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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED DEVELOPMENT POLICY LOAN
AND A PROPOSED DEVELOPMENT POLICY CREDIT

COMPRISING

AN IBRD LOAN IN THE AMOUNT OF US$25 MILLION AND

A DEVELOPMENT POLICY CREDIT FROM CRISIS RESPONSE WINDOW IN THE AMOUNT OF SDR76.4 MILLION (US$110 MILLION EQUIVALENT) AND

A DEVELOPMENT POLICY CREDIT WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION IN THE AMOUNT OF SDR7.0 MILLION (US$10 MILLION EQUIVALENT)

TO THE

REPUBLIC OF FIJI

FOR THE

FIJI - RECOVERY AND RESILIENCE FIRST DEVELOPMENT POLICY OPERATION WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION

February 26, 2021

Macroeconomics, Trade And Investment Global Practice
Urban, Resilience and Land Global Practice
East Asia And Pacific Region

Republic of Fiji

GOVERNMENT FISCAL YEAR

August 1 – July 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of January 31, 2021)

Currency Unit

SDR1 = US$1.4408

ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
ADB	Asian Development Bank
AS/NZS	Australian/New Zealand Standard
AWNJ	Area Within National Jurisdiction
Cat-DDO	Catastrophe-Deferred Drawdown Option
CPF	Country Partnership Framework
CSD	Central Securities Depository
CVA	Climate Vulnerability Assessment
DPO	Development Policy Operation
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
EEZ	Exclusive Economic Zone
EIA	Environmental Impact Assessment
FJD	Fijian Dollar
FNPF	Fiji National Provident Fund
FS	Fiji Standard
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GFN	Gross financing needs
GNP	Gross National Product
GoF	Government of Fiji
GRB	Gender Responsive Budgeting
GRS	Grievance Redress Service
HIES	Household Income and Expenditure Survey
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IPSAS	International Public Sector Accounting Standard
IMF	International Monetary Fund
MAC DSA	Debt Sustainability Analysis for Market-Access Countries
MCTTT	Ministry of Commerce Trade, Tourism and Transport
MHMS	Ministry of Health and Medical Services
MOE	Ministry of Economy
MPA	Marine Protected Areas
MSME	Micro, small and medium-sized enterprises
MTDS	Medium Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
MTFS	Medium-Term Fiscal Strategy
NBC	National Building Code
NDP	National Development Plan
NDP 2017	5- and 20-Year National Development Plan 2017
NDMA	Natural Disaster Management Act
NGO	Non-Government Organization
NOP	National Ocean Policy 2020-2030
NPL	Non-Performance Lending
NSPCC	National Social Protection Coordination Committee
NZ	New Zealand
PA	Prior Action
PCRIC	Pacific Catastrophe Risk Insurance Company
PEFA	Public Expenditure and Financial Accountability
PET	Polyethylene Terephthalate
PFM	Public Financial Management
PFMIP	Public Financial Management Implementation Plan
PFTAC	Pacific Financial Technical Assistance Centre
PMT	Proxy Means-Test
PPAs	Performance and Policy Actions
PPP	Public Private Partnership
PV	Present Value
RBF	Reserve Bank of Fiji
RTGS	Real-Time Gross Settlement
SA	Social Assistance
SCD	Systematic Country Diagnostic
SDFP	Sustainable Development Finance Policy
SDR	Special Drawing Rights
SMEs	Small and Medium-Sized Enterprises
SOE	State Owned Enterprise
TA	Technical Assistance
TC	Tropical Cyclone
TIIP	Transport Infrastructure Investment Project
UNCLOS	United Nations Convention on the Law of the Sea
WB	World Bank
WBG	World Bank Group
WCB	Wholesale Corporate Bonds
WPA	Women's Plan of Action

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REPUBLIC OF FIJI
RECOVERY AND RESILIENCE FIRST DEVELOPMENT POLICY OPERATION WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION

TABLE OF CONTENTS

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P173558	Yes	1st in a series of 2

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.

Organizations

Borrower:	REPUBLIC OF FIJI
Implementing Agency:	MINISTRY OF ECONOMY

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**145.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	25.00
International Development Association (IDA)	120.00
IDA Credit	120.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
1. The annual volume of: (i) payments made electronically through the Real-Time Gross Settlement System; and (ii) retail payments made electronically through the Automated Clearing House	(i) 148,786 (ii) 0 (2019)	(i) 181,000 (ii) 20,000 (2023)
2. Number of outstanding corporate bond issuances	0 (2019)	2 (2023)
3. (i) Area within the national jurisdiction legally designated as Marine Protected Areas that contribute to climate resilience; (ii) share of women in National Ocean Policy Steering Committee	(i) 1 percent (ii) 0 (2019)	(i) at least 5 percent (ii) at least 25 percent (2024)
4. Share of import permits for steel reinforcement material being manufactured in accordance with the revised standard, or suitable equivalent standard, provided to the Border Control Agency	0 (2019)	At least 70 percent (2024)
5. Share of the beneficiaries that are in the poorest quintile included in the poverty-targeted social assistance program	30 percent (2019)	At least 35 percent (2024)
6. The weighted average interest rate of total debt portfolio	5.6 percent (FY2020)	Less than 5 percent (FY2024)
7. The performance indicator measuring aggregate revenue outturn in the PEFA assessment	D (FY2019)	C (FY2024)
8. Number of programs across budget agencies performing gender impact assessment and collecting sex-disaggregated data for monitoring and evaluation	0 (FY2020)	35 out of 200 (FY2024)
9. Share of women in total new police recruitments	19 percent (2020)	At least 25 percent (2024)

