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2007 Annual Operational Review

FIJI

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Document 1: Joint Annual Report (final draft) taking into account
 NAO's written comments

JOINT ANNUAL REPORT 2006

FIJI

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EUROPEAN COMMISSION

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1 Executive Summary

This Joint Annual Report for 2006 fulfils operational review requirements stipulated under Article 5, Annex IV of the Cotonou Agreement.

Fiji's period of relative political stability since the year 2000 came to an end on 5 December 2006, when a military takeover under Commander Josia Voreqe (Frank) Bainimarama ousted the Government led by Laisenia Qarase's SDL (Soqosoqo Duavata ni Lewenivanua) party, which had won the General Elections that took place in May 2006. A State of Emergency was declared immediately after, and – having failed initially to secure the President Iloilo's endorsement of the coup – Commander Bainimarama himself assumed the role of President. (He subsequently handed back the executive authority to the President on 4 January 2007.) The coup was condemned as illegal by a large section of the international community.

The economy, which had grown modestly during the period 2000 - 2006 (averaging 2.5 % per annum), suffered an immediate setback, with tourism numbers dropping significantly during the critical holiday season.

As far as the Millennium Development Goals are concerned Fiji has been making satisfactory progress, most notably with respect to universal primary education and the promotion of gender equality. The country has nevertheless seen a marked increase in poverty over recent years, which resulted in a significant growth of squatter settlements in and around urban centres.

The EC Sugar-related Support Strategy, which was foreseen to run in parallel with Fiji's 10th EDF assistance over the years 2006 – 2013) seeks to promote economic growth – both by reviving the sugar sector itself and by developing other sustainable rural livelihoods. As such, it fully complements the Pacific Regional Strategy's focus on the sustainable management of natural resources. Its social impact mitigation component complements and adds weight to the poverty alleviation focus of Fiji's proposed 10th EDF focal sector. However, implementation of future cooperation will inevitably depend on the outcome of the Article 96 Consultations which were automatically triggered as a result of the unlawful takeover in December 2006 of Fiji's democratically-elected government.

2 Political, economic, social and environmental situation

2.1 Update on the political situation

Stability:

Fiji has experienced four *coups* in the past 20 years, all of which marred its democratic credentials and set back its economy. The coup in 2000 had its roots in the fact that the 1999 elections had resulted in a government led by an Indo-Fijian, the then leader of the Fiji Labour Party, Mahendra Chaudhry, who was ousted from office.

With the military takeover of 5 December 2006 political stability was again undermined and Fiji's image as a democracy suffered another blow.

Institutional Development:

The General Elections of May 2006, which, for the first time in the Pacific, were observed by an EU Election Observation Mission, were broadly judged to have been fair, although further progress was considered to be required both in voter registration and in voter education. The high number of invalid votes (9%) remained a concern. Radio, television and the printed media covered the process extensively, and coverage was judged to have been balanced and unrestricted.

The SDL party of Prime Minister Qarase emerged as the strongest party, winning 36 out of a total of 71 seats in the House of Representatives. The Fiji Labour Party (FLP) won 31 seats, the United Peoples Party (UPP) won two seats and independent candidates won the remaining two seats. The share of votes between the two major parties broadly reflects the proportions of ethnic Fijians to Indo-Fijians in the population as a whole, and there is little doubt that most Fijians continued to vote along ethnic lines, even though both big political parties are nominally multi-ethnic. The election system, which was originally designed to facilitate the emergence of multiple political parties, has in practice contributed to the emergence of a two-party system in which each party is in fact the undisputed representative of their respective community. (The SDL took practically all seats in the indigenous-Fijian community, and the FLP took all seats in the Indo-Fijian community.)

Following his return to office, Prime Minister Qarase invited the FLP to form a coalition government (in conformity with Section 99 of the 1997 Constitution). On the acceptance of the leader of FLP, a Multi-Party Government was established. Mr Chaudhry, who continued to be the leader of the FLP, chose however not to accept a Cabinet post.

A long-running conflict between the government and military reached crisis point in early December 2006. The catalysts for the unrest were three bills under consideration by the parliament, one of which would question the illegality of the Fiji coup of 2000 and offer pardons to some of the people who had participated in it. Nine demands were handed down from the Armed Forces Leader, Commodore Josaia Voreqe (Frank) Bainimarama to Prime Minister Laisenia Qarase, largely pertaining to issues concerning these bills. Bainimarama gave an ultimatum to Mr Qarase to concede to these demands or to resign from his post. After weeks of preparations by the military, a well-orchestrated military presence made itself known in Suva on 4 December 2006 by setting up road blocks, making public demonstrations of their presence and seizing weapons from opposing factions, including the police. On 5 December, many key government ministers and chief executives were placed under house arrest and President Ratu Josefa Iloilo was said to have signed an order dissolving Parliament, though he later made a press statement denying having done so.

2.2 Update on the economic situation

Macroeconomic changes and structural reforms:

The economy grew by an estimated 3.4% in 2006, having averaged 2.4% growth in the 5 previous years. This was achieved despite a decline in tourism and the closure of the country's gold mine. Visitor arrivals in 2006 fell slightly to 545,000 from 549,900 the year before, reflecting the impact of the 5 December military takeover. As a result of the coup, an estimated 1,100 employees in tourism lost their jobs immediately, while others were placed on short working hours. The closure of the unprofitable Emperor gold mine, also in December, led to the loss of 1,800 jobs.

The current account deficit widened to an estimated 24.4% of GDP from 15.6% in 2005. As a result of the deterioration in the current account, foreign reserves came under pressure. The Reserve Bank of Fiji (RBF), the central bank, raised its policy indicator rate twice in the first 6 months and increased the banks' reserve-deposit ratio. In September, the Government raised \$150 million from its first international bond issue. Post-coup, RBF further tightened exchange controls, introduced credit ceilings on non-investment lending, and raised interest rates on RBF lending to commercial banks. The bond issue and the other measures eased the pressure on foreign reserves, which totalled \$476.5 million at end-2006 (3.3 months cover of goods imports), down slightly from 2005.

