



The World Bank

Fiji Recovery and Resilience First Development Policy Operation with a Catastrophe-Deferred Drawdown Option
(P173558)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 15-Feb-2021 | Report No: PIDA30727



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BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Fiji	P173558	Fiji Recovery and Resilience First Development Policy Operation with a Catastrophe-Deferred Drawdown Option (P173558)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	25-Mar-2021	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Fiji	Ministry of Economy		

Proposed Development Objective(s)

The development objective is to: i) promote private sector-led economic recovery; ii) enhance climate, disaster and social resilience; and iii) strengthen debt and public financial management.

Financing (in US\$, Millions)

SUMMARY

Total Financing	145.00
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DETAILS

Total World Bank Group Financing	145.00
World Bank Lending	145.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

The proposed operation supports Fiji's recovery from the impact of the COVID-19 pandemic and Tropical Cyclone (TC) Harold, TC Yasa and TC Ana through economic, social and climate resilience reforms. It is the first in a programmatic series of two development policy operations DPOs of US\$135 million (US\$25million from IBRD and US\$110 million



equivalent from IDA). The proposed DPO is combined with a Disaster Risk Management Catastrophe-Deferred Drawdown Option (Cat-DDO) of US\$10 million equivalent from IDA bringing the total financing for the joint operation to US\$145 million equivalent. The Government's success in the fight against COVID-19 virus has largely spared the pandemic's direct health impact but the economic impact has been devastating. While suffering the severe consequences of COVID-19 crisis, Fiji was hit by Category 4 TC Harold in April 2020 and Category 5 TC Yasa in December 2020. The losses from TC Harold were estimated to be 3.3 percent of 2019 GDP and the economic damages for TC Yasa at 4.5 percent of 2019 GDP. On January 31, 2021, Fiji's highly populated island of Viti Levu was hit by a Category 3 TC Ana, causing extensive flooding. At present, there are no quantitative estimates on the extent of the damage.

The multiple shocks present Fiji with an unprecedented economic crisis. GDP is expected to contract by 19 percent in 2020, one of the sharpest economic contractions in the world and the steepest in Fiji's history. On the external front, the virtual standstill of the tourism sector is affecting growth directly and having negative spillovers to retail trade, construction, transport, real estate and finance sectors. On the domestic front, economic activity is impaired by the measures introduced to contain the pandemic including travel restrictions, a nationwide nighttime curfew and closure of non-essential businesses and services. The shocks strained fiscal buffers and upended short-term fiscal policy goals. To mitigate the impact of the pandemic, the authorities announced a stimulus package of around 9.5 percent of GDP in the FY2020 COVID-19 Response Budget. A comprehensive second stage response was provided through the FY2021 budget. Monetary policy was further eased to counter the impact of COVID-19. Fiji's financial system remains broadly sound and stable, but a future weakening in bank profits and capital buffers appears unavoidable if the pandemic persists.

The macroeconomic policy framework is adequate for the purposes of this operation. The multiple shocks have had a substantial negative effect on economic activity, and on the fiscal and current account balances. The combination of fiscal, monetary and prudential measures implemented in response are appropriate. The authorities continue to show resolute commitment to responsible fiscal policies and debt management, and to support a sustainable and inclusive economic recovery.

Relationship to CPF

The proposed DPO is fully aligned with the objectives and proposed outcomes of the new Country Partnership Framework (CPF) covering FY2021-2024 and approved in January 2021. The CPF builds on the findings of the Systematic Country Diagnostic (SCD) (Report #120106) 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 promoting 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 National Development Plan 2017, remain central to the new CPF. The proposed operation builds on the reforms supported through the previous DPO series and complements the ongoing policy engagement and development partner operations.

C. Proposed Development Objective(s)

The development objective is to: i) promote private sector-led economic recovery; ii) enhance climate, disaster and social resilience; and iii) strengthen debt and public financial management.

Key Results

The first development objective of the proposed operation is to create a better environment to mobilize private sector financing and promote private sector-led inclusive economic recovery. Under Prior Action 1, the expected result is the introduction of the new national payment system legal framework based on international standards and best practices



for regulating the payment system. Under Prior Action 2, the expected result is the creation of an enabling infrastructure and platform for issuance of wholesale corporate bonds.

