Report Number : ICRR0022759

1. Project Data

Country
Fiji

Practice Area(Lead)
Macroeconomics, Trade and Investment

Programmatic DPL

Planned Operations: 0

Approved Operations: 0

Operation ID
P165276

Operation Name
Fiji DPO

L/C/TF Number(s)
IBRD-88400

Closing Date (Original)
30-Jun-2019

Total Financing (USD)
15,000,000.00

Bank Approval Date
02-Apr-2018

Closing Date (Actual)
30-Jun-2019

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	15,000,000.00	0.00
Revised Commitment	15,000,000.00	0.00
Actual	15,000,000.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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Operation ID
P168402

Operation Name
Fiji DPO2 (P168402)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-88400,IBRD-90160,IDA-65000,IDA-65010	07-Nov-2020	63,730,092.38
Bank Approval Date	**Closing Date (Actual)**	
07-Nov-2019	07-Nov-2020	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	64,000,000.00	0.00
Revised Commitment	64,000,000.00	0.00
Actual	63,730,092.38	0.00

2. Program Objectives and Policy Areas

a. Objectives

The Fiji Fiscal Sustainability and Climate Resilience Development Policy Operation (DPO) series consisted of two single-tranche loans over two-and-a-half years (2018-2020). Both operations had the same program development objectives (PDOs), stated in Program Document 2 (PD2, para. 33) for DPO 2 [IBRD and IDA] stated the PDOs as: "to support the government's effort to: (i) strengthen medium-term fiscal sustainability; (ii) improve the investment climate; and (iii) build climate resilience." The three pillars are identical to these PDOs. These objectives are inter-related in that climate-related natural disasters adversely affect both fiscal sustainability and investment, and enhanced private investment is important to help achieve fiscal consolidation and greater resilience.

For the purpose of this ICRR, the PDOs are taken as those stated in the program document (PD 1, p. iv) for the first DPO, and continued in the second DPO:

1. Strengthen medium-term fiscal sustainability
2. Improve the investment climate
3. Build climate resilience

b. Pillars/Policy Areas

The pillars are identical to the three PDOs:

1. Strengthen medium-term fiscal sustainability
2. Improve the investment climate

3 . Build climate resilience

The third pillar only had indicative triggers in DPO1, with prior actions only in DPO2. The pillars remained essentially unchanged, with some minor changes in wording and focus.
Table 1: Pillars, Objectives, and Prior Actions for Fiji Fiscal Sustainability and Climate Resilience DPO Series

Primary Prior Actions	**Follow-up Actions**
PDO/Pillar 1: Strengthening medium-term fiscal sustainability	
Revenue-side measures	
PA 1 (DPO1): The Borrower, through its Parliament, has: (a) eliminated the dividend taxation regime; (b) raised the minimum income tax threshold for its male and female residents from F$16,000 to F$30,000 per annum; (c) increased the Environment and Climate Adaptation Levy from 6 to 10 percent; (d) introduced a F$0.10c charge per bag on plastic bags at retail outlets; and (e) increased fiscal duties on cigarettes, tobacco, and alcohol by 15 percent.	
Expenditure-side measures	
PA 2 (DPO 1): The Borrower, through its Ministry of Economy, has approved a new framework to guide the strengthening of fiscal oversight of its State-Owned Enterprises (SOEs).	PA 3 (DPO 2): The Recipient, through its Cabinet, has approved the Government Guarantee Policy for granting guarantees to government entities. PA 4 (DPO2): The Recipient, through its Cabinet, has approved a Medium-Term Fiscal Strategy (MTFS) that strengthens fiscal discipline and initiates fiscal consolidation through expenditure-side measures, consistent with debt sustainability
PDO/Pillar 2: Improving investment climate	
Investment measures	
PA 5 (DPO 1): The Borrower, through its Parliament, has enacted the International Arbitration Act 2017 to improve the framework governing international commercial arbitration.	PA 6 (DPO 2): The Recipient, through its Cabinet, has approved the draft Fiji Direct Investment Bill and an Investment Policy Statement that provide a simple, transparent process for entry of foreign investment and establish investor protections.
Doing Business measures	
PA 7 (DPO 1): The Borrower, through its Parliament, has approved a new policy framework for issuing building permits to expedite the process for obtaining	PA 8 (DPO 2): The Recipient, through its Cabinet, has adopted a strategy for improving the business environment and through its Ease of Doing Business taskforce started its

