



FIJI

BUILDING INCLUSIVE INSTITUTIONS FOR SUSTAINED GROWTH

COUNTRY DIAGNOSTIC STUDY EXECUTIVE SUMMARY

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Notes

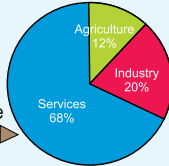
- (1) In this publication, “\$” refers to US dollars.
- (2) All photos are from ADB
- (3) Full report is available at <http://www.adb.org/publications/fiji-building-inclusive-institutions-sustained-growth>

FIJI FAST FACTS

(as of 2014 or latest available year)

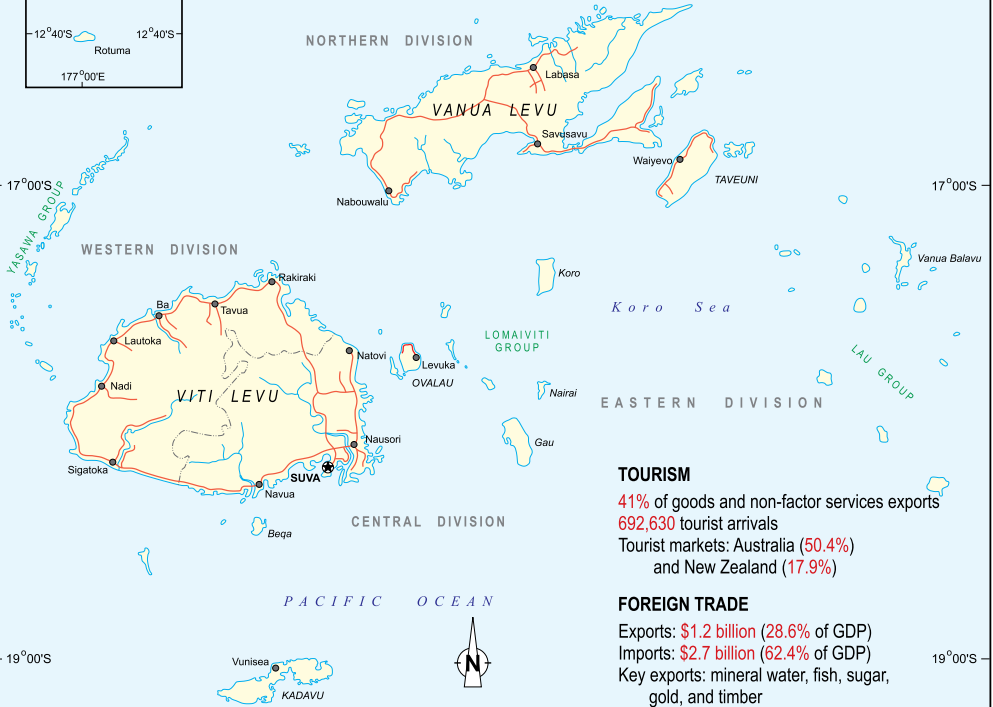
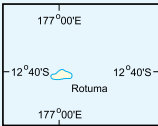
ECONOMY

\$4.3 billion current GDP
4.5% GDP growth
 GDP per capita of **\$4,920**
 2010–2014 annual average shares in GDP (%)



SOCIAL INDICATORS

31.1% of population considered poor
4.7% unemployment rate
99.6% enrollment rate in primary education
70 years life expectancy
 Infant mortality: **13 per 1,000** live births
 Maternal mortality: **19 per 100,000** live births
96.3% of population has access to clean water
87.2% of population has access to improved sanitation facility



RESOURCES

18,273 sq km land area
56% of which is forest area
863,892 population
39,167 ounces of gold produced

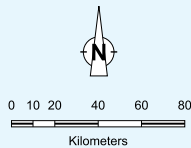
GDP = gross domestic product
 sq km = square kilometer
 Note: \$ denotes US dollar. Exchange rate used was average of 2014.

TOURISM

41% of goods and non-factor services exports
692,630 tourist arrivals
 Tourist markets: Australia (**50.4%**)
 and New Zealand (**17.9%**)

FOREIGN TRADE

Exports: **\$1.2 billion** (28.6% of GDP)
 Imports: **\$2.7 billion** (62.4% of GDP)
 Key exports: mineral water, fish, sugar, gold, and timber



- National Capital
 - Town
 - Road
 - River
 - Division Boundary
 - International Boundary
- Boundaries are not necessarily authoritative.

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.

FIJI: BUILDING INCLUSIVE INSTITUTIONS FOR SUSTAINED GROWTH

Fiji is a small island country in the Pacific with a total land area of about 18,273 square kilometers and a population of about 863,892. It consists of 332 islands, of which only 110 are inhabited. The population is mostly concentrated on its two main islands: Viti Levu (with about 75% of the total population) and Vanua Levu (with another 20%); these two islands make up about 87% of the total land area. Fiji is one of the more labor-abundant and land-abundant countries among the Pacific island countries, and serves as gateway to the South Pacific. Fiji is richly endowed with a variety of natural resources—forests, minerals (principally bauxite, copper, and gold), fisheries, seascapes, and pristine beaches. With a per capita income of about \$4,600, Fiji is an upper-middle-income country that ranks as one of the more developed in the Pacific. Measured by gross domestic product, Fiji is the second-largest economy in the Pacific after Papua New Guinea.