The second development objective is to enhance the resilience to risks from climate change and other natural hazards and improve the efficiency and effectiveness of the social assistance programs. Under Prior Action 3, the expected results are: (i) at least 5 percent of area within the national jurisdiction is legally designated as Marine Protected Areas that contribute to climate resilience; (ii) at least 25 percent of the National Ocean Policy Steering Committee members are women. Under Prior Action 4, the expected result is that the importer provide evidence for steel reinforcement material being manufactured in accordance with the revised standard, or suitable equivalent standard. Under Prior Action 5, the expected result is the share of beneficiaries in the poorest quintile included in the poverty-targeted social assistance programs increase from 30 to at least 35 percent.

The third development objective of the proposed operation is to strengthen debt and public financial management. Under Prior Action 6, the expected results are that debt management practices will be strengthened through the implementation of Medium-Term Debt Management Strategy that sets debt management priorities and targets to guide public borrowing decisions. Under Prior Action 7, the expected results are by 2024: (i) the performance indicator measuring aggregate revenue outturn in the Public Expenditure and Financial Accountability assessment will improve from D to C; (ii) the rollout of GRB is expected to result in 35 programs (out of 200) across budget agencies performing gender impact assessments and collecting sex-disaggregated data for monitoring and evaluation; and (iii) the share of women in total new police recruitments will increase from 19 percent to at least 25 percent by 2024.

D. Project Description

The proposed operation supports Fiji's recovery from the impact of the COVID-19 pandemic and TC Harold, TC Yasa and TC Ana through economic, social and climate resilience reforms. It is the first in a programmatic series of two DPOs and is combined with a Disaster Risk Management Cat-DDO.

Pillar 1: Promoting private sector-led economic recovery

Prior Action 1: To improve the efficiency of payment system and foster digital solutions, the Recipient, through its Cabinet, has approved the National Payment System Bill 2020.

Indicative Trigger 1: To improve the efficiency of payment system and foster digital solutions, the Recipient, through Reserve Bank of Fiji, has approved a new oversight framework for payments and guidance on retail payments instruments and services.

Prior Action 2: To develop wholesale corporate bonds market, the Recipient, through the Ministry of Economy, has approved the Companies (Wholesale Corporate Bonds) Regulations 2021.

Indicative Trigger 2: To ease access to capital by small and medium-sized enterprises, the Recipient, through its Cabinet, has approved a new Small Business Access to Capital Bill.

Pillar 2--- Enhancing climate, disaster and social resilience

Prior Action 3: To enhance resilience of coastal communities by protecting marine ecosystems, the Recipient, through its Cabinet, has approved the National Ocean Policy 2020-2030.

Indicative Trigger 3: To reduce marine plastic pollution, the Recipient, through its Cabinet, has approved amendments to the Environmental Management Act (2005) and Customs Act (1986) to phase-out foamed polystyrene.



Prior Action 4: To improve the resilience of buildings to climate risks by specifying minimum requirements of structural materials, the Recipient, through the Ministry of Commerce, Trade, Tourism and Transport, has approved Fiji Standard AS/NZS 4671 for Steel Reinforcing Materials.

Indicative Trigger 4: To improve the resilience of single- or two-story housing and other building structures to increased wind loads due to changing climate, the Recipient, through the Ministry of Commerce, Trade, Tourism and Transport, has revised the Fijian Standard AS 4055 for Wind Loads for Housing and the Fijian Standard AS/NZS 1170.2 – Structural Designs Actions Part 2: Wind action.

Prior Action 5: To better target social assistance programs and improve socioeconomic and climate resilience of the poor and vulnerable, the Recipient, through its Cabinet, has approved the Social Assistance Policy: Protecting the Poor and Vulnerable.

Indicative Trigger 5: To identify and support the poor and vulnerable as a critical element of implementation of Social Assistance Policy, the Recipient, through the Ministry of Women, Children and Poverty Alleviation, has established a Social Registry.

Pillar 3--- Strengthening debt and public financial management

Prior Action 6: To improve debt management, the Recipient, through its Cabinet, has approved Fiji's first Medium Term Debt Management Strategy Fiscal Years 2021-2023 and made it publicly accessible on the Ministry of Economy's website.