building permits for non-residential purposes by businesses and individuals.	implementation including establishment of online company registration.
Access to finance measures	
PA 9 (DPO 2): The Recipient, through the Ministry of Economy, has established the regulatory framework and institutions necessary to allow moveable property to be used more securely as collateral for credit purposes by: (a) the commencement of the Personal Property Securities Act 2017; (b) the publication and commencement of the Personal Property Securities Regulations 2019; (c) the appointment of the Reserve Bank of Fiji (RBF) as the Registrar and administrator of the Personal Property Securities Registry.	
PDO/Pillar 3: Building climate resilience	
Building codes	
PA 10 (DPO 2): The Recipient, through its Cabinet, has approved Resilient Building Guidelines that: (i) strengthen new single-story schools and residential housing on native lands against climate-related risks and earthquakes aligned with the National Building Code - Fiji requirements; and (ii) form contents of training for building practitioners in rural areas.	
Climate change policy	
PA 11 (DPO 2): The Recipient, through its Cabinet, has approved the National Climate Change Policy (NCCP) 2018-2030 to scale up the Recipient's activities for enhancing resilience of key vulnerable sectors.	
Total: A total of 7 identifiable subobjectives/clusters of actions, with 18 individual actions/subactions. DPO 1: 4 PAs with 8 actions/subactions DPO 2: 7 PAs with 10 actions/subactions	

c. Comments on Program Cost, Financing, and Dates

The Fiji Fiscal Sustainability and Climate Resilience DPO series consisted of two single-tranche loans over two-and-a-half years (2018-2020). DPO 1 was an IBRD loan of US$ 15 million, approved on April 2, 2018, fully disbursed and closed on schedule on June 30, 2019. DPO 2 consisted of an IBRD loan of US$ 15 million, an IDA credit of US$ 29 million, and an IDA scale-up facility credit of US$ 29 million, totaling US$ 64 million (US$ 63.73 million disbursed), approved on November 7, 2019, and closed on schedule on November 7, 2020. The Asian Development Bank (ADB) provided complementary financing of US$ 180 million in a series of three policy-based loans over 2018-2020, and other World Bank projects provided parallel financing (TTL response).

3. Relevance of Objectives & Design

a. Relevance of Objectives

Relevance to country context

Natural disasters pose a major constraint on achieving Fiji's development objectives. Tropical storms and floods in almost every year over 2008-12 cost an average of 1.3 percent of GDP, and damage caused in 2016 by tropical cyclone Winston was estimated to have lowered GDP by 10 to 20 percent (PD 1, figure 3). The persistent declines in GDP lowered long-term growth and have had especially adverse impacts on the lower-income population. The Fiji Climate Vulnerability Assessment 2017 estimates that climate change will raise the average annual loss from natural disasters from 2-5 percent of GDP to 2.5-6.5 percent by 2050 (PD 1, para. 51). The expenditures needed to recover from disaster adversely affect Fiji's ability to achieve its medium-term fiscal consolidation objectives and to manage its public debt (PD 1, paras. 23 and 34). The high risk of extreme weather events is also a deterrent to private investment, which tends "to be concentrated in sectors with sensitive ecosystems, such as tourism, agriculture or mining" (PD 1, para. 75), compromising the government's desire to offset its limited fiscal space by having the "private sector play a greater role in building and improving roads and expanding access to electricity, telecommunications, and health care" (PD 1, para. 43).
The DPO objectives were highly relevant to addressing these development constraints posed by natural disasters and climate change. The emphasis on strengthening medium-term fiscal sustainability (through both revenue-side measures to reform taxation and expenditure-side measures to strengthen fiscal oversight, especially of SOEs) was appropriate to ensure adequate fiscal space to finance periodic recovery efforts as well as infrastructure investments to mitigate risks. Improving the investment climate (though greater transparency in arbitrating international investment disputes and reducing the time and cost of obtaining construction permits and business licenses) was indirectly relevant to increasing the complementary fiscal contribution from private investment (depending on the tax structure). Steps to enhance access to finance in ways that would particularly benefit women were relevant to reducing the adverse impacts of disasters on marginalized groups. And measures to build climate resilience (through application of building codes and greater transparency with respect to climate resilient development outcomes) were directly aimed at mitigating the tendency of climate change effects to aggravate the fiscal and distributive impacts of natural disasters.