IBRD AND IDA PROGRAM DOCUMENT FOR A PROPOSED LOAN AND CREDIT TO THE REPUBLIC OF FIJI

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation supports Fiji's recovery from the impact of the COVID-19 pandemic, Tropical Cyclones Harold, Yasa and 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$25 million from IBRD and US$110 million equivalent from IDA Crisis Response Window).[1] The proposed DPO is combined with a 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 objectives and pillars of the proposed operation are to: (i) promote private sector-led economic recovery; (ii) enhance climate, disaster, and social resilience; and (iii) strengthen debt and public financial management.

2. **The COVID-19 pandemic presents Fiji with an economic crisis of unprecedented scale with an expected contraction of 19 percent in 2020, one of the worst economic contractions in the world.** The Government's success in the fight against COVID-19 virus has largely prevented direct health impacts with no community cases of COVID-19 since April 2020 but the economic impact has been devastating. International travel restrictions brought tourism, representing 40 percent of output and 30 percent of jobs, to a virtual standstill. This caused a ripple effect on all segments of the economy, had a negative impact on related industries such as retail trade, transport and finance and spillover effect on consumption, finance and investment. Strict measures to contain COVID-19 have also impaired economic activity.

3. **While suffering the severe consequences of COVID-19, Fiji was hit by Category 4 Tropical Cyclone (TC) Harold in April 2020, Category 5 TC Yasa in December 2020 and Category 3 TC Ana in January 2021**. The losses from TC Harold was estimated to be 3.3 percent of 2019[2] GDP and the economic damages for TC Yasa are estimated to be 4.5 percent of 2019 GDP.[3] Although somewhat weaker than TC Yasa, TC Ana was slow-moving, causing extensive flooding in highly populated parts of Viti Levu, including in the capital Suva. Although there are no quantitative damage estimates, preliminary information suggests that the economic costs of TC Ana could equal or exceed those from TC Yasa. Fiji's Climate Vulnerability Assessment (CVA)[4] 2017, concluded that most climate models suggest an increase in the proportion of high-intensity storms, higher heavy rainfall events and higher storm surges resulting in increased coastal and inland flooding due to changing climate. Such risks will be further exacerbated with expected rise in sea level of 100 cm by 2100 and significantly impact the large proportion of people living in coastal areas and low-lying islands. In addition, low-intensity, high-frequency floods will increase and contribute to the damages to agriculture and housing. Fiji has only recently completed the recovery efforts after the Category 5 TC Winston in 2016 that resulted in damage and losses amounting to nearly 20 percent of 2014 GDP.

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[1] The multiple shocks faced by Fiji are assessed to have met the eligibility criteria for the IDA Crisis Response Window given the severity of the crises, the sizable financing gap created, and robust burden share from other sources of financing.
[2] Source: https://www.air-worldwide.com/models/About-Catastrophe-Modeling/#:~:text=AIR%20Worldwide%20developed%20probabilistic%20models,more%20than%20110%20countries%20worldwide.
[3] This is based on a rapid economic assessment conducted by the World Bank in late December 2020.
[4] Available from: www.gfdrr.org/en/publication/fiji-climate-vulnerability-assessment-summary

4. **The impact of COVID-19 on poverty and livelihood has been devastating and exacerbated by the three cyclones.** Historically, Fiji has had one of the lowest rates of extreme poverty in the Pacific, with 0.5 percent of the population living under the US$1.90 per person per day poverty line in 2013, and likely a similarly low rate in 2019. However, Fiji's vulnerability to the economic shock of COVID-19 is likely to result in substantial increases in poverty. An estimated 115,000 Fijians are unemployed or have reduced work hours due to the COVID-19 pandemic. This represents 13 percent of the country's total population or almost a third of the total labor force, with the majority of those affected concentrated in tourism. Over 20 percent of households have at least one member working in the tourism sector. The agricultural sector could have been a shock absorber for workers displaced from the tourism sector due to COVID-19. However, the impact of the three cyclones has eroded its potential livelihood and income source for the next two years – further exacerbating vulnerabilities related to food security, income and shelter. Using the "basic needs poverty lines" constructed for national policymaking, Fiji's official poverty headcount rate for 2019-20 based on the latest Household Income and Expenditure Survey (HIES) is 29.9 percent.