Fiji's economy has seen 5 years of positive growth since 2010—one of its few episodes of sustained growth since 1970. Growth averaged 3.3% a year during 2010–2014, which is nearly four times the growth during 2000–2009. The economic revival since 2010 has been supported by accommodative macroeconomic policies, both fiscal and monetary, as well as by structural reforms. The key structural reforms included the reform of the native land-lease market, major changes in the mode of civil service hiring and compensation, deregulation and incorporation of selected public companies, electoral and parliamentary reforms, and reforms in the education and health sector. The fiscal measures were in the form of lower corporate and personal tax rates and of higher public investment spending. An accommodative monetary policy stance brought interest rates at an all-time low; this, along with an uptick in remittances and tourism, led to an increase in consumption spending.

Fiji's decadal average total investment rate has been one of the lowest among selected small island countries since 1970. Moreover, Fiji's fiscal space for undertaking more public investment is likely to get narrower in the medium term, the government having committed to higher social spending and as its one-off revenues from divestments in state-owned enterprises (SOEs) decline. There is therefore a need to rebalance Fiji's investment mix toward private investment to sustain the momentum of its economic growth and to achieve desired poverty reduction.

More than 30% of the population lives in poverty, although only 6% are considered extremely poor living under \$1.25 a day (2005 purchasing power parity). Although the headline unemployment rate is low at 4.7%, many of those employed are in the informal sector and do not earn enough; and may live below the poverty line or need to supplement money income with subsistence work.

Fiji thus faces two major challenges: (i) creating an environment conducive to greater private sector activity so it can sustain its recently acquired growth momentum, and (ii) making that growth inclusive so it can benefit all sections of Fiji society as widely as possible. This country report on Fiji uses an inclusive growth framework to identify the critical constraints to that inclusive growth. They are as follows:

- Weaknesses in the regulatory ecosystem for registering, starting, and operating a business. Chief of these are cumbersome procedures of starting a new business, weak tax administration, lengthy judicial processes and onerous contract enforcement procedures, price controls, difficulties in accessing land and in obtaining site development approvals, and deficiencies in the legal and policy framework for facilitating private participation in activities currently dominated by SOEs.
- Deficiencies in infrastructure provision, particularly the inadequate upgrading and maintenance of roads, the shortage of capacity at its main ports, the time-consuming and extensive export and import documentation requirements, the unrehabilitated infrastructure in remote areas and outer islands, and inadequate urban services to keep up with growing urbanization.
- Uneven access to productive assets, particularly to land and finance.

- Lack of productive and adequately paying job opportunities; limited opportunities for pursuing alternative career pathways for those dropping at secondary level of education; and a mismatch between training and market demand that leads to poor labor market outcomes.

Three other factors are at play here. To achieve inclusive growth, Fiji needs the all-important factor of political stability and policy certainty. It took the first crucial steps in this direction when it adopted a new Constitution in 2013 and successfully conducted national elections in September 2014. These developments helped boost investor and consumer confidence and stimulated economic activity. The next factor is Fiji's economic geography—the country faces the double whammy of having a small population and a remote location. Its development trajectory is therefore unlikely to resemble that of East and Southeast Asian economies. Its growth is likely to come from sectors that can surmount the constraints of high costs imposed by its smallness and remoteness. The third factor is a cultural practice that stymies the entrepreneurial spirit among the iTaukeis in particular—the *kerekere*, or the custom of borrowing from kinsmen with no obligation to repay, thus becoming a disincentive to the benefactor from taking up productive economic activity only to give away the fruits of her/his labor.

What follows is a summary of Fiji's major policy options for addressing its critical constraints to achieving inclusive growth. Many of these options now form part of the Fiji government's policy proposals. By successfully implementing several key reforms, the Fiji government has already demonstrated its commitment to reforms. As the government embarks on further reforms, it needs to consider establishing formal mechanisms for regular consultations with the private sector and with all the other stakeholders in the country to obtain buy-in and to bring transparency and certainty to its development agenda.

Create a Business-Friendly Ecosystem

Simplify procedures for starting a new business. Fiji lags behind most small island countries in ease of starting a new business. It has actually moved away from best practices in this respect, in contrast to the experience of most other small island countries in the region. To simplify its business start-up procedures, Fiji needs to

- expedite the launch of the web-based portal for online investment approval based on current procedures, and adopt international best practices for the approval process (a single-window clearance that allows for online investment approval from “tier one” agencies was launched on 09 July 2015);
- introduce an integrated online system for company registration and consolidate the application process to cover all registration requirements;
- introduce a common business identifier across agencies; and
- overhaul the business license regime by reviewing the purpose and the necessity of a particular license so as to eliminate duplications, and by bringing its licensing process in line with international best practices.

Reduce the administrative burden of filing taxes. To cut down on the time spent and on the costs incurred in tax compliance, Fiji’s tax systems need to be made simpler, easier to navigate, and more transparent. The tax administration laws have to be harmonized by minimizing the current exemptions, and time-consuming steps and procedures have to be identified and benchmarked against best practices. As an incentive, the Gold Card priority tax service, which is currently limited to large taxpayers, can be expanded to cover taxpayers with a strong compliance record irrespective of the size or their contribution to national revenue.