Relevance to CPF and country development strategy

The objectives were pitched at an appropriate level, i.e., to address constraints in ways that would support higher-level objectives concerning growth, poverty and inequality. The three PDOs were directly aimed at "three of the five strategic priorities identified in the SCD [Systematic Country Diagnostic, 2017] to accelerate Fiji's progress toward the twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner through (a) safeguarding fiscal sustainability, (b) improving the business environment, and (c) investing in climate resilience" (ICR, para. 7). These SCD priorities "remained central to the objectives and proposed outcomes of the first Country Partnership Framework [2018-22] for Fiji that was in preparation during DPO2" (ICR, para. 7). These priorities were also aligned with the Government's 2017 National Development Plan (NDP), and DPO 2 in particular included climate change resilience measures relevant to the NDP's objective of mainstreaming such activities across all sectors.

Rating

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b. Relevance of Design

Rating

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4. Achievement of Objectives (Efficacy)

Objective 1

Objective

Strengthening medium-term fiscal sustainability
(RIs 1-3; PAs 1-4)

Rationale

Two of three targets were initially met, though the RIs were not rated as satisfactorily relevant to achievement of the objective and the impact was moderated through exemptions. The fiscal deficit target was not achieved.

RI 1 (fiscal deficit as a percentage of GDP) actually worsened (to 7.0 percent for 2019-21) rather than improved (to 3.0 percent) as targeted, in large part due to the impact of the COVID-19 pandemic and natural disasters. Because the indicator was not directly relevant to the tax administration measures under PA 1, the effectiveness of those steps toward "the fairer tax system is difficult to measure" (ICR, para. 23), let alone their impact on the revenue side of the deficit. Since “the MTFS is not operational,” PA 4 to undertake expenditure-side measures had no effect.

RIs 2 and 3 were qualitative and achieved: fiscal risk profiles of SOEs were reported in both 2019/20 and 2020/21, and their guarantee fees were based on their risk profiles as of 2019/20 – although three of six entities were granted exemptions in 2021. However, these were not satisfactory as indicators of progress toward the objective of reducing the contribution of SOEs to the fiscal deficit. Subsequent exemptions to half of the entities intended to be covered undermined initial achievement of basing fees on risk profiles (RI 3). There is no evidence regarding changes in the contribution of SOEs to the fiscal deficit, let alone as to whether such changes could be attributed to the PAs.

Rating

Objective 2

Objective

Improving investment climate

Rationale

One RI had no progress; two of four RI targets were fully achieved by closing, and one substantially achieved. None the four RIs was satisfactory as indicators of achievement of the objectives being sought through the PAs.
The number of EOIs from foreign investors (RI 4) actually fell by 50 percent, against a targeted increase of 10 percent. The disconnect between this and the associated PAs (5 and 6) makes it impossible to assess the extent of improvement in arbitration and process and protections for foreign investment. But clearly any improvements were overwhelmed by other more significant determinants of interest in investing in Fiji (including risks associated with disasters and climate change).

The Doing Business score for days to start a business (RI 5) had improved substantially from 40 to 30 as of 2019-20, and was expected to be well below the target of 25.9 days by 2021 (“following elimination of several redundant procedures”; ICR, p. 13). However, this can only partly be attributed to the PAs, because “construction permits are not among the 11 procedures for starting a business and the PAs did not address these procedures” (ICR, para. 29). The ICR (para. 30) reports some progress in implementing expected reforms, although discussions during the ICR suggest that construction permit “reforms are likely to take slightly longer to be in effect.” Thus the latest information is that, while the target for the indicator is likely to be fully achieved, the underlying reforms have yet to be fully implemented – but are progressing.