Indicative Trigger 6: To improve debt management, the Recipient, through the Ministry of Economy, has implemented an annual borrowing plan consistent with the Medium Term Debt Management Strategy and integrated it into the Medium Term Fiscal Strategy.

Prior Action 7: To strengthen public financial management, the Recipient, through its Cabinet, has: (i) approved the Financial Management (Amendment) Bill 2021; (ii) applied Gender Responsive Budgeting (GRB) principles in its FY2020-2021 budget process with regard to two pilot ministries, namely, the Ministry of Commerce, Trade, Tourism and Transport and the Ministry of Fisheries; and (iii) agreed that Gender Responsive Budgeting principles will be rolled out to other ministries in the future.

Indicative Trigger 7: To strengthen public financial management and align with the Public Financial Management Amendment Bill, the Recipient, through its Cabinet, has approved revised Financial Instructions and Procurement Regulations.

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. The Committee, chaired by the Permanent Secretary for Economy, manages and monitors budget support and reports directly to the Minister of Economy. The Committee comprises representatives from relevant divisions of the Ministry of Economy, the Fiji Revenue and Customs Service, the Ministry of Commerce Trade, Tourism and Transport, and the Office of the Solicitor-General.



F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The policy reform supported in PA1 is expected to have a neutral impact on poor and vulnerable. The transition to digital and non-cash payments supported in PA1 is expected to improve the overall efficiency of payment system and lower the costs of remittances, which would have positive income implications for poor and vulnerable households. Nonetheless, the impact may be mitigated if lower income segments of the population have less access to the digital technology. The National Ocean Policy supported in PA3 will likely have positive long-term impacts on the livelihoods of fishers in coastal communities and remote islands. The Social Assistance Policy supported in PA5 is expected to have significant positive effects on the poor and vulnerable. The policies supported in Pillar 3 are expected to positively impact the poor and the vulnerable, primarily through maintaining the quality of public service provision.

Environmental, Forests, and Other Natural Resource Aspects

The policy actions supported under the proposed operation are not expected to have significant negative impacts on Fiji's environment, natural resources or forests. Policy actions that support debt management, public financial management and businesses, are unlikely to lead to expansions of economic activity given current economic conditions, thus reducing the risk of negative effects on the environment. The policy action related to the ocean (PA3) will have significant positive effects on marine and coastal ecosystems and natural resources. The revisions to steel reinforcing standard (PA4) will increase the lifespan of buildings and are expected to have significant positive effects on forests and natural resources. Financial support for the poor and vulnerable (PA5) are also likely to have positive effects on forests and natural resources due to reduced demand for ecosystem services such as food and fuelwood.

G. Risks and Mitigation

The overall risk of the operation is substantial to achieving its development outcomes. Ongoing risks are associated with the COVID-19 pandemic and the ever-present threats of natural disasters, the realization of which could lead to significant macroeconomic impacts and put additional stress on already strained government capacity. But these are in part mitigated by the reforms supported by this operation, and the financing provided. Political and governance risk is substantial due to the COVID-19 crisis. The proposed operation focuses on the areas where the government has already established a strong track record, and with policy triggers designed to bolster reform momentum while allowing some flexibility. This, and close coordination with other development partners, and appropriate consultation with the broader group of stakeholders, including the private sector, should mitigate risks. Macroeconomic risk to Fiji's economy is high due to uncertainty regarding the duration and impact of the COVID-19 pandemic. These risks are mitigated by the proposed operation, and financing provided by other development partners that will alleviate fiscal pressure from any such shocks in the short run. In the medium-term, policy reforms to strengthen fiscal sustainability, debt management and social and climate resilience supported by this operation will bolster recovery. Environmental and social risk is substantial. At least one tropical cyclone passes through Fijian waters each year. Localized flash flooding during the wet season (November to April) is also quite common. Such events are outside the reforms supported through the operation and implementation delays can hamper the achievement of results. The reforms to strengthen the resilience of buildings, coastal and marine ecosystems will help minimize the risk.



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APPROVAL

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Approved By

Country Director:	David Michael Gould	12-Jan-2021
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