5. **The proposed programmatic DPO series supports the Government's efforts to address short- and long-term challenges associated with climate and disaster risk and impacts of COVID-19.** Reforms under Pillar 1 aim to create an improved environment for private sector development and promote private sector-led economic recovery. Pillar 2 supports reforms to improve resilience to current and future climate change of coastal and marine areas, buildings and strengthen the effectiveness and efficiency of social protection programs. Pillar 3 supports measures to strengthen debt and public financial management. These reforms are closely aligned with current priorities of the 5- and 20-year National Development Plan (NDP 2017). The design of the proposed operation builds on lessons from previous development policy and Cat-DDO operations in Fiji and across the Pacific region. Recognizing the need for support and close monitoring of policy reform implementation in small public administrations, the operation is selective in the choice of supported priorities and prior actions, builds on strong Government commitment and ownership, and is closely coordinated with all major development partners, including the International Monetary Fund (IMF), the Asian Development Bank (ADB) and key bilateral partners, including the Governments of Australia, Japan and New Zealand. Technical assistance (TA) is available to support the Government in reform design, implementation and monitoring throughout the three-year duration of the operation.

6. **The proposed operation aligns closely with the World Bank Group's (WBG's) COVID-19 Crisis Response Approach Paper**. The operation includes policy measures critical to longer-term reforms aimed at building a resilient recovery. Three of the four pillars of the Approach Paper are addressed by one or more reform measures supported by this DPO series: the social response - protecting the poor and vulnerable; the economic response – supporting businesses; and strengthening of policies, institutions, and investments. In line with the Approach Paper, the proposed program has a strong focus on debt management and overall fiscal sustainability.

7. **The macroeconomic policy framework is adequate for the purposes of this operation.** Growth is projected to recover to 2.6 percent in 2021 and 8.2 percent in 2022 assuming international tourism gradually resumes. The Government is committed to fiscal consolidation with the deficit projected to fall to 4 percent of GDP in 2023, after a peak of 14 percent in 2020. It will achieve this through efforts to enhance domestic revenues and contain spending. Monetary policy has been appropriately accommodative, and the exchange rate peg is expected to continue to provide a credible nominal anchor. Public debt to GDP is projected to increase from 51.3 percent in 2019 to 75.3 percent in 2020, and peaking

at 85.3 percent in 2021. It is projected to start moderating subsequently, supported by fiscal consolidation, the resumption of economic growth and prudent debt management policies.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

8. **Economic growth in recent years was underpinned by robust tourism, rising household consumption and reconstruction after TC Winston.** Average growth during 2014-18 was 4.3 percent (3.9 percent in per capita terms), compared to 1.5 percent (0.9 percent in per capita terms) during 2007–13. Fiji's estimated potential growth rate is 3 percent. In 2019, the economy contracted by 0.4 percent owing to the synchronized downswing of its main trading partners, lower government spending, tighter domestic financial conditions and weak investor sentiment. The economy was projected to make a modest recovery in 2020 but this was derailed by the COVID-19 pandemic, TC Harold and TC Yasa.

9. **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.** [5] The multiple shocks present Fiji with an unprecedented economic crisis. On the external front, the virtual standstill of the tourism sector is affecting growth directly and having negative spillovers on 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. In addition, TC Harold and TC Yasa further deteriorated socioeconomic activities due to extensive damage to agriculture, public buildings and tourism facilities.

Table 1: Demand and Supply Contributions to GDP Growth

	2017	2018	2019	2020 Est.	2021 Proj.	2022 Proj.	2023 Proj.
GDP Growth	5.4	3.8	-0.4	-19.0	2.6	8.2	6.9
Demand Side							
Private Consumption	3.5	2.6	-0.3	-13.7	1.8	5.8	4.9
Government Consumption	1.1	0.8	-0.1	-4.5	0.6	1.9	1.6
Capital Formation	1.0	0.7	-0.1	-4.0	0.5	1.7	1.4
Net Exports	-0.3	-0.3	0.1	3.1	-0.4	-1.3	-1.1
Supply Side							
Agriculture	0.6	0.4	0.1	0.2	0.4	1.2	0.8
Industry	0.8	0.6	-0.1	-3.4	0.4	1.4	1.1
Services	2.9	2.1	-0.2	-13.5	1.4	4.5	3.8
Net Taxes	1.0	0.8	-0.2	-2.4	0.3	1.0	1.2

Sources: Ministry of Economy and World Bank staff calculations.