The targets for improvement in the legal rights index (RI 6) and the share of women registering security interest in movable collateral (RI 7) were both fully achieved, representing satisfactory progress toward increasing access to credit (for women-owned business that tended to lack fixed property as collateral), although these do not adequately reveal how significantly credit for investment was increasing in volume. From 31 May 2019 to 28 Feb 2022, there have been 67,041 secured interests on moveable collateral registered by the Personal Property Securities Registry, of which 18,268 (27.2 percent) filings are by women, women-owned or co-owned enterprises.

Rating

Objective 3

Objective

Building climate resilience

Rationale

Among the five indicators for two PAs, one was substantially achieved and three made modest progress, which is ongoing and likely to continue. One RI was not achieved, but the associated action is no longer considered practical, and there was progress toward the actual objective.

As of closing in 2020, progress was ongoing toward building new houses and schools on native lands that adhere to the National Building Code: 7 houses were built out of 20 targeted (RI 8 Modest) and an additional 16 schools out of the additional 20 targeted (RI 9 Substantial). Further progress in 2021 had been expected, but was curtailed by extensive curfews and lockdowns due to the second and third waves of COVID-19. Six additional new houses and four more new schools were completed in 2021, and the Government is restarting activities in 2022.

Training for rural building practitioners was developed and implemented as expected, though the number of people trained (26 as against 100 targeted) and the proportion of women (12 percent as against 25 percent targeted) fell short as of closing (RI 10 Modest). Progress in 2021 was curtailed by COVID-19 curfews and lockdowns.

Although PA 11 to approve the National Climate Change Policy 2018-30 (NCCP) had been achieved at the Cabinet level, and the expected enactment date of September 2021 was also achieved (ICR, para. 36 and TTL response), the associated RI 11 regarding the creation of a Cabinet-level oversight sub-committee was not achieved and is no longer considered practical because “everything is deliberated at the main Cabinet” and the Government no longer has Cabinet Sub-committees (ICR, footnote 44). However, actual oversight (which the RI was intended to measure) has been modest at best due to the lack of regular Cabinet meetings because of the COVID-19 pandemic and the need to focus on emergency issues from recurrent cyclones. The Environment Department has become a Ministry in its own right and has increased its staff, thus providing potential for improved oversight of Environmental Impact Assessments. Although the specific RI was Negligible, progress toward the objective of adopting the NCCP and overseeing its implementation can be considered as Modest.

RI 12 was intended to measure progress in oversight of the NCCP through regular reporting on implementation of objectives and strategies in seven areas, including transport and water. As of closing, progress was being reported on two objectives, including transport but not water (Modest).

Rating

5. Outcome

With the relevance of PAs rated Moderately Satisfactory, and with overall efficacy rated Moderately Unsatisfactory, the overall outcome of the operation is rated as Moderately Unsatisfactory.

a. Outcome Rating
Moderately Unsatisfactory

6. Rationale for Risk to Development Outcome Rating

The sustainability of development outcomes faces several inter-related risks.

Natural disasters and COVID-19 adversely affect fiscal sustainability and investment. The almost annual costs of recovering from cyclones, floods, and other climate-related disasters are likely to continue to impose fiscal costs of recovery and risks to investment. The COVID-19 pandemic continues to aggravate this situation through restrictions on economic activity and a devastating effect on tourism, which had previously been a major driver of economic growth and investment.

Macroeconomic risk: The adverse fiscal effects of the natural disaster and COVID-19 risks both highlight the urgency of the reforms supported by the Fiscal Sustainability and Climate Resilience DPOs and pose an ongoing challenge to achieving their objectives. The immediate impact was apparent in the worsening of the fiscal deficit during the DPO series, rather than the targeted decrease. The ICR (para. 58) notes that “the Government has already taken steps to reduce tourism dependence of the economy....Continued Government commitment to fiscal discipline and consolidation is expected to sustain the reform momentum. The World Bank is also expected to continue to work with development partners to monitor macroeconomic risks and provide policy advice to the Government as needed."