Expedite dispute resolution and strengthen contract enforcement. The following measures will help ensure swift resolution of cases:

- increase the capacity of the judicial system to resolve commercial cases by appointing adequately skilled and experienced judges;
- strengthen the small-claims tribunals through better referee training;
- strengthen and promote alternative dispute-resolution mechanisms and ensuring that their outcomes are legally binding;

- make seizure of collateral expeditious and low-cost in the event of borrower's default; and
- codify the contract law to improve its effectiveness.

Remove price controls. Price controls can have perverse effects on producer incentives because they hamper the efficient allocation of scarce resources while putting an unnecessary administrative burden on both government and businesses. For this reason, it is better to replace price controls with targeted social transfers that can mitigate the impact of their removal on the poor and the low-income sectors. Another option is to limit price controls to only a few basic commodities regularly consumed by the poor. To prevent collusive behavior in a small market with limited producers or suppliers, stronger antitrust policies may be considered.

Reform state-owned enterprises. SOE reforms have to be vigorously pursued through such modalities as service or management contracts, partial divestments, and public-private partnerships. The following action steps need to be undertaken:

- review of the various policy and legal frameworks governing SOEs and public-private partnerships, particularly the Public Enterprise Act and the Public Private Partnerships Act, and revise them as necessary to bring them in line with global best practices; and
- develop a policy framework to guide privatization efforts and to identify SOEs that need reforms.

Provide Quality and Adequate Infrastructure Services

Fiji's physical infrastructure compares favorably with those of other countries in the Pacific region, but quality and service delivery have fallen over the years. There is little private sector participation in providing infrastructure and infrastructure services because this function continues to be dominated by state-run agencies. Some major

measures were implemented in recent years to attract private sector participation, among them (i) the corporatization of the water utility (the process remains incomplete though), (ii) the port and terminal handling at Fiji's two main ports by a private firm, (iii) the delineation of commercial and regulatory roles of the Fiji Electricity Authority, (iv) the liberalization of the telecommunications sector, and (v) setting up the Fiji Roads Authority and contracting an international firm under a multiyear arrangement to provide professional advisory services. However, Fiji needs more such private sector participation and a stronger focus to improve the quality and adequacy of its public infrastructure and infrastructure services. The key measures that Fiji needs to undertake are as follows:

- Continue to upgrade and rehabilitate Fiji's road network by encouraging greater private sector participation in road projects through various modalities; building capacity of domestic road contractors to reduce reliance on foreign private contractors, a measure that can also help reduce costs in the long run; setting up a dedicated road fund to reduce the dependence of road projects on budgetary allocations for their operation and maintenance; and ensuring sustainability of investments through better monitoring and enforcement of vehicle loads.
- Improve the quality and service delivery of maritime infrastructure for both international and domestic connectivity. Fiji's international trade can be greatly facilitated by undertaking a master planning exercise to identify priority port investments as well as a time-cost analysis of the procedures to obtain export-import clearances; identifying areas for improving port services efficiency by benchmarking with those of major transshipment hubs; and exploring avenues for private sector participation to raise finances for port expansion. Domestic shipping services also need to be upgraded to connect Fiji's remote islands with its two main islands.
- Provide adequate infrastructure services to key urban corridors that are likely to come under pressure owing to the growth of rural-urban migration and informal settlements. In particular, the timely

completion of the ongoing reform process in Fiji's water supply and sanitation sector, including the corporatization of the Water Authority of Fiji, is a priority.

Enhance Access to Productive Assets

Improve access to iTaukei land and make site development approvals more expeditious.

- Land in Fiji is customary held and access to iTaukei land for commercial purposes is therefore possible only through leases. To make the leasing framework more equitable, the following longstanding issues need to be addressed: lease terms, rent-setting, frequency and quantum of rent review, and handling of improvements of land. It is important for the process to be consultative, with the needs and interests of both lessors and lessees duly considered.
- The site development approval process has to be made more transparent by preparing clear written information explaining the process and by providing manuals that spell out the standard operating procedures for getting approval.

Make access to finance more inclusive. Fiji has one of the most developed financial systems among the Pacific island countries. However, weaknesses in its legal framework restrict access to funding particularly for small businesses. Fiji's customary land-owning structure continues to be a major hurdle to using land or land lease as collateral. In addition, slow contract enforcement, along with the long process of repossession of the collateral in the event of borrower default, keeps the value of collateral high, thus limiting access to funding especially for new and small businesses.

The Fiji government has made greater financial inclusion a key priority and over the past few years, it has taken several steps to extend the reach of financial services. To make it easier for Fiji's small and medium-sized enterprises (SMEs) to access credit, however, the following measures still need to be undertaken:

- Review, update, and modernize its secured transactions framework to allow effective use of movable assets as collateral;

- Introduce credit bureau legislation to strengthen credit reporting and to address any concerns over the legality of credit disclosures made by the sole private credit bureau in Fiji; and
- Implement measures to enhance the sustainability of Fiji's microfinance institutions, such as helping them improve their lending capacity and strengthening the regulatory supervision of the microfinance sector.

Improve Labor Market Outcomes

Create more productive employment opportunities and address the mismatch between training and the labor market demand.