The economic outlook was of concern even before the latest coup. Growth from 2001 had been driven by fiscal expansion and credit-based consumption, both of which put increasing pressure on the balance of payments. The previous Government's 2007 budget and the Strategic Development Plan projected that growth would slow to just over 2% in 2007 and 2008 as construction contracted from its 2006 peak, fiscal consolidation led to a shrinkage in public administration, and major export industries grew modestly. The sugar industry, which accounted for 6% of GDP and 26% of exports in 2005, faces a progressive reduction in preferential prices in the EU market of 5% in the 2-year period 2006–2007, 12% in 2008, and 19% in 2009, as well as issues of renewal of land leases and declining productivity. Growth for this industry was predicated on the effective resolution of land lease issues and the implementation of reforms. It was expected that production in the clothing industry, which provided 14% of export income in 2005, would stabilize and that tourist numbers would rise by 6–8% in both 2007 and 2008. Growth projections have been revised down since the coup and the closure of the Emperor mine. Previous coups in May and September 1987 and May 2000 undermined investor confidence, damaged the country's tourism image, led to trade bans, and reduced international funding. GDP fell by 6.4% in 1987 and 1.7% in 2000. The December coup may have a similar impact.

The official forecast is that GDP will contract by 2–4% in 2007, and tourist arrivals are now forecast at 514,000, down 5.7% from 2006. Regional airline Air Pacific reported a 40% drop in forward bookings for the first 3 months of 2007. A tourism action group formed after the 2000 coup was re-established to strengthen marketing efforts, in the hope that hotel occupancy rates would pick up from 25% lows. However, accommodation capacity was earlier expected to increase by up to 1,500 new rooms in 2007–2008 as new hotels were completed. A much more severe contraction is now forecast in the construction sector as some projects are postponed or cancelled.

Structure and management of public finances

A policy framework for the 2007 budget reaffirmed the Government's intention of narrowing the deficit over the medium term to reduce its debt burden, which stood at 55% of GDP at end-2006 (inclusive of the international bond issue). Strategies included slowing the growth in operating expenditures by restructuring the public service over the period of the Strategic Development Plan 2007–2011. Following the December coup, the military-installed interim administration – the coup leader and commander of the Royal Fiji Military Force is prime minister– began formulating its own policies that incorporate elements of the 2007–2011 plan, such as restructuring the public service.

Integration into the world economy:

Fiji has an open, export-oriented approach to trade relations. Import restrictions have been largely lifted in favour of export promotion and volumes of both exports and imports have increased in recent years, even though this may change in 2007. Fiji is a member of a number of bilateral, regional and multilateral trading agreements: it has been a member of WTO since 1996, and has both signed and ratified the Pacific Island Country Trade Agreement (PICTA). Within the region, it is one of the more advanced of the island countries in terms of completing its domestic requirements in order to trade under PICTA. Once trading under PICTA begins, Fiji's exports to the region are expected to lift from their current limited level. (Intra-PACP trade at present accounts for only 3–4% of total Pacific Island trade). It is also a member of the South Pacific Regional Trade and Economic Agreement (SPARTECA), which offers duty-free access to the products of Forum Island Countries (FICS) to the markets of Australia and New Zealand. In addition it is a committed member of the Melanesian Spearhead Group, a sub-regional trade treaty signed in 1994 governing trade between the four Melanesian States (Vanuatu, Papua New Guinea, Solomon Islands and Fiji).

Negotiation position with regard to the EPA

Fiji is one of a number of Pacific ACP States which should have a considerable interest in the negotiation of the Pacific-EU EPA, principally in order to continue to have privileged access to the EU for its sugar exports. However, as a result of the *coup*, capacity and influence both at ministerial level and at technical level has been adversely affected. Whereas Fiji's Minister had been the region's lead EPA Spokesman, and the head of the External Trade Ministry its lead EPA negotiator at technical level, these functions reverted to their Samoan counterparts as a result of the military takeover.

Quality in management of public finances and budgetary expenses:

A review of Fiji's public finance management performance took place in 2005. It found that there was scope for strengthening the PFM process and that capacity constraints have much to do with the weaknesses that affect the system. Key issues that were signalled include:

- (i) the need for enhancing the credibility of the budget: it appeared that the outturn of expenditures and revenues had on aggregate been close to original budget projections, but that there were significant outcome differences between and amongst Ministries, reflecting the extensive use of re-deployments and supplementary budgets to varying degrees;
- (ii) as regards the comprehensiveness and transparency of the Budget, the conclusion was that the budget documents were reasonably transparent, although the comprehensiveness of budget coverage was in need of improvement;
- (iii) at the time it was felt that there were weaknesses in budgetary planning which prevented the Budget from being used effectively as a tool for government policy;
- (iv) on the subject of predictability and control in budget execution, significant weaknesses were signalled in the control of expenditure;
- (v) as regards accounting, recording and reporting, the lack of real-time financial management information was seen to hinder significantly the effectiveness of financial management; and
- (vi) on the subject of external scrutiny and audit, the resumption of legislative scrutiny of the Auditor-general's reports was welcomed.

Since the rating in 2005 of Fiji's public finance management performance system, Government has taken a series of measures to address these issues. Government sees the strengthening of finance management as a key policy objective, the latter being one of three key areas of public sector reform. The other areas are civil service reform and reform of the country's public enterprises. As to the management of the country's public finances, the reforms are directed at placing more accountability on Chief Executive Officers (CEOs), in view of the gradual delegation of financial authority to them. It remains to be seen how the military takeover of December 2006 will influence further developments in this area.

2.3 Update on the social situation

Progress against Millennium Development Goals:

Despite the overall increase in poverty and scarce resources Fiji has made considerable progress in achieving the MDG targets. Life expectancies at birth are high for both women and men. Infant, child and maternal mortality rates have been halved since the 1960s and are reasonably low. Immunisation coverage is high (over 96%) both for measles and for other communicable diseases. As in other developing countries, non-communicable diseases are now major causes of morbidity and mortality.