[5] Global Economic Prospects (GEP) - https://www.worldbank.org/en/publication/global-economic-prospects

Table 2: Key Macroeconomic Indicators

	2016	2017	2018	2019 Est.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
Real Economy	Annual percentage change, unless otherwise indicated							
GDP (nominal FJ$, mn)	10,327	11,065	11,651	11,874	9,491	9,568	10,662	11,906
Real GDP	2.4	5.4	3.8	-0.4	-19.0	2.6	8.2	6.9
Per Capita GDP (in current US$)	5,479	6,095	6,147	6,246	4,989	4,721	5,261	5,874
GDP deflator	2.7	1.8	1.5	3.6	-2.4	-1.6	3.0	4.7
Consumer price inflation, period average	3.9	3.3	4.1	1.8	-2.8	1.0	1.8	2.0
Fiscal Accounts	Percent of GDP							
Revenues	27.4	27.6	27.5	26.1	20.5	19.5	21.7	22.1
Expenditures	30.2	31.0	31.4	31.1	34.5	31.1	26.7	26.1
General Government Balance	-2.8	-3.4	-3.9	-5.0	-14.0	-11.6	-5.0	-4.0
Government debt	44.2	44.5	47.4	51.3	75.3	85.3	81.5	76.9
Domestic	31.6	31.7	34.7	38.2	56.1	63.5	60.7	57.3
External	12.6	12.8	12.7	13.1	19.2	21.7	20.8	19.6
Balance of Payments	Percent of GDP, unless otherwise indicated							
Current Account Balance	-3.6	-6.7	-8.4	-12.7	-15.7	-12.5	-7.3	-6.1
Trade Balance	-20.2	-20.4	-24.2	-25.2	-15.5	-16.8	-16.3	-15.9
Goods Imports	-38.9	-38.8	-42.4	-44.0	-34.3	-37.6	-37.4	-36.3
Goods Exports	18.7	18.4	18.2	18.8	18.8	20.9	21.1	20.4
Services (net)	16.3	15.5	16.6	14.9	-1.7	3.5	8.6	9.8
Income (net)	-5.5	-7.9	-6.4	-8.2	-6.0	-6.6	-6.5	-6.1
Transfers (net)	5.8	6.1	5.6	5.8	7.5	7.4	6.9	6.2
Foreign Direct Investment (net)	8.2	7.2	8.5	6.5	5.4	5.4	6.0	5.8
Foreign Reserves (in US$, mn)	902	1,108	940	1,033	1,022	974	994	995
In months of retained imports	5.3	5.8	4.4	5.4	8.1	7.4	6.9	6.3
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated							
Base Money	0.5	18.4	-9.9	15.2	13.5			
Credit to private sector	12.7	9.3	7.3	4.6	-3.0			
Interest (key policy rate, %)	0.50	0.50	0.50	0.50	0.25			
Other memo items								
GDP (US$, mn)	4,849	5,393	5,440	5,527	4,414	4,177	4,655	5,198
Exchange rate (FJ$/USD, period average)	2.13	2.05	2.14	2.15	2.15			
Remittances (% of GDP)	5.2	4.8	4.8	4.9	6.4	6.4	5.9	5.4

Sources: Ministry of Economy, and IMF and World Bank staff estimates.

10. **The current account deficit widened in recent years, reaching 15.7 percent of GDP in 2020.** Fiji has experienced persistent current account deficits in recent years, characterized by strong tourism revenues and consistent remittance inflows, partially mitigating the large capital equipment imports for reconstruction, particularly after TC Winston. In 2020, tourism receipts dropped by 80 percent and aggregate demand fell while remittances increased. Pressure on the balance of payments has been offset by increased financing flows (mostly loans from multilateral and bilateral creditors). As a result, foreign reserves remained largely stable, US$1,022 million at end-December 2020, providing 8.1 months of imports cover (see Table 2 and Table 3).

Table 3: Balance of Payments

	2016	2017	2018	2019 Est.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
				In US$mn				
Total Financing Needs	**266**	**441**	**578**	**823**	**898**	**830**	**605**	**519**
Current Account Deficit	176	362	458	701	635	521	340	315
Scheduled Debt Amortization	90	79	120	122	263	309	265	205
Total Financing Sources	**266**	**441**	**578**	**823**	**898**	**830**	**605**	**519**
Foreign Direct Investment	400	391	463	359	218	224	279	300
Portfolio Investments (net)	29	43	34	-17	195	6	11	16
Other Net Inflows on Capital and Financial Account	-202	-223	169	367	328	-41	282	23
External Debt Disbursements	50	60	35	17	228	607	144	138
Reserve Assets	-11	171	-122	97	-72	34	-111	43

Sources: Ministry of Economy, and IMF and World Bank staff estimates.

11. **The shocks strained fiscal buffers and upended short-term fiscal policy goals.** Prior to the shocks, the ratio of tax revenue to GDP averaged 24 percent—greater than many of Fiji's peers and higher than the average for East Asia and the Pacific. The Government was implementing an expenditure-based fiscal consolidation, including stabilizing capital spending at pre-TC Winston levels, tightening control over current spending and charting a downward trajectory for public debt. The COVID-19 and TC shocks have reversed these trends. At the end of FY2020, total revenues were revised downwards by 20.6 percent and total expenditures were cut by 3.5 percent. This pushed the net deficit to 9 percent of GDP, a substantial increase from the 2.7 percent originally budgeted. Borrowing to close the gap raised the debt-to-GDP ratio to 65.5 percent by FY2020, from 49.3 percent a year before (see Table 4).

