



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 23-Sep-2019 | Report No: PIDA27543



**BASIC INFORMATION**

**A. Basic Project Data**

|                       |                      |  |                              |
|-----------------------|----------------------|--|------------------------------|
| Country               | Project ID           | Project Name   | Parent Project ID (if any)   |
| Fiji                  | P168402              | Fiji Second Fiscal Sustainability and Climate Resilience DPO (P168402) | P165276                      |
| Region                | Estimated Board Date | Practice Area (Lead)   | Financing Instrument         |
| EAST ASIA AND PACIFIC | 07-Nov-2019          | Macroeconomics, Trade and Investment                                   | Development Policy Financing |
| Borrower(s)           | Implementing Agency  |  |                              |
| Republic of Fiji      | Ministry of Economy  |  |                              |

**Proposed Development Objective(s)**

The Development Objective of the Second Fiscal Sustainability and Climate Resilience DPO is to support the government’s effort to: (i) strengthen medium-term fiscal sustainability; (ii) improve the investment climate; and (iii) build climate resilience.

**Financing (in US\$, Millions)**

**SUMMARY**

|                        |       |
|------------------------|-------|
| <b>Total Financing</b> | 64.00 |
|------------------------|-------|

**DETAILS**

|   |       |
|---|-------|
| <b>Total World Bank Group Financing</b> | 64.00 |
| World Bank Lending                      | 64.00 |

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

**Country Context**

The proposed operation supports Fiji’s reform effort to strengthen medium-term fiscal sustainability while undertaking structural reforms to improve the business climate and resilience to climate change. The proposed operation is the second in a programmatic series of two development policy operations (DPOs), with a total of US\$64 million (US\$6 million



from IBRD and US\$58 million equivalent<sup>1</sup> from IDA, including US\$29 million from the Scale-Up Facility). This is Fiji's first IDA-financed operation since the country gained access to IDA on July 1, 2019. At the request of the Government of the Republic of Fiji, the World Bank has worked closely with the Asian Development Bank (ADB) on the preparation of this operation. The ADB is expected to provide a similar level of financing through a Policy-Based Loan, using criteria that are consistent with the Bank's proposed operation. The proposed operation is aligned with the government's development goals articulated in the 5 and 20-year National Development Plan 2017 (NDP 2017).

While greater political stability has provided a favorable context for growth, Fiji faces challenges posed by frequent natural disasters. Since 2014, a more stable political environment, along with a re-engagement with the international financial community, has thus provided a favorable context for economic growth and development. Fiji's GDP rose from an average of 1.5 percent per annum in 2007-2013 to 3.3 percent in 2014-2018. Over the same period inflation fell from an average of 4.8 percent per annum to 2.6 percent and unemployment was cut from 7.7 percent to 4.5 percent. However, long-term growth since independence from Great Britain in 1970 has remained modest, averaging 2.8 percent a year or 1.6 percent per capita, due to frequent natural disasters, especially cyclones and floods. Fiji is on a tropical cyclone belt and, on average, one cyclone passes through its waters each year. In February 2016, a category 5 Tropical Cyclone (TC) Winston caused extensive damage and losses amounting to FJ\$2.9 billion, nearly 20 percent of 2014 GDP. With climate change, losses of 2.5 percent of GDP are expected every year and losses of 20 percent every 50 years. Another problem has been low private investment, reflecting high risk from frequent natural disasters as well as intermittent political crises. High costs of doing business and difficulties in finding and retaining skilled workers are also identified as important constraints to investment (Fiji Systematic Diagnostic 2017).

The strategic rationale for World Bank support is well-founded. First, Fiji has a relatively strong track record of delivering on its reform commitments. Fiji was able to contain the fiscal deficits within manageable levels despite the large damages from frequent natural disaster shocks and implement structural reforms to develop a relatively sophisticated and diversified economy. Second, Fiji is committed to, and has initiated, fiscal consolidation and is addressing climate resilience in the wake of cyclones and floods despite challenges from the continued need for reconstruction after each cyclone season. Third, the focus of the Government's program and of the proposed operation, is sound given the country's development challenges. The World Bank's support of the government through the proposed operation aims to maintain fiscal sustainability, promote private sector development and enhance climate resilience.

#### Relationship to CPF

The proposed DPO is fully aligned with the objectives and proposed outcomes of the upcoming CPF for Fiji. The new World Bank Group strategy for Fiji for the period FY20-24 builds on the findings of the Systematic Country Diagnostic (SCD) submitted to the Board in June 2017. The SCD was structured around strategic priorities to accelerate Fiji's growth toward the dual goal of ending extreme poverty and prompting shared prosperity in a sustainable manner; specifically strengthening fiscal sustainability; improving the investment climate; and building resilience to climate change. These core priorities, which underpin the NDP 2017, remain central to the new CPF under preparation. The program development objective of the proposed operation to support the government's effort to (i) strengthen medium-term fiscal sustainability; (ii) improve the investment climate; and (iii) build climate resilience contributes directly to these strategic priorities. Moreover, by supporting reforms that help create fiscal space, strengthen medium-term planning, improve the sustainability of government finance and improve the investment climate the proposed operation will, in turn, help avoid disruptions in capital spending, encourage long-run private investment in priority infrastructure that meets climate resistance standards, with a positive impact on Fiji's poor and vulnerable who are disproportionately impacted when natural disasters strike.

