



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 26-May-2022 | Report No: PIDA34328



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Fiji	P175543	Fiji Recovery and Resilience Second Development Policy Operation (P175543)	P173558
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	30-Jun-2022	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, public financial and fiscal management.

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

**SUMMARY**

<b>Total Financing</b>	100.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	100.00
World Bank Lending	100.00

**Decision**

The review did authorize the team to appraise and negotiate



## **B. Introduction and Context**

### Country Context

The reopening of Fiji's borders to tourism in December 2021 marked a major step for economic recovery following the devastating impact of the COVID-19 pandemic. A COVID-19 vaccination rate of over 95 percent for adults and the adoption of World Health Organization (WHO) best-practice standards and protocols for COVID-19 control enabled border reopening. Tourists and visitors have begun to return from the country's traditional source markets, especially Australia. The initial tourist arrival figures are encouraging, but full recovery is likely to be slow. COVID-19 related risks remain including the emergence of potential new variants. The high dependence on tourism adds to the vulnerability of sustained recovery and highlights the need for diversified sources of growth.<sup>1</sup>

Historically, Fiji has had one of the lowest rates of extreme poverty in the Pacific, with less than 3 percent of the population living under the US\$1.90 per person per day poverty line in 2019. Half the population lives below the US\$5.50 per person per day line. The well-being of Fijians was severely impacted by the COVID-19 pandemic as major hits to the economy over the last two years (border closures and domestic lockdowns) led to widespread losses of employment and incomes. The recent reopening of borders should help the economy recover and improve livelihoods of the poor and the vulnerable as employment opportunities re-emerge.

Fiji is highly vulnerable to extreme weather events, which are increasing in frequency and intensity as well as climate change. Fiji's geographical location, large coastal area - where the population and major assets are located - make it vulnerable to climate change. Due to climate change, extreme weather events - including tropical cyclones, floods and heavy rainfall - are likely to become more intense and frequent.<sup>2</sup> Sea level rise and storm surge will further affect many sectors, people's livelihoods, food and water supply.

### Relationship to CPF

The proposed operation is fully aligned with the objectives and proposed outcomes of the Country Partnership Framework (CPF) covering FY21-24. 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 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 5- and 20-Year National Development Plan 2017 (NDP 2017), remain central to the CPF. The proposed operation also builds on the policy engagement and investments by the IFC. The IFC has recently concluded the development of an IFC Country Strategy for Fiji, which has two pillars: sustainable infrastructure and sustainable tourism. A joint WBG Country Private Sector Diagnostic for Fiji, completed in May 2022, highlights opportunities to leverage the role of the private sector across the economy as well as in the sectors of healthcare, outsourcing services, and agri-logistics.

## **C. Proposed Development Objective(s)**

The development objective is to: i) promote private sector-led economic recovery; ii) enhance climate, disaster and

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<sup>1</sup> WBG Country Private Sector Diagnostic (CPSD).

<sup>2</sup> IPCC 2021– Sixth Assessment Report of the Working Group 1, Summary for Policy Makers; The World Bank Group and Asian Development Bank 2020 - Climate Risk Profile: The Pacific Region; World Bank. 2017. Climate change and disaster management. Pacific Possible; Background Paper 6.



social resilience; and iii) strengthen debt, public financial and fiscal management.

## Key Results

### **D. Project Description**

#### **Pillar 1: Promoting Private Sector-Led Economic Recovery**

The first development objective is to create an improved business and investment environment to mobilize private sector financing and promote a private sector-led inclusive economic recovery. This includes cross-sectoral actions to strengthen financial markets infrastructure as well as promoting investment. The proposed reforms under this pillar implement key aspects of the National Payment System Act 2021, which will help strengthen the ability of Fiji's financial sector to efficiently and inclusively facilitate access to finance for individuals and businesses as well as improving the Government's delivery of payments. Beyond financial markets, the pillar builds on previous work to establish a comprehensive investment framework for foreign and domestic investment with reforms to strengthen the regulatory and institutional environment for investment.

#### **Pillar 2: Enhancing Climate, Disaster and Social Resilience**

The second development objective is to enhance climate, disaster and social resilience. Fiji is highly vulnerable to climate related risks including heavy rainfall, cyclones, floods, storms, and droughts. These hazards are interrelated and act as additional pressures to those from other human activities on land and marine ecosystems. The risks and impacts of climate change are likely to increase over the coming decades and put further pressure on people, livelihoods, ecosystems and institutions. Climate-related risks have caused damage and losses of up to 20 percent of Fiji's annual GDP, and have taken the country years to recover. The Government recognizes these challenges and has integrated climate and disaster risk across multiple areas in its NDP 2017. This pillar builds on the reforms supported through the previous DPO series and supports the Government in its efforts to strengthen its institutions and enable implementation of the adaptation actions to reduce these risks and improve the effectiveness of early warning systems to decrease risk to lives, livelihoods, and assets.

