financial Management Information System; and (viii) an increase in the percentage of government payments made through digital platforms.
7. To strengthen the policy, legal and institutional framework for SOEs and PPPs, reforms completed under subprogram 2 included (i) the tabling in Parliament of a new Public Enterprises Bill 2019; (ii) the coming into force of a Public Private Partnership Policy; (iii) the approval of a new fiscal risk assessment framework and a new policy framework for government guarantees for public enterprises; (iv) strengthened recruitment methods for public enterprise directors; (v) the reform of two SOEs or Government departments, where "reform" may consist of substantial restructuring to full privatisation; and (vi) the appointment of transaction advisors for public-private partnership transactions.
8. To improve the business and investment climate, reforms completed under subprogram 2 included (i) the International Arbitration Act 2017 coming into force; (ii) approval of an Investment Policy Statement and circulation of a draft Investment Bill to stakeholders; (iii) implementation of World Trade Organization Trade Facilitation Agreement commitments; (iv) the making of regulations under the Personal Property Securities Act 2017; (v) the circulation of bills related to trademarks, designs and patents to stakeholders; (vi) consultations on a review of the Fijian Competition and Consumer Commission Act

2010; and (vii) amendments to the Employment Relations Act 2007 which increase maternity leave, and introduce parental and family care leave.

9. Future reforms that have been proposed for subprogram 3 to improve fiscal management will involve Cabinet approving a new Public Financial Management Bill, completing public expenditure reviews, adopting and implementing a medium-term expenditure framework, approval and implementation of the annual debt management strategy and ongoing implementation of other high priority reforms in the PFM Programme. Reforms to improve the policy, legal and institutional framework for SOEs and PPPs will include focus on strengthening the legal framework for SOEs, and the adoption of consistent and predictable policies and processes for privatisations and PPPs. Finally, reforms to improve the business and investment climate will directly address underlying barriers to private investment, such as gaps in the commercial legal framework for investment; building permits; trademarks, designs, and patents; and competition and consumer law. The government will also establish a personal property securities registry and continue to implement its World Trade Organization Trade Facilitation Agreement commitments.
10. We have tasked senior Government officials to continue monitoring program implementation and sector performance. We are confident that the Fijian Government's strong leadership and ownership of the reforms, supported by financial and technical assistance from ADB, and effective development partner collaboration over the medium term, will result in the successful implementation of our structural reform agenda and our vision to achieve inclusive socio-economic development for all Fijians.

Thank you.

Yours sincerely



Aliyaz Sayed-Khaiyum
Attorney General and Minister for Economy

Enclosure, Program Policy Matrix

cc: Permanent Secretary for Economy

POLICY MATRIX

Principal Objective	Subprogram 2 Policy Actions – complete by 30 May 2019 (FY2019)	Subprogram 3 Indicative Policy Actions (FY2020)
REFORM AREA 1: IMPROVED FISCAL MANAGEMENT		
1.1 Public financial management regulatory framework, systems and processes	1.1.1 Ministry of Economy has carried out consultations with Government stakeholders on the review of the Financial Management Act 2004 and associated regulations and financial instructions.	1.1.1 Cabinet shall have approved a Public Financial Management Bill for tabling in Parliament that will strengthen accountability and clarify the financial authority of Permanent Secretaries.
	1.1.2 Ministry of Economy has continued to implement the Fiji Public Financial Management Improvement Programme 2016–2019 through improved recording and monitoring of revenue arrears, including preparing an aging debtors report, and publishing a summary of revenue for FY2017–FY2018 in the FY2019 national budget supplement.	1.1.2 Ministry of Economy shall have completed public expenditure reviews of expenditure categories according to the national budget and a synopsis shall have been made available to the public through the Ministry of Economy's newsletter.
	1.1.3 Permanent Secretary for Economy has approved the updated budget templates to be released to ministries for the FY2020 budget that requests new information to enable forward expenditure estimates.	1.1.3 Ministry of Economy shall have fully implemented the Medium Term Expenditure Framework through the use of costed sector strategies, forward estimates and clear links between investments and recurrent cost requirements.
	1.1.4 Ministry of Women, Children and Poverty Alleviation; Ministry of Health and Medical Services; and Ministry of Education, Heritage and Arts have trialed the planning framework that will aid Ministries to better align their service delivery, staffing and corporate planning requirements.	1.1.4 At least three additional Ministries shall have adopted use of the planning framework that will aid Ministries to better align their service delivery, staffing and corporate planning requirements.
1.2 Debt Management	1.2.1 Ministry of Economy has implemented the Debt Management Strategy for FY2019.	
1.3 Financial Management	1.3.1 Ministry of Economy has reviewed the current Financial Management Information System (FMIS) to identify whether software is user friendly and fit-for-purpose.	1.3.1 Minister responsible for finance shall have approved the recommendations of the FMIS review, and Ministry of Economy shall have commenced implementation of recommendations.
	1.3.2 At least 75% of government payments have been made through digital platforms.	1.3.2 At least 80% of government payments shall have been made through digital platforms.
REFORM AREA 2: IMPROVED POLICY, LEGAL AND INSTITUTIONAL FRAMEWORK FOR PUBLIC ENTERPRISES AND PPPs		
2.1 Public Enterprise and	2.1.1 Fijian Government has strengthened the legal framework for public enterprises through the Minister responsible for public enterprises tabling the Public	2.1.1 Minister responsible for public enterprises shall have made regulations under the Public Enterprises Act 2019 in