12. **To mitigate the impact of the pandemic, the authorities announced a stimulus package of 9.5 percent of GDP in the FY2020 COVID-19 Response Budget.** Most of the stimulus is financed by non-budgetary sources through loan repayment holidays - offered by commercial banks and concessional loans from the Reserve Bank of Fiji (RBF) - and the pension fund, the Fiji National Provident Fund (FNPF). The relief financed by the FNPF included substantial reductions in pension fund contributions for employers and employees. In addition, eligible and unemployed FNPF members due to COVID-19 related restrictions were given access to their pension funds with the Government providing top-ups for those with insufficient balances. The package included expenditures on public health, supplemental transfers to support the informal sector, and support to individuals and businesses affected by COVID-19 restrictions. Substantial tax and tariff reductions included tourism and export investment incentives and accelerated depreciation for new constructions approvals obtained in 2020; expanded incentives under the employment taxation scheme; value added tax and customs tariff exemptions for medical supplies; and relaxed requirements for tax return filing and payments. The budgetary impact was partially offset by reduced capital spending and non-essential programs.

13. **A comprehensive second stage response was provided through the FY2021 budget.** It comprised additional public health expenditures and further changes to Fiji's tax and tariff regime to provide immediate relief to individual taxpayers and affected businesses, particularly in the tourism and related sectors, and to protect employment. This includes a reduction of the airport departure tax, the elimination of the service turnover tax, and duty and excise reductions for motor vehicles and electronic appliances. Reductions in pension fund contributions were extended to end-2021 and funds were allocated for the

unemployment assistance scheme building on the employee support measures introduced in the COVID-19 Response Budget. A highly concessional loan package in support of micro, small and medium enterprises (MSMEs) was also launched. Annex 5 provides an overview of COVID-19 response measures for FY2020 and FY2021, and their sunset clauses.

14. **Initial expenditure cuts in the FY2021 budget were more than offset by COVID-19 response spending needs and the substantial fall in GDP.** The FY2021 budget reduced expenditures through scaling back spending and suspending activities in non-priority areas, including on the wage bill (such as overtime and other allowances), travel, communication and other incidentals. The budget also includes cuts to large expenditure programs in the sugar industry and for tertiary education (Tertiary Education Loans Scheme and National Toppers Scheme). Still, the substantial fall in GDP combined with the need to safeguard social services and stimulate growth are expected to have increased expenditure from 30.6 percent of GDP in FY2019 to 33.1 percent of GDP in FY2020.

Table 4: Key Fiscal Indicators

	FY2016	FY2017	FY2018	FY2019	FY2020 Est.	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast	FY2024 Forecast
Fiscal Accounts					Percent of GDP				
Total Revenues	28.7	26.4	28.4	27.0	24.1	20.1	20.5	21.9	22.1
Tax revenues	24.0	24.0	24.8	23.9	19.1	18.0	17.9	19.2	19.4
Non-tax revenues	4.8	2.4	3.6	3.1	5.0	2.2	2.7	2.7	2.6
Total Expenditure	32.6	28.4	32.8	30.6	33.1	33.1	29.2	26.4	25.9
Current expenditures	19.6	18.6	20.4	20.6	23.1	23.2	20.4	18.5	18.2
Personnel	8.3	7.9	8.4	8.6	9.8	10.3	9.1	7.5	7.5
Goods & services	3.2	2.9	3.1	3.1	3.3	2.5	2.2	2.0	2.0
Current Transfers	5.2	5.1	6.3	6.1	6.5	5.9	5.2	4.7	4.7
Interest	2.8	2.6	2.5	2.7	3.4	4.2	3.7	3.4	3.4
Other	0.0	0.0	0.0	0.0	0.1	0.3	0.3	0.2	0.3
Capital expenditures	12.5	9.5	12.1	9.6	9.8	9.5	8.3	7.5	7.4
Capital investments	2.1	2.0	2.5	2.2	2.8	2.1	1.8	1.7	1.6
Capital grants and transfers	10.4	7.5	9.6	7.4	7.0	7.4	6.5	5.9	5.8
Government VAT (SEG 13 VAT)	0.5	0.3	0.3	0.3	0.3	0.5	0.4	0.4	0.4
Net Deficit	-3.8	-2.1	-4.4	-3.6	-9.0	-13.0	-8.7	-4.5	-3.9
Government Debt	44.7	43.5	46.0	49.3	65.5	81.1	83.1	78.8	75.7
Sectoral Spending					Percent of total spending				
General administration	19.4	21.4	19.4	20.1	19.1	19.1	18.9	18.8	18.7
Social services	25.2	26.8	26.8	30.6	30.7	29.8	30.7	30.8	30.9
Economic	7.9	7.2	9.1	8.8	9.3	7.3	7.3	7.3	7.4
Infrastructure	26.6	21.3	20.8	20.9	14.5	16.0	15.6	15.7	15.8
Miscellaneous*	19.3	22.1	22.9	18.6	25.1	26.6	26.4	26.3	26.1
Government VAT (SEG 13 VAT)	1.5	1.2	1.0	1.1	1.3	1.2	1.1	1.1	1.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Ministry of Economy, and World Bank staff estimates.