The HIV/AIDS epidemic, even though of concern, remains relatively low by ACP standards.¹ There is a high level of adult literacy, very little gender disparity in primary and secondary education, almost universal school enrolment, and around 40% of adolescents remain at school at the age of 18 years. However, the absence of any up-to-date statistics is making a comprehensive measurement of Fiji's progress towards the eradication of poverty difficult to measure.

MDG Status at a Glance:

1. Eradicate extreme poverty and hunger

Despite the fact that poverty reduction has always been a central element of Government policy poverty in Fiji has increased over the last years and the major economic trends listed above are likely to further accelerate this trend. A detailed assessment of trends during the last three to four years is, however, difficult due to the lack of any reliable recent statistical data. Overall, it must at present be considered **unlikely** that Fiji will meet this MDG.

2. Achieve universal primary education

Fiji is **close to achieving** this goal. Literacy rate for 15-24 year-olds was estimated to be at 99.2% in 2002. However, retention rates throughout secondary school are low. The main challenge is to improve the quality of education particularly in rural areas and also the relevance of education to the needs of the employment market. The continuous outward migration of qualified teachers is also impacting upon the quality of teaching. Another concern and priority area of the Government is the lower educational performance of indigenous Fijian compared to Indo-Fijian students.

3. Promote gender equality & empower women

There is very little gender disparity in primary and secondary education (even though the most recent available figures appear to be from 1996.) The Fiji Constitution prohibits discrimination on the basis of gender, and Fiji signed the Convention to Eliminate All Forms of Discrimination against Women (CEDAW). Fiji **can be expected to meet this MDG**.

4. Reduce Child Mortality

As pointed out Fiji has already achieved a high standard in this respect. Given the fact that child mortality rate is already very low by international standards it will be difficult to meet the MDG goal of reducing it by a further two thirds. Fiji **may** meet this MDG, but this qualification is not an indicator of a major problem.

5. Improve Maternal Health

Also in this respect Fiji has already achieved a high standard, which makes it difficult for Fiji to meet the MDG goal of reducing it by a further three quarters.

6. Combat HIV/AIDS, malaria and other diseases

Even though the HIV/AIDS situation is not bad by ACP standards and the Government is committed to reducing the spread of the disease there are a number of risk factors for a more serious epidemic. Furthermore, Fiji is facing a significant rise in hypertension and diabetes, diseases that are related to a growing prevalence of obesity and sedentary lifestyles. For these reasons it must be considered **unlikely** that Fiji will meet this MDG.²

7. Ensure environmental sustainability

¹ See Annex IV for further details on HIV/AIDS in Fiji

² See Annex IV for further details on HIV/AIDS in Fiji

Fiji has been undertaking considerable efforts in recent years to improve the weak state of environmental legislation. However, a lot remains to be done, and the pressure that is placed on natural resources by demands in the name of "economic" development and livelihoods is considerable. The main environmental problems in urban areas are the provision of an adequate supply of safe water and waste disposal. Urban squatter areas are increasing dramatically due to expiring land leases, general rural-urban migration and unemployment. In rural areas, agricultural practices have led to environmental degradation, in particular the erosion of hillsides by sugar plantations. Fiji may meet this MDG, but the challenges are enormous.

8. *Develop a Global Partnership for Development*

The country is still overcoming the deleterious effects on public institutions of the coups of 1987 and 2000. On the other hand, significant efforts were made in the preparation of development plans as the recently published draft Strategic Development Plan 2007-2011 (see below for further details). Fiji may meet this MDG.

2.4 Update on the environmental situation

The Environmental Management Act (EMA) was passed by Parliament in 2005. The preparatory stages of the EMA included the reviewing of about 45 Acts containing environmental management provisions, to update, strengthen and consolidate the provisions into one piece of legislation. The regulations are being formulated and were scheduled to be completed by December 2006.

The challenges for the future will be the enforcement, monitoring and reviewing of the EMA and its regulations. Following the military takeover of December 2006 the Ministry of Environment was merged with other institutions and Environment is now only a directorate in the new Ministry of Labour, Industrial Relations, Tourism and Environment.

Although the Environment Management Act has been enacted and various strategies developed, the regulations still need to be finalised. Even after the completion of regulations, lack of resources for monitoring and compliance of regulations are likely to remain a concern.

3 Overview of past and ongoing co-operation

The focal sectors of cooperation under the 8th EDF were environment and human resource development. In this context a number of major infrastructure projects were carried out, such as the construction of a landfill and an outfall pipeline for the Suva area, the construction of new facilities for the Fiji School of Medicine and the Lautoka Teachers' College etc. A major non-focal sector project was the construction of the Rewa Bridge (with 25% co-funding from the Fiji Government), a major infrastructure link, which was completed in 2006.

3.1 Focal sector

The 9th EDF CSP foresees a sole focal sector, education, with an allocation of € 20.5 million, including participation of non-state actors and an allocation of € 0.5 million for non-identified operations outside the focal sector. Subsequently it was jointly decided to use the entire allocation of € 21 million for the education sector.

a) Results

Revision of progress in the implementation of sectoral policy commitments

No specific policy commitments have been made by the Ministry of Education in the context of EU-Fiji co-operation. The policy dialogue with the Ministry has been very limited due to a declared unwillingness to open the scope of co-operation beyond the FESP and include wider issues of policy

and long-term strategic planning. Efforts to that effect by the EC have not been very successful throughout 2006 and after the military takeover on 5 December sector policy dialogue stopped completely.

Assessment of the sectoral achievements

Fiji managed to stabilize progress towards MDG2 with a net enrolment rate in primary schools of close to 95%. It is difficult to assess other achievements in the education sector as the annual report for 2006 has not yet been published by the Ministry of Education.