Employment is the key channel to making growth inclusive, but Fiji's labor market is at present characterized by job creation largely in the informal and less productive sectors of the economy. The situation is compounded by a high level of youth inactivity, spatial disparities in the type of jobs, and gender gaps.

Fiji has to undertake the following measures to improve its labor market outcomes:

- Facilitate SME development through various measures that will make it easier to start a business, improve access of SMEs to finance, and provide entrepreneurial skills training and business mentoring;
- Strengthen and improve the quality of the technical and vocational education and training system by promoting alternative career pathways leading to higher education, and by developing a curriculum aligned with the needs of labor markets both locally and globally;
- Facilitate school-to-work transitions for Fiji's youth by fostering stronger links between education/training institutions and work places;
- Develop a comprehensive and centralized human resources information database that captures the wide range of labor market information from various agencies, tertiary institutions, and employers, thus making it possible to identify and project the immediate and future manpower needs of employers; and

- Strengthen placement agencies like the National Employment Center (NEC), explore training partnerships with institutions like the Fiji National University and other tertiary institutions that can help reduce the cost of providing services, and allow the NEC to eventually collect a recruitment service fee from the employers that do their hiring through the NEC to reduce its dependence on budgetary allocation.
- Review continually the education curriculum, teaching content, and methodologies, with the view of improving teaching and learning outcomes. The quality of the education system should be continuously reviewed through the National Curriculum Framework and audited by the industry and private sector to meet the ever-changing market demands.
- Encourage more volunteer or apprenticeship schemes to address youth unemployment to improve labor market outcomes. Incentives can be offered to eventually absorb the volunteers and apprentices into full time employment after gaining enough work experience.