*Miscellaneous sector spending includes, per the Government classification, public debt charges as well as spending on large capital initiatives under the control of the Ministry of Economy, including tertiary education loan schemes, COVID-19 response funding (e.g., concessional loan scheme to MSMEs, unemployment benefits and the Fiji Recovery Rebate Package), and post-cyclone rehabilitation of schools and public buildings.

Table 5: Key Fiscal Indicators and Burden Sharing

	FY2019	FY2020	FY2021	FY2019	FY2020	FY2021	FY2019	FY2020	FY2021
	FJD millions			USD millions			percent of GDP		
Net Deficit	-419	-947	-1,241	-195	-441	-578	-3.6	-9.0	-13.0
Total Revenues	3,181	2,526	1,920	1,481	1,176	894	27.0	24.1	20.1
Tax revenues	2,820	2,004	1,712	1,313	933	797	23.9	19.1	18.0
Non-tax revenues	361	522	208	168	243	97	3.1	5.0	2.2
Total Expenditure	3,600	3,473	3,161	1,676	1,617	1,471	30.6	33.1	33.1
Current expenditures	2,428	2,417	2,213	1,130	1,125	1,030	20.6	23.1	23.2
Personnel	1,017	1,023	984	473	476	458	8.6	9.8	10.3
Goods & services	365	345	241	170	161	112	3.1	3.3	2.5
Current Transfers	720	679	560	335	316	261	6.1	6.5	5.9
Interest	323	357	401	150	166	187	2.7	3.4	4.2
Other	4	12	27	2	6	13	0.0	0.1	0.3
Capital expenditures	1,133	1,023	904	528	476	421	9.6	9.8	9.5
Capital investments	262	292	199	122	136	93	2.2	2.8	2.1
Capital grants and transfers	871	731	705	406	340	328	7.4	7.0	7.4
Government VAT (SEG 13 VAT)	38	33	45	18	15	21	0.3	0.3	0.5
Gross deficit (including loan redemption)	713	1,091	1,991	332	508	927	6.1	10.4	20.9
Financing									
External Financing	276	358	1,394	128	167	649	2.3	3.4	14.6
Of which:									
ADB	46	140	430	21	65	200	0.4	1.3	4.5
AIIB			107			50			1.1
JICA		43	273		20	127		0.4	2.9
WB	20	143	290	9	67	135	0.2	1.4	3.0
Domestic Financing	437	732	596	204	341	278	3.7	7.0	6.3
Grants (included as part of non-tax revenue)	42.0	62.6	145.1	19.5	29.1	71.4	0.4	0.6	1.5
Of which:									
Australia		29.1	103.3		13.5	51.6		0.3	1.1
European Union	0.4		20.0	0.2		9.3	0.0		0.2
New Zealand	0.1	11.3	11.7	0.1	5.3	5.8	0.0	0.1	0.1
ADB		0.9	6.4		0.4	3.0		0.0	0.1
Indonesia			3.3			1.5			0.0
China		0.9	0.4		0.4	0.2		0.0	0.0
Japan	0.4			0.2			0.0		
United Nations	23.7	0.4		11.0	0.2		0.2	0.0	

Sources: Ministry of Economy, and World Bank staff calculations.
* The data are reported in Fiji's fiscal years, which start on August 1 and end on July 31st.
** External financing sources mainly comprise concessional loans (low interest rates with longer grace periods and repayment terms) from multilateral institutions. Total external financing also includes disbursements from infrastructure loans.

15. **Monetary policy was further eased to counter the impact of COVID-19.** The RBF's monetary policy objectives are price stability and adequate foreign reserves. The RBF's strategy has been to keep the overnight policy rate low to ensure price stability and use the statutory reserve deposit requirement as an active tool to manage liquidity in the banking system. Fiji operates a fixed exchange regime, with the currency pegged to a basket of currencies as one of the tools to implement monetary policy and

manage foreign reserves. The RBF's measures to support the economy during the pandemic included: (i) reducing the overnight policy rate to 0.25 percent in March 2020; (ii) supplementing funds in the Disaster Rehabilitation and Containment Facility and the Import Substitution and Export Finance Facility; and (iii) purchasing FJD300 million (US$140 million) of Government bonds to assist in financing the deficit. Inflation has been negative since October 2019 and was -2.8 percent at end-December 2020, largely attributable to lower prices for food and fuel as well as the domestic slowdown.

16. **Fiji's financial system remains broadly sound and stable but a future weakening in bank profits and capital buffers appears unavoidable.** Despite recent shocks, the banking sector remained sound in 2019-2020. Of the six commercial banks, only one is locally owned. Total gross loans amounted to around 73 percent of GDP at end-June 2020, with loans to private sector business enterprises at 51 percent of GDP, and those to private individuals and households at 22 percent of GDP. Credit growth has slowed significantly during COVID-19, as a result, total excess liquidity in the banking system is at an all-time high at about US$500 million. The sector is well capitalized with a capital adequacy ratio of 18.7 percent at the end of June 2020. Financial hardship assistance was provided to over a third of Fiji's commercial banks' gross loans as of October 2020.