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<sup>1</sup> Based on the US\$/SDR exchange rate on July 15, 2019.



### C. Proposed Development Objective(s)

The Development Objective of the Second Fiscal Sustainability and Climate Resilience DPO is to support the government's effort to: (i) strengthen medium-term fiscal sustainability; (ii) improve the investment climate; and (iii) build climate resilience.

#### Key Results

Reforms under the first pillar are expected to result in: the reduction of the average fiscal deficit from the implementation of the medium-term fiscal strategy; and the move to a more prudent and transparent approach to granting guarantees to government entities including through an ex-ante risk analysis and imposition of a risk-based guarantee fee. The expected results under the second pillar are: the improved foreign investment framework in Fiji reduces real and perceived risk of investing in Fiji; is improvement in the time sub-indicator of the Doing Business score for starting a business; improvement in the legal rights index of the Doing Business score for getting credit; and improvement in number/ ratio of registration of security interest on movable collateral are owned by women or women-owned businesses. Under pillar three, the expected results are: adherence of new single-story schools and houses in rural and customary lands to the National Building Code; training material developed and used for improving capacity of building practitioners in rural areas; establishment of a Cabinet level committee to provide oversight on climate resilient development outcomes; and progress on at least two objectives and strategies of climate resilient development outcomes reported to the National Climate Change Committee.

### D. Project Description

**The operation has three pillars: (i) strengthen medium-term fiscal sustainability; (ii) improve the investment climate; and (iii) build climate resilience.** The development objectives and associated reform actions in these three areas are closely aligned with the Government's priorities as identified in NDP 2017 and discussed above. Specifically, the first pillar supports the government's efforts to strengthen fiscal sustainability in the medium-term with measures that include rationalizing capital expenditures, maintaining current expenditure constant in real terms and strengthening public debt management, and to reduce fiscal risk, by rationalizing policies for granting of on-lending arrangements and government guarantees to public entities. The second pillar supports the government's efforts to increase private sector investment through measures aimed at improving the business environment, streamlining the procedures for business registration and strengthening governance, an essential pre-condition for private investment, by amendments to investment laws and regulations and the implementing framework of the Personal Property Securities Act. The third pillar of the operation is closely aligned with the mainstreaming of climate resilience activities evident across all sectors in the NDP2017 and focused on objectives articulated in the previous DPO. Reforms in this operation strengthen the resilience of new single-story schools and housing that has proved to be highly vulnerable to climate-related disasters, particularly cyclonic winds and on improving the resilience of transport infrastructure and water supply.

**Pillar 1: Strengthen medium-term fiscal sustainability.** The first development objective of the proposed operation is to strengthen Fiji's medium-term fiscal sustainability. The government needs to ensure prudent fiscal policy making to avoid risks to fiscal and debt sustainability and prevent crowding out of productive expenditure through increasing interest and debt repayment requirements in the medium-term. Additionally, rebuilding fiscal buffers is imperative to enable effective responses to future shocks. This pillar supports the government's efforts to implement an expenditure-led fiscal consolidation and to strengthen the framework of monitoring fiscal risks associated with government guarantees provided to the government entities.



**Pillar 2: Improve the investment climate.** The second development objective of the proposed operation is to improve Fiji's investment climate. Private investment has risen in recent years but remains low relative to Fiji's peers and is largely limited to a few sectors such as tourism. Fiji needs more investment and improvements to the business regulatory environment to support economic growth and improve the delivery of key services. The government looks to the private sector to play a greater role in building infrastructure and delivering health care but attracting more FDI and expanding the role of the private sector in the economy requires modernization of the legal and regulatory framework. The current framework does not fully reassure investors, and it raises the cost of doing business (Fiji SCD 2017). For example, a recent review of the investment law and associated legislation identified several departures from international conventions that raise perceived risk of investing in Fiji. Considerable red tape exists, and time spent dealing with multiple approval procedures is raising the costs of doing businesses. This pillar supports the government's effort to attract more FDI and to expand the role of the private sector in the economy.

**Pillar 3: Build climate resilience.** The third development objective supports government's efforts to reduce Fiji's vulnerability to the current and long-term threats of climate change, particularly cyclones and floods. As stated earlier, these vulnerabilities already have a large adverse impact on Fiji and are likely to result in even greater social, environmental and economic costs over the next 25 years irrespective of global action to reduce greenhouse gas emissions and slow down the rate of climate change.<sup>2</sup> Reforms to improve Fiji's resilience to these climate and disaster risks under this pillar are focused on) strengthening new single-story schools and residential housing given that these assets, mostly in rural areas accounted for about 50 percent of the damage and loss after TC Winston. In addition, reforms implementation of actions to enhance the resilience of transport infrastructure and water supply during seasonal droughts, floods and/or cyclones, especially in the highly populated urban areas would also contribute to improving the climate resilience of Fiji.