#### **Pillar 3: Strengthening Debt, Public Financial and Fiscal Management**

The third development objective is to strengthen debt, public financial and fiscal management. The impact of the COVID-19 pandemic on Fiji's public debt level and tax revenue was severe. Borrowing to cover the fiscal impacts of COVID-19 and contraction in growth raised public debt to 79 percent of GDP at end-FY21 from 48.7 percent of GDP at end-FY19. The pandemic severely strained government finances with tax revenues falling by almost 50 percent to around 15 percent of GDP in FY21 from 24 percent in FY19. This pillar supports the Government's efforts to strengthen fiscal management and meet its goals for fiscal consolidation with measures aimed at reducing the public debt burden through prudent borrowing policies, proactive management of the public debt portfolio and implementing reforms directed at raising revenues. The authorities' over-arching objective, set out in the National Plan and the medium-term fiscal strategy, is to reduce the fiscal deficit and put the public debt-to-GDP ratio on a downward trajectory once the economy rebounds.



## **E. Implementation**

### Institutional and Implementation Arrangements

The Ministry of Economy (MOE) is responsible for coordinating the monitoring and evaluation of the results indicators for the proposed operation. MOE will monitor the results indicators pertaining to revenue, debt management, and execution of the economic support package, and will collaborate directly with the relevant ministries and agencies on the other result indicators. MOE has demonstrated effective and good capacity to coordinate the monitoring and results evaluation of budget support operations to date.

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

### Poverty and Social Impacts

The policy measures supported under this DPO series are expected to promote financial inclusion, attract foreign investment, build resilience to climate and disaster shocks, strengthen debt and public financial management, and raise government revenues. Policy reforms under Pillar 1 are expected to increase the use of digital payments and help increase domestic and foreign investment. Expanding digital financial services (DFS) can provide low-income households with access to affordable, safe and convenient tools that can help increase their economic opportunities. The benefits on the poor of greater investment are uncertain, and dependent on the types of jobs that are created through this investment. The reforms under Pillar 2 are likely to improve Fiji's ability to protect its poorest from shocks, the long-term effects of climate change and contribute to meeting livelihood needs. The debt, public financial and fiscal management reforms under Pillar 3 will strengthen Fiji's ability to sustain its social spending in the long run. The improvements to debt management and public financial management strengthen the robustness of the Government's finances. This robustness will minimize the long-term risks of Fiji's ability to sustain its social spending in areas such as education, health, and social protection, all of which disproportionately benefit the bottom of the wealth distribution.

### Environmental, Forests, and Other Natural Resource Aspects

Policy actions under Pillar 2 are likely to have significant positive effects and those under pillars 1 and 3 are not expected to have significant negative effects on Fiji's environment, forests and natural resources. Fiji's systems for reducing adverse environmental effects and enhancing positive effects is reasonably strong at the policy level, and they are being strengthened through support of WB TA. The Ministry of Environment derives its legal mandate from the Environment Management Act 2005–Part 2 Administration. The ministry promotes the sustainable use and development of Fiji's environment and implements the Environmental Impact Assessment (EIA) process. The EIA unit is one of four units in the department and its role is to examine and process every development proposal, which is referred to it by an approving authority, or which may come to the attention of the unit as having a significant environmental impact. As a Ministry rather than a department, it has expanded its staff and improved the oversight of the EIA process. Divisional offices in Labasa and Lautoka provide additional support. Rural Local Authorities also work with the Ministry of Environment in the implementation of the Environment Management Act 2005 and monitor the conditions of EIAs within their area.



## G. Risks and Mitigation

The overall risk of the operation is substantial. Ongoing risks are associated with the COVID-19 pandemic, the war in Ukraine 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 and the election that is to be held between July 2022 and January 2023. The political process behind these elections may complicate the government’s ability to undertake reforms in the short term. Sector strategies and policies risk is also rated as substantial. While sectoral strategies and policies have become more coordinated in recent years, and specifically in the NDP 2017, these are largely at the level of strategy with key regulations and institutions still nascent. The proposed operation responds to these risks by focusing on areas where the Government has already established a strong track record, and with policy triggers designed to bolster reform momentum while allowing some flexibility. These, 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 and imported inflation due to increasing international commodity prices, recognizing further impact of the war in Ukraine. Another major natural disaster could threaten macroeconomic stability, create additional hardships on the population, and slow-down the structural reform agenda as the bureaucracy shifts its attention to disaster recovery and reconstruction efforts. Environmental and social risk is substantial. The reforms that enhance climate resilience of coastal and marine ecosystems and communities will help minimize the risks. These reforms build on those supported by the previous DPO which focused on resilience of building including in rural areas and customary land thus benefitting the poorest and most vulnerable populations.

### CONTACT POINT

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**APPROVAL**

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**Approved By**

Country Director:	Paul Vallely	20-Apr-2022
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