17. **Non-performing loans (NPLs) as a percentage of total loans increased from 3 percent in December 2019 to 4.1 percent in June 2020.** The RBF is closely monitoring the potential impact on NPLs, as most of the repayment holidays ended in December 2020. The deterioration in the quality of banks' loan books could potentially impact solvency. To guard against higher NPLs, a general increase in provisioning levels was implemented across the banking industry. Commercial banks' total provisioning coverage ratio increased to 72 percent in Q2 2020 from 68.5 percent in Q2 2019. Increased provisioning has narrowed net interest margins and reduced banks' risk appetite, and is expected to significantly dent banks' profitability over the next 12 months, putting pressure on their capital positions.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **The outlook is subject to considerable uncertainty and rests in large part on when international borders can reopen and tourism resumes.** Under the baseline scenario, the economic recovery is expected to start in the second half of 2021, driven by the resumption of international tourism. Underpinning this scenario is the assumption that borders begin to open in August 2021, and that a gradual easing of travel restrictions results in a recovery of international arrivals to pre-crisis levels by 2023. Based on these assumptions, the economy is forecast to grow by 2.6 percent in 2021, 8.2 percent in 2022 and 6.9 percent in 2023. The tourism sector recovery is expected to drive growth, with domestic demand picking up as the labor market and business activity rebounds. While almost all sectors are anticipated to grow, large contributions are expected from agriculture, manufacturing, retail, transport, accommodation and food service, and finance.

19. **Monetary policy is expected to support growth as inflationary pressures are anticipated to remain contained.** In line with the anticipated economic recovery, year-end inflation for 2021 is forecast at around 1 percent, rising gradually to 1.8 percent in 2022 and 2 percent in 2023. Gradual fiscal consolidation is expected to contain inflation pressures over the medium term.

20. **The current account deficit is forecast to narrow gradually over the projection period as tourism inflows start to rebound.** The current account deficit is projected to decline to 12.5 percent of GDP in 2021, 7.3 percent of GDP in 2022 and 6.1 percent of GDP in 2023. The expected narrowing is driven by

recovery of international tourism, which will lead to a gradual rebound in the services balance. The trade deficit is projected to be slightly above the 2020 level as the recovery in goods exports is expected to be muted.

21. **The Government targets a substantial fiscal consolidation to maintain debt sustainability.** The FY2021 budget is expected to record a net fiscal deficit at 13 percent of GDP. This deficit is expected to be financed from multilateral and bilateral partners mostly on concessional terms and domestic borrowing. Table 5 details the composition of expected financing. As the impact of the multiple shocks subsides, the fiscal deficit is expected to gradually decline to 3.9 percent of GDP by FY2024, reflecting the Government's commitment to revert as quickly as possible to its fiscal consolidation strategy. This is based on a combination of targeted, time-bound revenue and expenditure measures, while maximizing highly concessional financing to cover deficits in the medium-term. Multilaterals are expected to be the largest source of external borrowing during FY2022-FY2024, with the only bilateral borrowing envisaged during the same period is expected from Japan. The targeted reduction in the fiscal deficit of 9.9 percent of GDP by 2024 (compared to 2020) will be achieved through a combination of revenue and expenditure measures.

22. **On the revenue side, the Government aims to gradually restore tax collections through comprehensive reform following cuts to tax and tariff rates and more flexible payment arrangements in response to the COVID-19 shock.** Several of the Government's response measures have sunset clauses, contributing to the necessary recovery in domestic resource mobilization. Further, to bring tax collections back to pre-crisis levels, and to achieve the Government's ambitious long-term fiscal consolidation targets, additional tax reforms will be critical. The authorities will review the structure of the revenue framework and a set of concrete measures focused on restoring revenue to a sustainably higher level, consistent with the Government's overall objective of achieving a small primary fiscal surplus by FY2023. This will involve changes to existing tax rates and the revision of the changes made as part of the FY2021 budget as the effects of the pandemic recede. The combined measures will support a gradual increase in tax revenue from a projected 18 percent of GDP in FY2021 to 19.4 percent in FY2024, although still below the pre-shock average of about 24 percent of GDP.

23. **On the expenditure side, the Government will target substantial cuts over the medium term.** The fiscal space to respond to the multiple shocks by increasing spending and the deficit is limited, including due to constraints in the availability of prudent financing options and debt sustainability. The Government plans to reduce expenditure to around 29.2 percent of GDP by FY2022 and further to 25.9 percent of GDP by FY2024. The WB is providing TA to support the Government in this effort including through an update of the macro-fiscal public expenditure review prepared in 2019 and an ongoing education sector public expenditure review. The planned measures include:

- **COVID-19 response.** A share of the targeted expenditure cuts will be achieved through the phase out of the substantial COVID-19 support programs (Annex 5).
- **Wage bill.** The Government aims to implement targeted cuts to the wage bill through continued restrictions and close monitoring of overtime and other allowances, delays in recruitment of non-priority positions, functional reviews of selected spending agencies (including with the help of an ongoing education sector public expenditure review supported by World Bank technical assistance), and limiting pay increases supported by the low inflation environment.