Figure 1: Contribution of Production Sectors to GDP Growth, 1980–2014

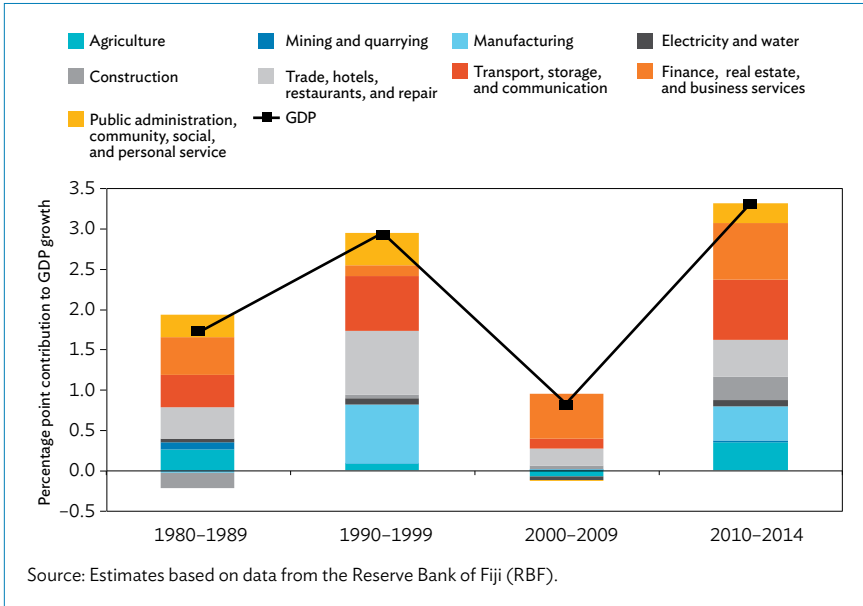


Figure 2: Investment Rate, 1970–2014

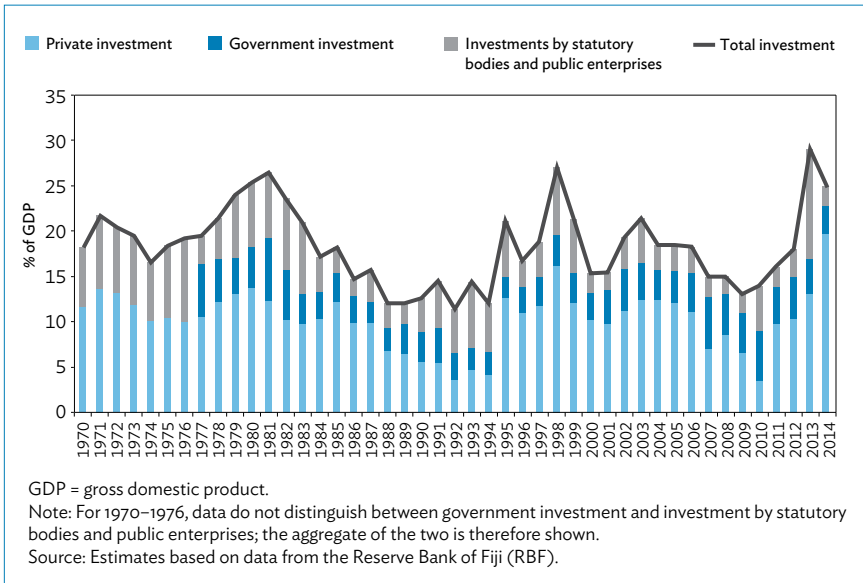


Figure 3: Poverty Incidence

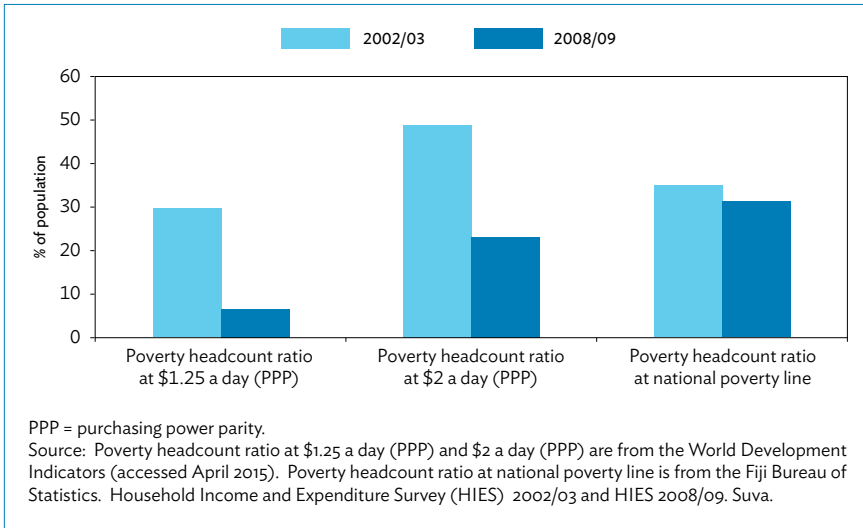


Figure 4: Labor Force Profile

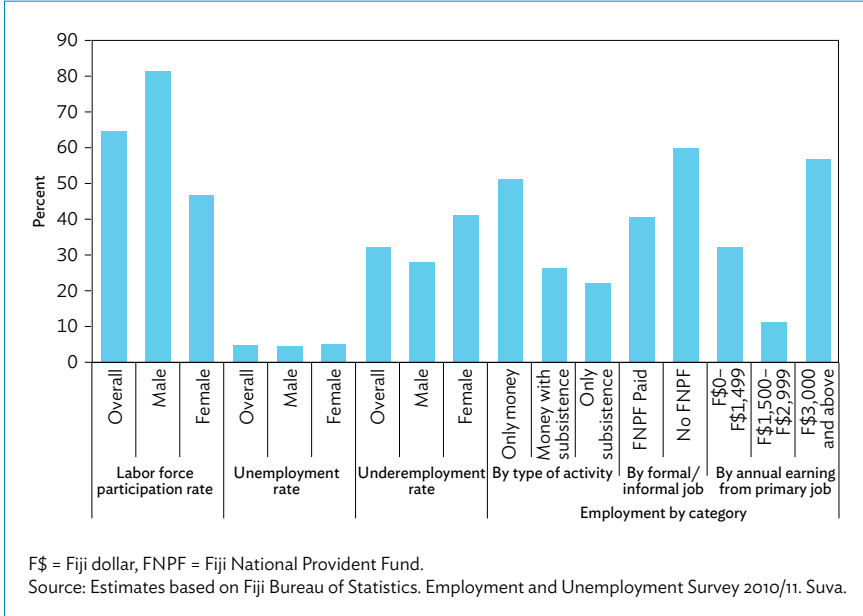


Figure 5: Fiscal Position, 2000–2013

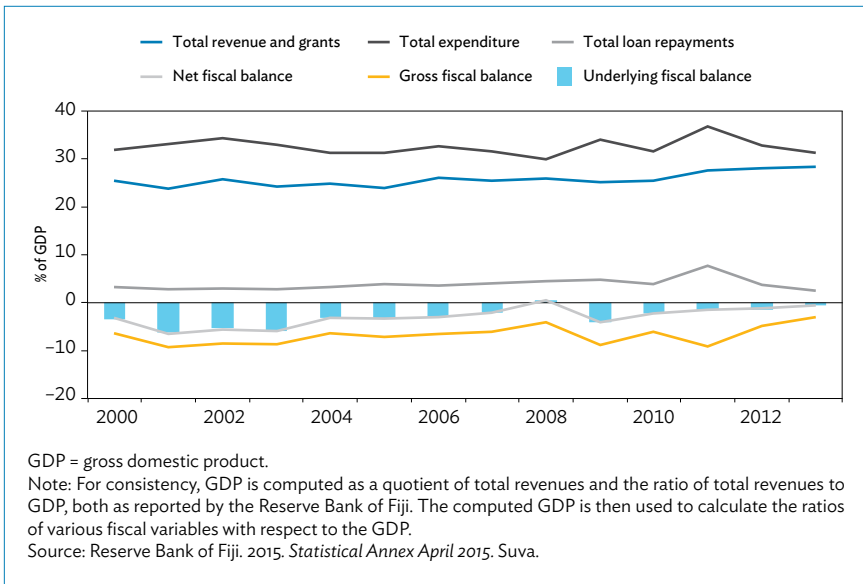