Sector coordination

The Ministry of Education hosts two regular sectoral co-ordination meetings in the form of Programme Steering Committee meetings related to the EDF-funded Fiji Education Sector Programme as well the AusAID-funded education programme. The meetings are useful for coordination among donors by default, not by design.

b) Progress in Activities:

Programme Estimate No 2 spanned across the entire year of 2006 with a budget of F\$33m with F\$3m earmarked for NSA activities. Under KRA 1 the first works contract for six schools was concluded after the needs assessment for selected schools was completed. KRA2 saw the first 150 teaching students placed in remoter rural primary schools for 5 weeks of teaching practice in challenging environments, as well as training of 454 technical and vocational teachers in Competency Based Assessment. Under KRA3 work was ongoing on tenders for library resources, physical education equipment, copying and duplicating machines, and laboratory equipment. Under KRA4 seven vehicles as well as three boats were handed over to the Ministry of Education to enhance the monitoring capacity of regional education officers. The book publishing unit of the Ministry received a new Heidelberg printing press. In December a student diary with themes highlighting the European Union in the world as well as the Pacific in particular was launched and 70,000 diaries for 2007 were distributed. KRA5 saw activities carried out by Non State Actors through the Fiji Forum of Non State Actors (see below).

c) Integration of cross-cutting themes

Gender Issues

Under Key Result Area 1 (KRA1) of the FESP gender specific needs are incorporated into the design of new school buildings and amenities. Other KRAs that include teacher training ensure adequate representation of women.

Environmental Issues:

In relation to KRA1 and the provision of infrastructure and utilities to rural schools it was decided to supply renewable energy solutions rather than traditional diesel generators. The Ministry of Education in co-operation with the Public Works Department ensure environmental compatibility for all new school buildings under FESP.

Institutional development and capacity building:

A well resourced FESP programme management unit inside the Ministry of Education consists of a number of seconded Ministry staff thus enhancing the Ministry's long term project management capacity. Adequate resources are provided to the curriculum development unit in the Ministry under the focal sector programme.

3.2 Projects and programmes outside focal sectors

National Initiative for Civic Education (€ 0.8 m)

Preparation of a National Initiative for Civic Education (N.I.C.E.) Programme (€ 0.8m) continued throughout 2006. The initiative is to be co-funded with New Zealand and implemented in the context of a wider UNDP Governance Programme. Implementation is foreseen to start in 2007.

Fiji Solid Waste – Lami Dump Rehabilitation (€ 2.7 m)

The construction and official opening in end-2005 of the first sanitary landfill in Fiji under the 8th EDF paved the way for the closure of the old Lami dumpsite near Suva. Given the fact that significant environmental hazards remain at the Lami dump a decision was taken in 2006 to use unspent funds under the 9th EDF B-envelope for rehabilitation measures in this area. Identification of this initiative started in 2006 and should lead to a financing decision in 2007.

Technical Cooperation Facility (€ 1.1 m)

In response to the need to be able to fund a certain number of essential studies, in particular the National Adaptation Strategy (NAS) for the sugar sector, a Financing Agreement for a € 1.1m Technical Cooperation Facility (TCF) was signed in November 2005, funded from available 7th and 8th EDF balances. The lessons learned are very positive. The TCF provided a funding basis for expertise that the Delegation was able to mobilise very quickly. This led to the proposal to include a new TCF in the NIP for the 10th EDF.

3.3 Utilization of resources for NSAs

F\$ 3 million were allocated to Non State Actors under PE2 which was in operation throughout 2006. A Call for proposals developed by the Fiji Forum of Non State Actors resulted in nine grants contracts with signed Non State Actors in April for activities in the area of community building and non-formal education.

3.4 Utilisation of B envelope

It is foreseen to use all B-envelope funds for the rehabilitation measures around the old Lami dumpsite near Suva, which is considered a significant environmental hazard. (See section 3.1 above.)

3.5 Other Instruments

3.5.1 Sugar

Among the "other instruments" the most relevant for Fiji is certainly the Sugar Accompanying Measures, from which Fiji is expected to benefit between 2006 and 2013.

In November 2005, the EU adopted sugar reform proposals which, because of the link between the Sugar Protocol and EU internal sugar prices, will have a profound effect on Fiji's sugar revenues. Prices for sugar exported to the EU will be reduced by 36% over a four-year period, beginning with a 5% reduction in 2006/07 and rising to the full 36% reduction in 2009/10. Recognising the impact that a substantial price cut would have on Protocol countries, the EU also made a commitment to assist Protocol countries in adapting to the new market conditions that would obtain as of the time of the reform proposals taking effect. To this effect, it was decided that all Protocol countries would draw up, in concert with all stakeholders, National Adaptation Strategies which would define the strategic choices to be adopted by countries to address their adaptation needs, and to restructure their sugar sectors, if considered viable.

A National Adaptation Strategy (NAS) was adopted by the Fiji Government on 26 September 2006. The NAS forms the framework on which the EC Sugar-Related Strategy, drawn up later in 2006, is based, and from which assistance to Fiji under the Accompanying Measures (2006-2013) will derive. The NAS provides for three pillars of support: to the sugar sector itself (especially to the farming sector), for economic diversification (in particular agricultural diversification), and for social impact mitigation measures.

The NAS in its present form, however, is lacking in objective targets (e.g. productivity targets), based on comprehensive feasibility analyses, financial sustainability, market analysis, etc.), and essential policy reforms need to be undertaken – e.g. on land tenure – if the Strategy is to succeed. The military takeover of December 2006 both puts into question the prospects for a major land reform in the near future and may well also have an impact on the disbursements of EU sugar-related funds.

3.5.2 Regional Co-operation

The regional allocation to the Pacific under the 9th EDF amounts to € 39 million after the mid term review and includes the three focal sectors “Economic Integration and Trade”, “Human Resources Development” and “Fisheries”. For a complete overview over all 9th EDF regional initiatives in the Pacific refer to Annex 2.

Worth mentioning here seems in particular the Pacific Regional Economic Integration Programme (PACREIP). In December 2003, a programme to support the PACP countries in their way to the regional economic integration was set up in the framework of the Regional Indicative Programme of the 9th EDF. PACREIP supports the negotiation and implementation of two trade agreements, PICTA (see above) and EPA. Its objective is the sustainable development of the PACP economies as an economically integrated region. Its purpose is to enhance the capacity of the region to design, enact and implement regulations and strategies which will contribute to sustainable expansion of trade and engagement with the global economy as a coherent group. The original budget was € 9.2m, with a duration of 5 years (ending on 30 June 2009). A further € 2m was allocated in 2006. Most of the programme is implemented by the Pacific Islands Forum Secretariat under a contribution agreement between the Regional Authorising Officer and the Trade and Investment Division of PIFS.