PPP policy reform	Enterprises Bill 2019 to Parliament which (a) harmonizes all public enterprises under a single framework with commercial mandates, (b) establishes a non-commercial obligation regime, (c) makes the Minister for Public Enterprises solely responsible for public enterprises with clear duties and responsibilities, (d) strengthens the director appointment process and director's duties and responsibilities. ^a	relation to the percentage of share ownership or control for the purposes of section 43(2)(e).
		2.1.2 Department of Public Enterprises shall have conducted training programs for 75% of directors and 75% of senior management (defined as chief executive officer and chief financial officer, or equivalent positions) of public enterprises on the compliance requirements of the Public Enterprises Act 2019.
		2.1.3 Privatization Guidelines shall have come into force and the Fijian Government shall have made the guidelines available to the public.
	2.1.4 Public Private Partnership Policy has come into force and the Fijian Government has made the policy available to the public.	2.1.4 Cabinet shall have approved, and Ministry of Economy shall have published, PPP implementation guidelines.
	2.1.5 Ministry responsible for finance has approved a new fiscal risk assessment framework to monitor fiscal risks associated with public enterprises.	2.1.5 Cabinet shall have approved and made available to the public a new policy framework for on-lending to public enterprises.
	2.1.6 Cabinet has approved a new policy framework for government guarantees for public enterprises.	
	2.1.7 Strengthened recruitment methods for public enterprise directors (including a public call for expressions of interest for director positions) have supported merit-based appointments focusing on skills, knowledge and expertise, and have resulted in an increased representation of women on public enterprise boards.	
2.2 Divestment and PPP transactions	2.2.1 Fijian Government has progressed a minimum of one transaction comprising either (i) a reform of a public enterprise or Government department or agency which may consist of a corporatization, (partial) privatization, divestment, liquidation, or substantial restructuring; or (ii) a formation of PPP.	2.2.1 Fijian Government shall have progressed a minimum of one additional transaction comprising either (i) a reform of a public enterprise or Government department or agency which may consist of a corporatization, (partial) privatization, divestment, liquidation, or substantial restructuring; or (ii) a PPP formation.
	2.2.2 For any PPP transaction undertaken, the Fijian Government either appointed a transaction advisor or incorporated the advice of a transaction advisor.	2.2.2 For any PPP transaction undertaken, the Fijian Government shall have either appointed a transaction advisor or incorporated the advice of a transaction advisor.

REFORM AREA 3: IMPROVED BUSINESS AND INVESTMENT CLIMATE		
3.1 Foreign Investment and Trade	3.1.1 International Arbitration Act 2017 has come into force.	
	3.1.2 Cabinet has approved an Investment Policy Statement and the draft Investment Bill has been circulated to stakeholders for comments.	3.1.2 Cabinet shall have approved the Investment Bill for tabling in Parliament.
	3.1.3 Fijian Government shall have completed at least 4 Category B commitments under the World Trade Organization Trade Facilitation Agreement. ^b	3.1.3 Fijian Government shall have completed at least 4 additional Category B commitments.
3.2 Access to Finance	3.2.1 Minister responsible for finance has made regulations under the Personal Property Securities Act 2017 to give effect to the Act in relation to the appointment of the Registrar and prescription of fees. ^c	3.2.1 Fijian Government shall have established the Personal Property Securities Registry.
3.3 Doing Business		3.3.1 Regulation of Building Permits Act 2017 shall have come into force; the Minister responsible for industry and trade shall have made regulations under the Act that include harmonized forms, and shall have appointed the Building Permits Evaluation Committee members; and an online information portal on obtaining a building permit shall have been launched.
	3.3.2 Solicitor-General's Office has circulated draft Bills relating to trademarks, designs, and patents to stakeholders for comments.	3.3.2 Cabinet shall have approved (i) a Bill relating to trademarks, (ii) a Bill relating to designs, and (iii) a Bill relating to patents, in each case for tabling in Parliament.
	3.3.3 Ministry of Industry, Trade and Tourism has carried out consultations with government stakeholders and private sector on the review of the Fijian Competition and Consumer Commission Act 2010.	3.3.3 Cabinet shall have approved a policy framework and drafting of a Bill relating to competition and consumer law.
	3.3.4 Parliament passed the Employment Relations (Budget Amendment) Act 2018, which (i) increased women's rights on maternity leave, (ii) introduced men's rights on paternity leave, and (iii) introduced family care leave; and which makes it easier for women with children to enter and remain in the paid workforce.	

FY = fiscal year; FMIS = financial management information system; PPP = public-private partnership.

^a Gender analysis was carried out on the Bill and validated by the Standing Committee on Justice, Law and Human Rights.

^b Category B commitments are provisions that the WTO member will implement after a transitional period following the entry into force of the Trade Facilitation Agreement. The four Category B commitments implemented are; Article 6.1 General Disciplines on Fees and Charges Imposed on or in Connection with Importation and Exportation; Article 8 Border Agency Cooperation; Article 10.6 Use of Customs Brokers; and Article 12 Customs Cooperation.

^c The Personal Property Securities Act 2017 enables lenders to accept movable assets as security for loans more easily, cheaply, and securely. This particularly benefits women owned businesses who are less likely to have fixed assets (such as land).