Figure 6: Private Credit and Interest Rates, 2001–2014

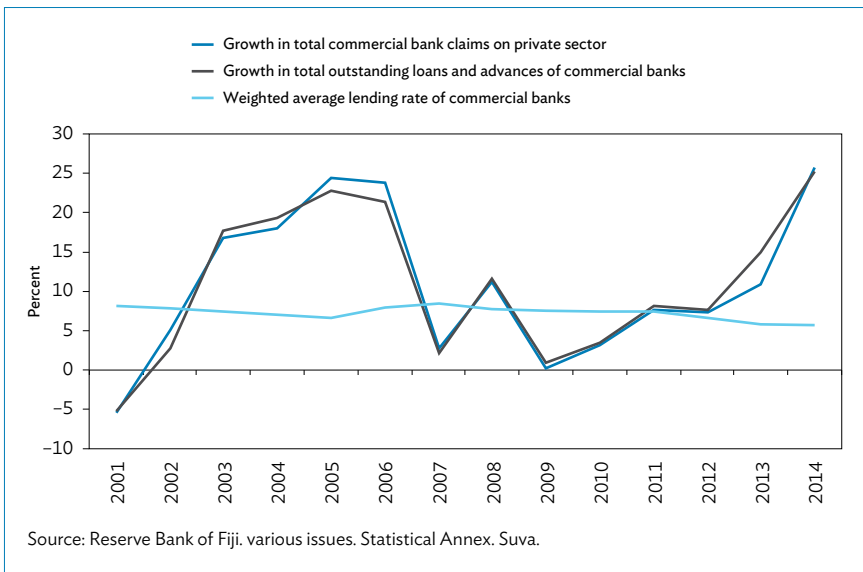


Figure 7: Number of Tourist Arrivals by Country, 1981–2014

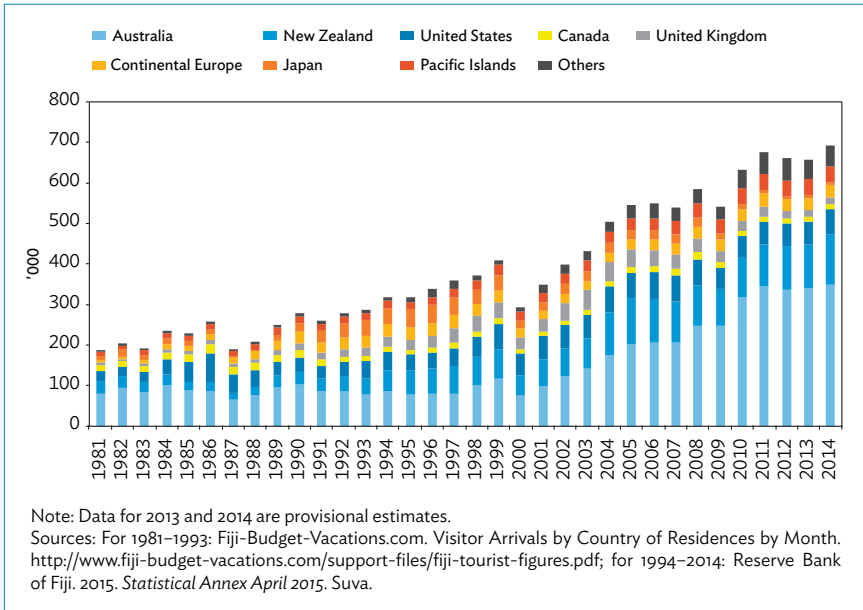


Figure 8: Overall Ease of Doing Business, Fiji and Comparator Countries, 2014

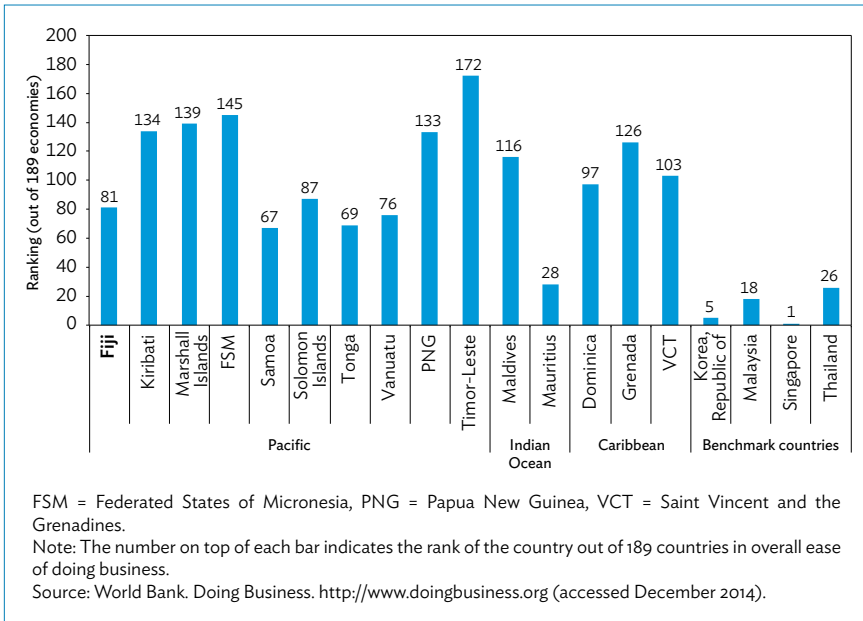


Figure 9: Distance to the Frontier in Ease of Starting a Business, Fiji and Comparator Countries