Beside PACREIP, Fiji benefits from a trade policy adviser financed through the Tradecom facilities (under the Hubs & Spokes project) and based in the Fiji Ministry of Tourism, Trade and Producing Activities. Another regional trade policy adviser, based in the PIFS, is funded through the Commonwealth Secretariat.

3.5.3 Community budget lines

A number of initiatives have received funding from budget lines in recent years. They focus on the areas of environment as well as democracy and human right. Overall, experiences are positive: projects are well on track. Some of the initiatives also cover other countries of the region. Here a short overview:

1. Sustainable Management of Sites of Global Importance for Biodiversity in the Pacific- Bird Life International - €1.293 million for implementation over 4 years, from 05/09/2003 to 04/09/2007.
2. Coral Gardens Initiative- Foundation of the Peoples of the South Pacific International (FSPI) - €0.543 million for implementation over 2 years, from 29/07/2003 to 28/07/2005.
3. Sustainable Management of Aquarium Reef Trade (SMART), Just World Partners (& FSPI & MAC) - €0.619 million for implementation over 24 months, from 24/02/2003 to 23/02/2005.

4. Grassroots Opportunities for Action and Leadership – Foundation of the Peoples of the South Pacific International (FSPI) (original beneficiary: Just World Partners) - € 0.5 million for implementation from 2003 to 2007.
5. Transforming Our Communities Through Good Governance – University of the South Pacific (USP) - € 0.635 million for implementation over 3 years, from 2003 to 2007.
6. Capacity Building support for the Fiji Human Rights Commission – Fiji Human Rights Commission - € 0.453 million for implementation from 2003 to 2008.
7. Governing water – Live & Learn Environmental Education - € 0.461 million for implementation over 3 years, from 13/01/2004 to 12/01/2007.
8. Imagining Tomorrow: Towards a Peace Building Education for Children – Live & Learn Environmental Education - € 0.2 million for implementation over 3 years from 2006 to 2009.
9. Democratisation, Human Rights and Ethnic Group Reconciliation in Fiji Islands – Citizens Constitutional Forum - € 0.813 million for implementation over 3 years, from 2004 to 2007.
10. Capacity Building to support the implementation of national biodiversity strategic action plan in the South Pacific - Live & Learn Environmental Education - € 0.523 million for implementation over 42 months, from 19/12/2005 to 13/06/2009.

3.5.4 European investment Bank

On 28 November 2006, the EIB signed a loan agreement for the Construction of hydropower plant in Viti Levu for a total amount of € 24,500,000. Disbursement of this loan is also likely to be affected by the military takeover.

4 Assessment of performance indicators

In the absence of an ongoing macroeconomic support programme performance indicators are limited to the focal sector education and, to some degree, the non-focal sector environment.

The 9th EDF focal sector programme in Fiji, the Fiji Education Sector Programme, will be assessed against the indicators as stipulated in the Logistical Framework matrix of the Financing Agreement (see Annex 3).

5 Donor coordination and harmonization

Donor coordination in Fiji takes place in the form of regular meetings with the teams of other key donors in general as well as in a more structured way in the focal sector education (see under 3.1a)

The possible switch to budget support and the related macroeconomic analysis that the Commission carried out in November 2006 creates new perspectives for enhanced donor coordination also in the areas such as public financial management, macroeconomic performance and national statistics. It remains to be seen how this will develop in the aftermath of the events of 5 December 2006.

6 Dialogue in country with the NAO and NSAs

The relationship between the NAO and the Delegation in general, as well as the NAO and Head of Delegation in particular, is very good. Face to face meetings occur regularly as the NAO's office is located one office block away from the EC Delegation. The NAO, his Ministry and Cabinet colleagues were involved in all aspects of aid programming. The Government in general took a keen interest in EU

projects and has always been co-operative. This situation changed with the military takeover of government on December 5 as a result of which programming for EDF 10 was suspended.

NSA have been involved in the programming of aid under EDF9 as well as, more recently, EDF10. The NAO was accessible and made himself available to NSA when required. There is no institutionalised mechanism of consultations between NAO and NSAs and neither party has expressed a strong desire to establish such a mechanism. It appears sufficient to continue with the informal, casual and ad hoc contact and involvement. The Delegation has regular and close contact with the NSA community through EDF-funded NSA projects, project related events, attendance at steering committee meetings, the management of thematic programme grants and the close co-operation with the Fiji Forum of Non State Actors.

7. Conclusions

Fiji suffered from its 4th coup in 20 years on 5 December 2006, when a military takeover under Commander Josaia Voreqe Bainimarama ousted the Government led by Laisenia Qarase's SDL (Soqosoqo Duavata ni Lewenivanua) party. The SDL party had won the general elections which took place in May 2006, and which had been declared fair by an EU Election Observer Mission.

The military leadership declared a state of emergency immediately after the takeover, and – having failed initially to secure President Iloilo's endorsement of the coup – Commander Bainimarama himself assumed the role of President. Executive authority was returned to President Iloilo on 4th January 2007, and Commander Bainimarama subsequently nominated himself Prime Minister. The coup was condemned as illegal by a large section of the international community.

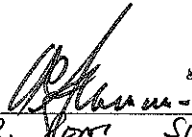
The economy, which had grown modestly during the period 2000 - 2006 (averaging 2.5% per annum), suffered an immediate setback, with tourism numbers dropping significantly during the critical holiday season.

While progress in respect of a number of Millennium Development Goals (MDGs) has been satisfactory in recent years (most notably with respect to MDG 2 – Universal Primary Education and MDG3 – Promotion of gender equality) there has nevertheless been a marked increase in poverty, most notably in rural areas, resulting in a significant growth of squatter settlements in and around urban centres. Progress has been made in some areas of public services, but the delivery of certain basic services has come under severe strain as a result of urban drift and steady – though not explosive – population increase.

