

# FIRST YEN LOAN TO THE REPUBLIC OF FIJI

## Japanese-Assisted Water Supply Project will Improve Environment and Promote Tourism

OECF (President, Chairman of the Board, Mr. Akira Nishigaki) is to provide the Republic of Fiji with a loan amounting to 2,287 million yen for the Nadi-Lautoka Regional Water Supply Project.

The loan agreement was signed on February 12, 1998, at OECF's Head Office in Tokyo by Mr. Akira Nishigaki, President, Chairman of the Board, and H. E. Mr. Ratu Seremaia Tuinausori Cavuilati, Ambassador Extraordinary and Plenipotentiary of the Republic of Fiji to Japan.

This is the first ODA loan to the Republic of Fiji, the 88th country to receive an ODA Loan.

### 1. Loan Amount and Conditions

Projects	Amount (Mil. Yen)	Interest Rate (%)	Repayment Period /Grace Period (years)	Tying Status
Nadi-Lautoka Regional Water Supply Project	2,287	2.5* 2.1 for Consulting Service*	25 / 7	General-Untied

\*Preferential rate for special environmental project

### 2. Project Description

#### Nadi-Lautoka Regional Water Supply Project

##### (1) The Republic of Fiji

The Republic of Fiji is second only to Papua New Guinea in population (0.8 million), area and GDP among the South Pacific Countries (the 14 independent countries of the region apart from Australia and New Zealand), and plays an important role in the region because of its size and geographical location. Fiji is classified as a "Middle Income Country" on the basis of per capita GDP (2,327 US Dollars in 1996), and its "Human Development Index" is also relatively high (46th in the world, about the same level as Venezuela and Hungary, according to the UNDP Human Development Report 1997). The share of manufacturing in its economy (15%) is the highest among the South Pacific Countries, and Fiji is expected to be able to become a self-reliant economy, whereas most of the region's countries will continue to depend on grant aid.

Industry in Fiji principally comprises two major sectors: the sugar industry and tourism. The sugar industry was first developed in the British colonial period. The sugar industry accounted for about 10% of GDP and about 30% of exports in 1997. The country has abundant marine resources and beautiful forests, and tourism has been developed into a major industry from the 1960s to avoid dependence on a single commodity (sugar). The number of tourists has been growing considerably, reaching approximately 340,000 in 1996, a 6.6% increase over the previous year. There are 7 direct flights from Japan to Fiji and about 45,000 Japanese visit Fiji every year, for honeymoons, diving, etc. Tourism earnings account for about half of the country's services income, and were twice those from sugar exports in 1997. Tourism is now Fiji's largest foreign exchange earner. The Fijian Government has set the target of "One Million Tourists to Fiji", which is as many tourists as Guam, at the same time incorporating protection of the environment in its development policy. In recent years, the Fijian Government has been striving to further diversify the country's economy, expanding the number of agricultural products, export items, and industries (for example, promoting the garment industry).

Regarding the macro economic indicators, while average real GDP growth (2.3% p.a. in 1993-97) is not so high, the consumer price index is relatively stable (2.7% p.a. in 1993-97). The Government budget has been registering a deficit each year, but the deficit is decreasing, as a result of the introduction of a value added tax (VAT) and budget cuts. The negative trade balance is offset by the services income surplus, mainly earned by tourism. Total reserves are kept at a high level, and are equivalent to five to six month's imports.

There are two major ethnic groups in Fiji: the native Fijians (51%) and the Indian Fijians (44%). The provisions of the current Constitution are such as to favor the native Fijians. However, a constitutional amendment the effect of which will be to give the Indian Fijians more political power, was passed by the Parliament in July 1997, and is expected to enter into force by July 1998. Fiji withdrew from the Commonwealth in 1987, at the time of a political coup, but was readmitted in September 1997 in consideration of this national reconciliation between the native and Indian Fijians. Foreign direct investment, especially from Commonwealth countries, is expected to increase, and highly educated and skilled Indian Fijians, such as doctors, nurses, and teachers, who went abroad are expected to return to Fiji.

##### (2) The Background to and the Need for the Project

Water supply systems have developed mainly in the urban areas with high population density. Currently 70% of Fijians enjoy access to clean piped water. The Nadi-Lautoka area, the Project site, is located in the western part of Viti Levu Island (the area of Viti Levu Island is about 10,000km<sup>2</sup>; the total area of the nation being about 18,000km<sup>2</sup>), with a population of about 123 thousand in 1996 (15% of the country's total population). Lautoka, which is the city with the second-largest population in Fiji, is the major center of the sugar industry, while Nadi, which is the city with the third-largest population and has the country's only international airport, is the major center for tourism. Approximately 70% of water is being consumed for residential use, with 30% being consumed for industrial use (including tourism). Water demand is expected to increase (by 3.2% every year) because of population growth (2.5% p.a. in the Project area; 1.5% p.a. in nationwide) and further promotion of tourism.

The 70% access rate for clean piped water in the Nadi-Lautoka area is the national average. However, there are several problems: water pressure, deteriorating water quality on rainy days, and water shortages, especially at the peak times for water use in the morning and evening throughout the year, and all day during the dry season (May to November). In order to respond to people's concerns about the inadequate water supply and also to meet the expected increase in water demand described above, it is urgently necessary to improve and expand the water supply system, and also to utilize the existing system to the full.

##### (3) Purpose and Description of the Project

The purpose of the Project is (i) to improve the health and economic well-being of the people of the area and (ii) to promote industries, including tourism, the nation's largest foreign exchange-earning industry, by improving the water supply system, which currently does not have enough capacity to meet demand, and by expanding the system to meet future demand for water for both residential and industrial uses (including tourism).

Utilizing existing water sources, such as the Vaturu Dam (built in 1982 / rock-fill type; total storage capacity 29 million m<sup>3</sup>), it is planned to complete the following works by the target year of 2005: (i) improvement and expansion of water supply facilities, (ii) solving the problems of water shortage and water pressure, (iii) improvement of water quality, (iv) expansion of the area served by the water supply system, (v) reduction of the percentage of water unaccounted for (1 - billing rate/production; from the 29% of 1995 to 26% in 2000), and (vi) improvement of the collection rate for the water charge. In addition, a study for a plan for the expansion of the sewerage system to keep pace with the increase in water supply will be carried out in order to protect the coastal environment, which is also an important tourism "natural resource".

The proceeds of the ODA loan will be used for the procurement of goods and services for the Project, and for consulting services. OECF has assisted the Project from the preparatory stages, with Special Assistance for Project Formation (SAPROF) being provided from February to May 1997.

The Executing Agency for the Project is the Ministry of Communication, Works and Energy, Public Works Department.  
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