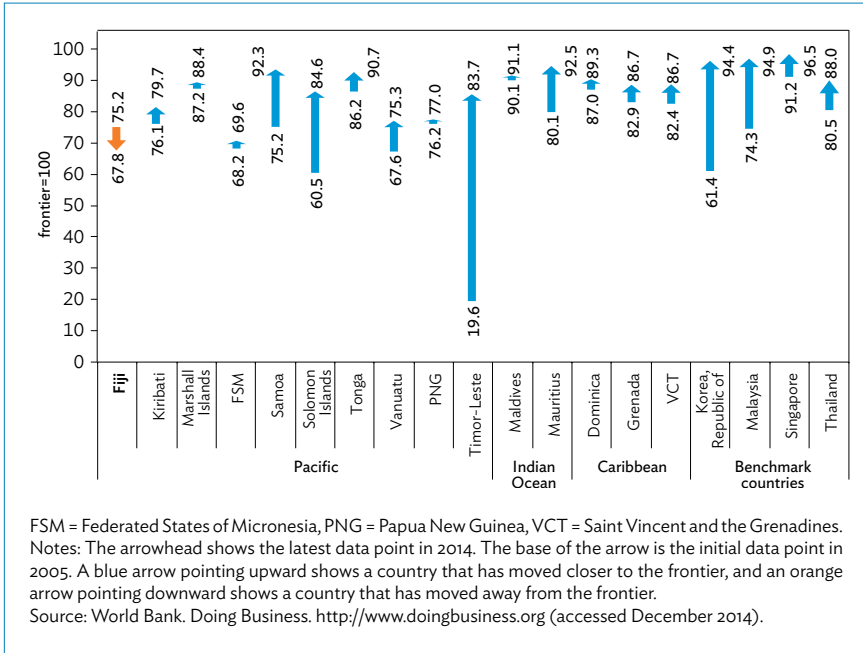


Figure 10: Infrastructure Provision, Asia and the Pacific

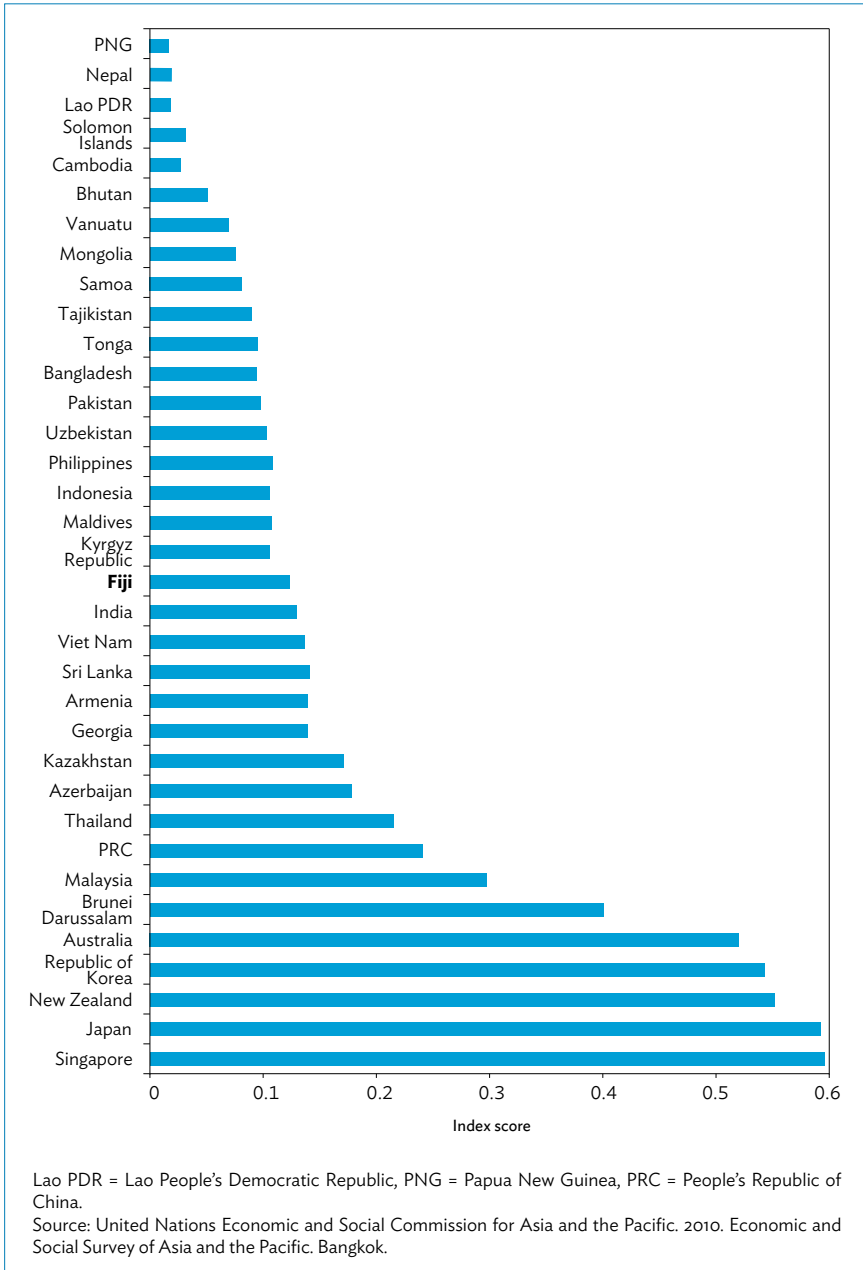


Figure 11: Distance to the Frontier in Ease of Trading Across Borders, Fiji and Comparator Countries