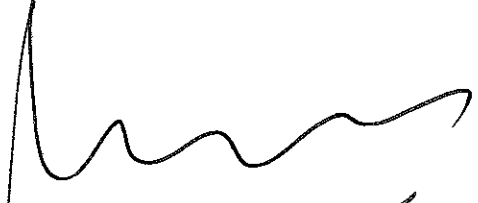
2006 saw the adoption of a national sugar adaptation strategy by the Government (prior to the coup) as well the adoption of the EC sugar-related Support Strategy, which foresees financial assistance to Fiji for the years 2007 – 2013. Both the proposed focal sector under the 10th EDF (water and sanitation) as well as the EC sugar support strategy fully complements the Pacific Regional Strategy's focus on the sustainable management of natural resources, and the social impact mitigation component of the sugar support strategy adds weight to the poverty alleviation focus of Fiji's proposed 10th EDF focal sector. It remains to be seen how the future EC cooperation will be affected by the military takeover and the subsequent Article 96 consultations under the Cotonou Agreement.

Signatures:

Suva, at



MR. VENTI SIKIVUA
The National Authorising Officer
DEPUTY 21/1/07
NATIONAL
European Development Fund
Republic of Fiji



The Head of Delegation
21/1/07

ANNEX 1: Fiji at a glance

1.1 Table of macroeconomic indicators

		2000	2001	2002	2003	2004	2005	2006	2007
Basic data									
1	Population (in 1000)							853,445	827,900
	- annual change in %								- 3%
2a	Nominal GDP (in millions FJD)	3504.8	3835.8	3909.4	4325.8	4553.0	4614.6	5413.7	5568.8
2b	Nominal GDP per capita (in millions €)								
2c	- annual change in %	-4.4	5.0	5.7	6.1	7.9	6.2	9.7	
3	Real GDP (annual change in %)								
4	Gross fixed capital formation (in % of GDP)								
International transactions									
5	Exports of goods and services (in % of GDP)	0.58	0.56	0.58	0.57	0.54	0.57	0.49	0.43
	- of which the most important: ... (in % of GDP)								
6	Trade balance (in % of GDP)					-102.1	223.2	-57.5	36.8
7	Current account balance (in % of GDP)								
8	Net inflows of foreign direct investment (in % of GDP)	-0.001	0.025	0.017	0.016	0.042	0.005	0.050	0.027
9	External debt (in % of GDP)	5.8	5.2	4.8	3.9	3.7	3.6	7.7	8.6
10	Service of external debt (in % of GDP)	1.0	0.5	0.5	0.4	0.2	0.3	0.2	1.2
11	Foreign exchange reserves (in months of imports of goods and non-factor services)				5.6	5.6	4.0	3.7	4.3
Government									
12	Revenues (in % of GDP)	26.0	23.5	26.6	24.6	25.8	26.5	25.8	24.4
	- of which: grants (in % of GDP)							0.007	0.009
13	Expenditure (in % of GDP)	29.2	29.9	32.3	30.6	26.0	30.1	28.7	24.0
	- of which: capital expenditure (in % of GDP)	4.2	5.2	6.3	5.7	4.5	4.6	3.9	2.2
14a	Deficit (in % of GDP) including grants	-3.2	-6.4	-5.7	-5.9	-3.2	-3.7	-2.9	0.4
14b	Deficit (in % of GDP) excluding grants							-0.035	-0.005
15	Debt (in % of GDP)	40.9	43.8	48.3	49.3	50.2	52.5	52.7	50.3
	- of which: external (in % of total public debt)	0.14	0.12	0.10	0.08	0.07	0.07	0.15	0.17
Other									
16	Consumer price inflation (annual average change in %)	1.1	4.3	0.8	4.2	2.8	2.4	2.5	
17	Interest rate (for money, annual rate in %)								
18	Exchange rate (annual average of national currency per 1 US\$)	0.4391	0.4376	0.4741	0.5605	0.5977	0.5477	0.5881	
19	Unemployment (in % of labour force, ILO definition)								
20	Employment in agriculture (in % of total employment)		1.7						

Sources: Fiji Central Government Finances 2000-2008
 BOP – Macroeconomic Policy Committee 2007
 Economic & Fiscal Update – Supplement to the 2008 Budget Address

1.2 Table of indicators for the MDGs

Table of indicators for the MDGs

	Indicator	1997	2000	2004	2005	2006	2007	2008	2009	2013	2015
Impact	1. Proportion of population living on less than USD 1 per day ³	25%									
	2. Prevalence of underweight children (under-five years of age)	11%									
	3. Under-five mortality rate	27.8	21.8	22.4	18 (2002)						
Outputs	4. Net enrolment ratio in primary education	92	94.7	102							
	- boys	91.7	94.9	102							
	- girls	92.4	94.6	102							
	5. Primary Completion Rate			64.3							
	6. Ratio of girls to boys in:										
	- primary education- secondary education- tertiary education										
	7. Proportion of births attended by skilled medical personnel	98	99	98.6							
	8. Proportion of one-year-old children immunised against measles	86	73.6	76.4							
	9. HIV prevalence among 15- to 24-year-old pregnant women	<	<	<							
	10. Proportion of population with sustainable access to an improved water source	0.01	0.02	0.01							
- urban			47								
- rural			43								
			51								

Source: HIES 1990-1991

Fiji Govt & UNDP 1997 Fiji Poverty Report

National Nutrition Surveys 1993

Ministry of Health/UNICEF

Ministry of Education –only available in census years

Ministry of Health Annual reports

³ Indicator 1 may be replaced by an equivalent indicator based on national poverty thresholds, in which case a comment will be needed to permit consistent interpretation of data over time.

ANNEX 2: REGIONAL PROJECTS

Reducing Vulnerability in the Pacific – 8.ACP.RPA.03

Implementing Agency: SOPAC
Budget: € 7 million
Financing Agreement Signed: March 2002
Duration: 4.5 years
Project Closure: March 2006

The Project addresses vulnerability reduction in the Pacific ACP States through the development of an integrated planning and management system in the sectors impacting on hazards, aggregates and water and sanitation. The Project addresses problems such as: unavailability of accurate, sound, and timely data; weak human resource base; limited resources (money and infrastructure); and lack of appropriate management plans, policies and regulatory frameworks to deal with these three focal areas.