## E. Implementation

### Institutional and Implementation Arrangements

The Ministry of Economy is responsible for coordinating the monitoring and evaluation of the results indicators for the proposed operation. The Budget Support Steering Committee will serve as the institutional structure for the monitoring and evaluation process. This committee, which is chaired by the Permanent Secretary for Economy and reports directly to the Minister of Economy, has been established to manage and monitor budget support and its implementation. The committee comprises representatives from relevant divisions of the Ministry of Economy, Fiji Revenue and Customs Service, Ministry of Industry, Trade and Tourism, and the Solicitor General's Office.

The results indicators chosen for the operation have been selected with a view to the ready availability of data of reasonable timeliness and quality. The monitoring and evaluation of the indicators will be supported by the data provided by relevant government ministries and agencies, and data from publicly available sources. Progress against actions and outcomes will be collaboratively tracked, and any necessary remedial actions identified and supported jointly by the ADB, PFTAC, and the World Bank.

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<sup>2</sup> World Bank. 2017. Climate change and disaster management. Pacific Possible; Background Paper no. 6.



## **F. Poverty and Social Impacts and Environmental Aspects**

### Poverty and Social Impacts

The proposed operation supports a suite of Prior Actions (PA) that promote the creation of more and better jobs, with potentially high poverty reduction impacts. The share of income from formal wages and salaries increased from 43 percent in 2002/03 to 61 percent in 2013/14, indicating an increased formalization of the economy. However, labor force participation was lower among the poor than the non-poor – at 52.5 percent and 57.5 percent, respectively (Fiji 2013/14 HIES) – and unemployment was also higher among the poor. This indicates a need to improve the productivity of the poor and vulnerable, which is a necessary step to lift them out of poverty and generate shared prosperity. PA3 is expected to reduce poverty and inequality through greater job growth, depending on the accessibility of those jobs to the Bottom 40. PA4 is expected to reduce poverty and inequality by boosting formal economic opportunities, particularly in urban areas. PA5 is expected to reduce poverty through improvements in the credit market that enable access by poorer entrepreneurs. PA6 and PA7 support the government in its efforts to boost resilience to disaster-related shocks, which will have a positive impact on the poor, and will reduce the urban-rural gap in disaster resilience.

### Environmental Aspects

The policy actions supported under the operation are not expected to have significant negative impacts on Fiji's environment, natural resources or forests and those under the third pillar are likely to have potentially positive effects. Prior Action 6 supporting the use of guidelines for new single-story schools and houses on customary lands, is expected to have positive effect on the environment as the stronger buildings will withstand natural disasters, have longer lifespan and thus reduce the demand for natural resources, such as sand rocks and/or timber, needed for construction. The reforms supported PA7 are also expected to have positive effects through enhanced resilience in key vulnerable sectors, such as infrastructure, water supply and/or watershed management. Reforms supported under PA3 include promoting an increase in FDI. If the investments are in sectors such as tourism and coastal zone development, there could be potential negative effects on environment. The draft Fiji Direct Investment Act supported through PA 3 include a transparent process for entry of FDI and specifies that investors have duties and obligations for "environmental protection". Such elements will help mitigate any potential negative effects on environment from increase in FDI. In addition, there has been strengthening of the implementation of the EIA process in mid-2019. This along with the government's goal for sustainable and resilient environment will contribute to mitigating the potential adverse effects on environment. Policy reforms supported through the other Prior Actions (1, 2, 4, 5) are expected to have neither positive nor negative effects on the environment, natural resources or forests.

## **G. Risks and Mitigation**

The overall risk of the operation is moderate, with substantial macroeconomic, and environmental and social risks. Macroeconomic risk is substantial and stems from exposure to natural disasters; slowdown in Fiji's main export and tourism source markets; adverse commodity price developments; any setback to fiscal consolidation; and slowing down of the structural reform agenda. The risk is mitigated by the proposed operation, particularly by the policy reforms that aim to improve the business climate in the event of such shocks, and in the medium run by the policy reforms to strengthen fiscal sustainability and climate resilience supported by the operation. Environmental and social risk is substantial stemming from Fiji being in the cyclone belt and highly vulnerable to climate shocks. The reforms to strengthen the resilience of single-story buildings, transport infrastructure and water sector would help minimize such risks, especially in rural areas and would benefit the poorest and most vulnerable population including through decrease in the interruption to basic services.



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**APPROVAL**

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|----------------------|------------|
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**Approved By**

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|-------------------|----------|-------------|
| Country Director: | Mona Sur | 30-Jul-2019 |
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