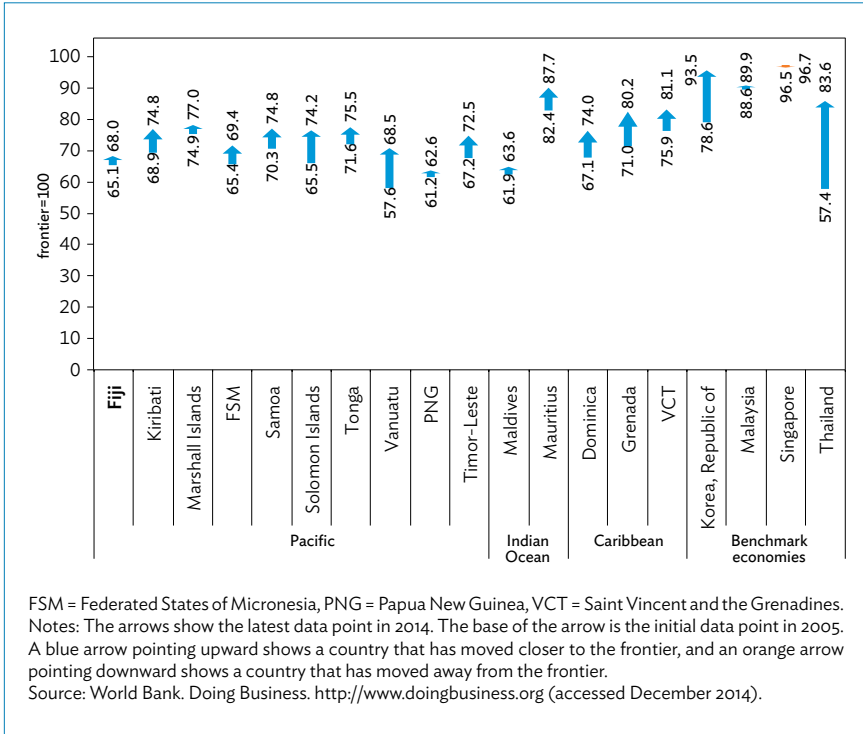


Table 1: Education, Health, and Other Social Services

MDG	Indicator	Year	Fiji
Primary Education	Total net enrollment rate in primary education (%)	2014	99.6
	Percentage of grade 1 pupils who reached the last primary grade level (%)	2013	93.1
	Primary grade completion rate (%)	2012	103.6
	Literacy rate of 15–24 years old (%)	2008	99.5
Child Mortality	Infant mortality rate (per 1,000 live birth)	2013	13.4
	Under 5 mortality rate (per 1,000 live birth)	2013	17.5
	Measles immunization of 1 year old (%)	2013	94.0
Maternal Health	Maternal mortality ratio (per 100,000 live birth)	2013	19.1
	Skilled birth attendance (%)	2010	100.0
	Contraceptive prevalence (% of women aged 15–49)	2010	32.0
	Adolescent birth rate (per 1,000 females aged 15–19)	2012	43.0
	Antenatal care coverage, ≥ 1 visit (%)	2010	95.0
Safe Drinking Water and Basic Sanitation	Improved water source (% of population with access)	2012	96.3
	Urban	2012	100.0
	Rural	2012	92.2
	Improved sanitation facility (% of population with access)	2012	87.2
	Urban	2012	92.1
	Rural	2012	81.7

MDG = Millennium Development Goal.

Sources: Data for Fiji on net enrollment rate and percentage of Grade 1 pupils who reach the last primary grade level are from the Government of Fiji. 2015. Education for All 2015 National Review. Date on literacy rate is from the Ministry of National Planning. 2010. Millennium Development Goals: 2nd Report, 1990–2009 Report for the Fiji Islands. http://www.statsfiji.gov.fj/index.php/document-library/doc_download/990-fiji-millennium-development-goals-2009-2nd-report. Data on infant, maternal, and under-5 mortality rates are from the Ministry of Health and Medical Services. 2013. Annual Report 2013. Suva. Data for antenatal coverage is from Pacific Islands Forum Secretariat. 2013. 2013 Pacific Regional MDGs Tracking Report. Data for others are from World Bank. World Development Indicators. Washington, DC. <http://data.worldbank.org/data-catalog/world-development-indicators> (accessed April 2015).

Fiji: Building Inclusive Institutions for Sustained Growth

Country Diagnostic Study

Executive Summary

From 2010 onward, Fiji witnessed one of its strongest spells of economic growth since independence. Extreme poverty is in the single digits, but nearly a third of the population is unable to meet basic needs. Fiji thus faces two major challenges: to create a business environment that can attract more private investment to help sustain its growth momentum, and to make that growth inclusive so that all of Fiji can benefit. This country diagnostic study undertaken by the Asian Development Bank identifies the critical constraints to inclusive growth in Fiji and proposes policy options for addressing them.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to the majority of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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