Plant Protection in the Pacific (PPP) – 8.ACP.RPA.08

Implementing Agency: SPC
Budget: € 4,300,000
Financing Agreement Signed: December 2001
Duration: 5.5 years
Project Closure: November 2007

The total budget is € 5.181million of which € 4.3 million is sourced from the EDF. Given the importance of agriculture for Pacific Island countries, the threat to agriculture posed by plant pests, which reduces yields and quality of agricultural commodities, likewise poses a substantial threat to regional economies. The project is designed as the second phase of the Pacific Plant Protection Services project, aimed at facilitating sustainable production and trade of agricultural produce, by minimizing pests in the new age of free trade, global quarantine standards and increased economic integration.

Development of Sustainable Agriculture in the Pacific – 8.ACP.RPA.10

Implementing Agency: SPC
Budget: € 4,306,000
Financing Agreement Signed: November 2002
Duration: 4 years
Project Closure: December 2007

The purpose of the project is to increase sustainable agricultural production of targeted farm families in participating countries. This is to be accomplished through the participatory approach with farmers and rural communities in the identification and adoption of technologies.

USP Human Resource Development Project – 8.ACP.RPA.09

Implementing Agency: USP
Budget: € 5 million
Financing Agreement Signed: March 2002
Duration: 5 years
Project Closure: May 2007

The main goal of this project is to increase human capital through skills enhancement in the three key areas of tourism, public sector management and labour & employment studies.

Fiji School of Medicine Project – 8.ACP.RPA.06

Implementing Agency: NAO, Government of Fiji
Budget: € 7.5 million
Financing Agreement Signed: March 2002
Duration: 3 years

The total project budget is € 10.25 million, with € 7.5 million from the EDF. The origins of the Fiji School of Medicine date from the early colonial period. The Fiji School of Medicine has for many years served the training needs of health professionals throughout the Pacific ACP region. Small island states in particular are dependent upon the school for training. Regional countries have shortages of medical personnel and

need to train more local health staff. The present facilities used by the school date from 1970s and are considered to be inadequate for current and future demand.

Pacific Regional Oceanic and Coastal Fisheries Programme – 8.ACP.RPA.04

Implementing Agency: SPC, Noumea
Budget: € 8 million
Financing Agreement Signed: December 2001
Commencement: March 2002
Duration: 5 years
Project Closure: March 2007

Tuna stocks are the most important renewable natural resource for Pacific Island countries (PICs) with annual catches estimated at around 1.4 million tonnes, with a landed value of around € 1.5 billion. The long-term sustainable management of the region's key renewable natural resource is thus of vital importance. Of equal importance are domestic reef resources, which underpin current livelihoods and continued food security for the vast majority of Pacific Islanders. This programme aims to address the information gaps in both areas and, in so doing, will specifically strengthen the long-term sustainable management of the fisheries resources of the Western and Central Pacific Ocean (WCPO).

Technical Assistance Support to the RAO – 7.RPR.648

Implementing Agency: Pacific Islands Forum Secretariat (PIFS)
Budget: € 1,320,000
Financing Agreement Signed: March 2003
Duration: 4.5 years
Project Closure: December 2007

The project is located at the PIFS under the Development and Economic Policy Division. The objective of the project is to provide technical assistance to the Regional Authorising Officer (Secretary General, PIFS) to ensure the efficient coordination and implementation of the regional indicative programme in accordance with the Lomé and Cotonou Agreements. The project funds the position of two professional staff and two divisional assistants.

Regional Economic Integration Project (PACREIP) – 9.ACP.RPA.06

Implementing Agency: Pacific Islands Forum Secretariat, SPTO, SPC
Budget: € 9.2 million
Financing Agreement Signed: February 2004
Duration: 5 years
Project Closure: June 2009

Confronted with the phenomenon of globalisation, the Pacific ACP countries have accepted that integration into the world economy is a vital element in the strategy to achieve sustainable economic growth. They have further accepted that an integrated regional approach is the most effective strategy. Regional economic integration thus becomes an important objective of the region, reflected in its adoption as a focal area in the 9th EDF Pacific Regional Indicative Programme. Integration of the region's trade is in turn an essential element of regional economic integration.

Pacific Regional Coastal Fisheries Development Programme (COFISH) – 9.ACP.RPA.04

Implementing Agency: SPC
Budget: € 2,212,231
Financing Agreement Signed: February 2004
Duration: 4 years
Project Closure: December 2007

Pacific ACP countries have a combined Exclusive Economic Zone (EEZ) of some 20 million km², a total land area just over half a million km² and a total population of about 7 million. The Region attaches particular importance to the sustainable development of Fisheries as this sector is considered to have the most potential for revenue generation and sustainable economic growth. Whilst tuna fisheries underpin the region's main hope for future economic self-sufficiency, it is the coastal fisheries which underpin current livelihoods and continued food security.

Reducing Vulnerability of Pacific ACP States through Island Systems Management – 9.ACP.RPA.05

Implementing Agency: SOPAC
Budget: € 2,549,600
Financing Agreement Signed: December 2003
Duration: 2 years
Project Closure: June 2007

This project will permit to cover the extension of the existing regional project (8 ACP RPA 007) to the 6 new ACP Pacific Islands countries. This project addresses vulnerability reduction in the 6 Pacific ACP States through the development of an integrated planning and management system (Island Systems Management) in the sectors impacting on hazards, aggregates and water and sanitation. The Project strengthens integrated development in Pacific ACP States by concentrating on three major and essential focal areas in the island system: hazard mitigation and risk assessment; aggregates for construction; and water resources supply and sanitation.

Pacific Regional Initiatives for the Delivery of Basic Education – 9.ACP.RPA.01

Implementing Agency: University of the South Pacific
Budget: € 8 Million
Financing Agreement Signed: November 2003
Duration: 5 years
Project Closure: December 2009

Pacific ACP countries (PACP's) place high priority on education, spending large proportion of budget and receiving significant donor assistance in order to meet growing demands. While some PACPs have almost achieved universal access to primary education, the larger Melanesian countries are a long way from attaining this goal.