Institutional risk: The ICR (para. 59) notes that implementation of reforms related to the Investment Act has been relatively slow, raising "the risk that major aspects of the reforms may not yet affect investor sentiment." Furthermore, there is a risk that reforms oriented toward Doing Business indicators may not address the actual challenges faced by local investors in trying to register and operate a business.

Costs of adoption: The ICR (para. 59) notes the risk that the collateral registry may charge user fees that could "negatively affect the positive results seen so far." Likewise, the costs of applying the new guidelines for more resilient buildings may exceed what rural households are able and willing to pay, without additional incentives. "These risks are mitigated by continued capacity building, technical assistance, and engagement with the Government" and support from other development partners.

Political risk: An election in 2022 poses the risks that implementation of politically sensitive actions could be put on hold and that policy priorities could change if there is a change in administration.

[Note: ICR has a discontinuity in paragraph numbering after para. 59.]

a. Risk to Development Outcome Rating

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7. Assessment of Bank Performance

a. Quality-at-Entry

Quality-at-Entry Rating

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b. Quality of supervision

Quality of Supervision Rating

Overall Bank Performance Rating

Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

Government Performance Rating

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b. Implementing Agency Performance

Implementing Agency Performance Rating

Overall Borrower Performance Rating

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9. M&E Design, Implementation, & Utilization

a. M&E Design

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b. M&E Implementation

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c. M&E Utilization

M&E Quality Rating

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10. Other Issues

a. Environmental and Social Effects

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b. Fiduciary Compliance

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c. Unintended impacts (Positive or Negative)

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d. Other

The TTL reported anecdotal evidence that many people have migrated from urban areas to rural areas due to the COVID-19 pandemic and the cyclones, enabling them to live in less crowded areas in the villages and grow their own vegetables, thus improving their access to food.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Relevance of Results Indicators		Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

Key lessons that can be drawn from the ICR include:

A well-designed DPO series can help to maintain reforms and adjust to changing priorities. “The series … provided an avenue to prioritize reforms which may have otherwise been sidelined” (ICR, para. 58). It also was sufficiently flexible to provide financing needed to cope with the COVID-19 pandemic. Although it was “not designed as a COVID-19 response, the DPO series enabled needed flexibility to the response and ensured that the Fijian economy was in a better position than it would otherwise have been” by providing “access [to] much-needed funding from multilateral and bilateral donors” (ICR, para. 58).

Government communication of policy reforms is key to ensuring understanding and uptake by the general public. Government communication on reforms was particularly important with respect to the collateral registry, business licensing, and new guidelines for building houses and schools (ICR, para. 59).

Good monitoring depends on clarity on how the data will be collected and using the preparation of the second operation to track progress toward targets. "At the preparation stage, ensuring that targets are measurable and clarifying how the data will be collected and by whom and how it will be reported are key to monitoring. Further, reporting on progress of targets when preparing a subsequent [operation] ensures tracking of progress, especially in the absence of an ISR" (ICR, para. 61).

The standard ICR format may not be well suited to evaluating an operation under extraordinary circumstances. "Given the impact of the COVID-19 pandemic on the institutional and policy environment for both the Government and the World Bank, evaluating an operation within the standard format may prove challenging. It is not always clear what can be attributable to a shock such as the pandemic…and what may be due to institutional challenges or reform" (ICR, para. 62). It may be desirable to undertake a systematic review (or PPAR) of the implications of crisis situations (such as natural disasters and pandemic) for implementation and effectiveness of DPO series and for ICR formats.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a logical, thorough, yet compact analysis of the context at appraisal, PDOs, results chain, prior actions, achievement of objectives, other outcomes, Bank performance, risks and lessons. The evidence provided by the results indicators was supplemented by substantial additional information in 58 footnotes, and there is adequate critique of the data and the desirability of additional evidence in some areas, as well as further actions that would be needed to ensure that objectives are fully achieved.

The lessons are relevant and drawn directly from the experience of the series. The ICR is consistent with the guidelines, although it notes that the guidelines are not necessarily appropriate for evaluation under a crisis situation such as the COVID-19 pandemic, because it makes attribution more difficult.

a. Quality of ICR Rating
Substantial