Development of Tuna Fisheries in the Pacific ACP Countries – 9.ACP.RPA.08

Implementing Agency: FFA & SPC
Budget: € 3 Million
Financing Agreement Signed: December 2004
Duration: 4 years
Project Closure: December 2008

Overall objective of this project is to increase the contribution from the sustainable use of marine resources to the poverty alleviation in Pacific ACPs. The project will contribute to this objective through a focus on the sustainable development of highly migratory oceanic living resources, particularly tuna fisheries.

Pacific Environmental Information Network (PEIN II) - 9.ACP.RPA.09

Implementing Agency: South Pacific Regional Environment Programme
Budget: € 560,000
Financing Agreement Signed: December 2004
Duration: 3 years
Project Closure: December 2007

This project builds on the achievements of the earlier project [8th EDF PEIN project], consolidates the environment libraries created in the original eight states and broadens and extends PEIN to the six new Pacific ACP countries (Cook Islands, Niue, Palau, Federated States of Micronesia, Republic of the Marshall Islands and Nauru).

**ANNEX 3: 9th EDF Fiji Education Sector Programme as per 31 December 2006
– Achievements and Constraints**

The FESP program encompasses **five Key Result Areas (KRA)**:

- 1) Improved infrastructure and upgraded facilities;
- 2) Capacity building and enabling environment;
- 3) Quality and adequate resources and materials;
- 4) Effective and efficient processes and mechanisms and
- 5) Community building through education and partnerships

Implemented through Programme Estimates, each Programme Estimate then defines the specific activities geared to achieve the expected results. However, in PE2, KRA 5 was entirely reserved for activities implemented by Non-State Actors, coordinated by the Fiji Forum of Non-State Actors (FFoNSA).

KRA 1:

Phase I of schools infrastructure development in PE2 targeted 62 schools with a total contract value of approximately 4.5 million FJ\$. 24 contractors were invited to tender, 14 of which submitted tenders, of which 8 were compliant. However, the costs of all but one contractor exceeded the budget estimates. Consequently only 1 contract for one Lot of 6 schools in Macuata/Bua was signed. However, quality checks in October 2006 revealed that the foundation slabs were below the required standard and the contractor has been instructed to remedy the situation. Until such time as the defaults are properly rectified the contractor is in breach of the contract.

As a consequence, it was decided that more stringent monitoring of the contractors and the clerks of works is required so that the quality of the works being provided are not jeopardised. The PMU as well as the Delegation have since stepped up their monitoring activities.

Phase II tenders for schools infrastructure upgrading targeted 96 schools (inclusive of the 56 Phase I schools for which contracts were not awarded). The budget estimates for individual buildings were increased to reflect the market response to Phase I. 61 contractors were invited to tender for phase II and indicative budgets were included in the tender documentation. Of the 24 tenders received, only 1 supplied all the required documents. However, in total 18 tenderers were examined for the technical and financial capacity.

The military coup of 5 December 2006 had important repercussions and caused subsequently further delays in the contracting process for infrastructure upgrading under FESP, as instructions were received to beef up scrutiny and further monitoring.

In **KRA 2** provisions were made for allowing students to gain teaching practice in rural and remote primary schools as well as for primary and secondary teachers to attend in-service courses.

Under **KRA 3**, preparations started in 2006 to tender for library resources, laboratory and IT resources, furniture, sports equipment and copying/duplication equipment.

Under **KRA 4**, provisions were made for road and marine transport resources and a printing press, these resources were procured without any problem and handed over in the course of 2006.

NSA activities were supported by grants following locally launched calls for proposals. Problems were faced in the selection process of suitable project proposals due to a very weak capacity and/or lack of willingness of FFoNSA to guarantee a fair and transparent process and subsequently during the implementation phase of various projects in terms of financial accountability. Consequently it was decided to tighten controls and shift the management of the NSA activities to the NAO, supported by a NSA programme management unit.

ANNEX 4: HIV/AIDS in Fiji

The total number of known HIV cases in Fiji, according to a UNAIDS update in 2007, was standing at **236 persons** as per 31 December 2006.

The main route of infection is sexual activity; there has been only one known case of intravenous transmission. Although the first confirmed HIV positive person was infected through blood (a transfusion done abroad), blood supply in Fiji is generally considered safe. Of the 13 pregnancies of women known to be HIV positive, there have been six or seven transmissions of the virus to the infant, four women were lost to follow up, and two babies were born HIV-negative. Eight of the ten known cases of mother-to-child transmission have occurred since 1999. The main reported mode of transmission has been heterosexual, but UNAIDS has doubts about the reliability of these figures, and there is a considerable level of homosexual activity in Fiji.

The risk factors for a fast growing HIV epidemic in Fiji include

- A high incidence of other sexually transmitted infections;
- A high incidence of teenage pregnancies
- A relatively high incidence of drug and substance abuse
- A mobile population
- A large tourism industry
- A cultural behaviour pattern that includes a considerable degree of extramarital sex, as well as
- Sexual violence.

Data on known infections suggest that women are a large group at risk, for they have little control over the sexual behaviour of their partners and little opportunity to protect themselves from infection. Young people are also generally at risk. Ten per cent of known infections have been to people under the age of 20, and 50 per cent were aged 20-29 years. There is no mandatory testing by law for HIV infection, but in practice people who approach STI clinics are routinely tested, sometimes presumably against their will.

There are many concerns that affect People Living with HIV and AIDS, which need to be addressed holistically. In particular, confidentiality, stigma, victimization and discrimination are pressing issues. The National Strategic Plan on HIV/AIDS 2004-2006 (assisted by AusAID) revealed people who are HIV positive are experiencing discrimination at the workplace. This discrimination is because employers are not aware that HIV/AIDS is a prohibited ground for discrimination in employment in the draft Industrial Relations Bill 2003 (which is expected to become law in 2008).

No details on how many infected persons receive ARV treatment could be obtained. Anecdotal evidence suggests that treatment is free of charge for a selected few in and around Suva but virtually unavailable elsewhere in the country. Despite growing concern over HIV and other sexually transmitted infections over the past decade so far few resources have gone towards monitoring the impact of education and behaviour change programmes.