- **Operations and maintenance.** Savings in operational expenditure will be achieved through reductions in non-essential travel, cuts to communication expenses and other incidentals, and review of other large spending items including rents.
- **Transfers and subsidies.** The Government plans to: (i) temporarily reduce listed and non-listed public enterprises (state owned enterprises) operating grants that have seen large real increases since 2014, with cuts targeted at inefficiencies in the operation of some state owned enterprises (SOEs) that arose from the significant growth in transfers, and the delay in non-urgent recurrent activities of SOEs; and (ii) review and reduction of the wide range of private sector development subsidies, expanding on the cuts to sugar sector subsidies introduced in the last budget.
- **Capital investment.** Significant reductions in capital spending will be achieved through the: (i) completion of several capital investment initiatives that were part of the Government's large ramp up in capital outlays starting in 2014; (ii) improved targeting of the tertiary education subsidies; (iii) focus on high impact capital investment projects that comply with feasibility and economic cost-benefit analyses criteria as part of improved appraisal and selection processes; and (iv) indefinite delay of lower priority investments.

24. **Fiji's public debt remains sustainable in the medium-term, but risks of debt distress have heightened.**[6] The pre-COVID-19 Debt Sustainability Analysis (DSA) baseline scenario stabilizing public debt at about 50 percent of GDP for 2019-2023 has changed substantially with the impact of the pandemic and tropical cyclones.[7] According to Bank staff's updated DSA, the public debt-to-GDP ratio has risen sharply in 2020 to 75.3 percent of GDP (i.e., exceeding the debt level benchmark of 60 percent) reflecting borrowing to counter the impact of COVID-19 and a contraction in GDP (see Figure 2). Gross financing needs (GFN) have increased by more than two-thirds from 10 percent of GDP in 2019 to 17 percent in 2020 (exceeding the 15 percent benchmark). The authorities have tapped both domestic and external sources of financing, leaving the share of domestic debt in the same order of magnitude at about 76 percent of total public debt. Further details are presented in Annex 6.

25. **The Bank staff's baseline scenario includes the Government's fiscal adjustment plan, which is critical for debt sustainability.** The baseline incorporates 9.9 percent of GDP in consolidation measures to reflect the authorities' commitment to reduce the fiscal deficits as of 2021. Although the adjustment seems large, the Debt Sustainability Analysis for Market-Access Countries (MAC DSA) realism module does not characterize Fiji's adjustment as optimistic compared to the experience of other market-access countries. Provided that the authorities fully implement the revenue and expenditure reforms (see paragraphs 22 and 23), growth resumes and tourism flows begin to rebound, the debt-to-GDP would peak at 85.3 percent in 2021 before starting to decline progressively to 72 percent by the end of the medium term. Annual GFN would continue to surpass the benchmark in 2021 albeit descending (17.5 percent of GDP) and would fall below it thereafter to the 2018/19 pre-pandemic level of 9 percent of GDP. The debt service is expected to peak at 50 percent of public sector revenues and grants in 2021, but it would decline gradually thereafter to 37 percent by 2025 (slightly below the 10-year historical average) and is deemed to be manageable.

26. **The baseline scenario is, however, subject to significant uncertainties**. Risks to this outcome include delays in policy implementation; a slower economic recovery contingent on border reopening;

[6] The coverage of public debt is limited to central government debt in local and foreign currency. Public guarantees are excluded.
[7] The DSA was published in March 2020.

materialization of contingent liabilities from state-owned enterprises; and natural disasters. Mitigation of these risks will require articulation of a medium-term fiscal framework to guide policy by rebuilding fiscal buffers in a growth-friendly way, creating fiscal space to respond to future natural disasters, and ensuring public debt sustainability.

27. **The sensitivity analysis highlights the importance of fiscal adjustment to head off debt vulnerabilities.** Absent fiscal consolidation and assuming that the 2020 primary balance remains constant in the medium-term (-10.3 percent of GDP), the debt-to-GDP ratio would be on an explosive path; reaching 109 percent of GDP in 2025, exacerbating financing needs (22 percent of GDP) and threatening debt sustainability. With delays in implementing the consolidation of the annual primary fiscal balances greater than the baseline by an average of 1 percentage, the debt-to-GDP ratio would accelerate to almost 80 percent by 2025.

28. **Stress tests suggest that Fiji's debt dynamics are particularly sensitive to a contingent liability shock assuming full implementation of the adjustment plan.** A one-off shock of 10 percent of financial system assets taking place in 2021—increasing non-interest spending to 35 percent of GDP against 27 percent in the baseline—would push the debt and GFN ratios to 95 percent and 26 percent of GDP in 2021, respectively. That shock is particularly relevant, as the debt coverage excludes government guaranteed and non-guaranteed SOE debt. Under a natural disaster shock—added to the standard set of stress test scenarios—with real GDP growth lowered by 3 percentage points in the year of the shock (i.e., 2022) and primary balance revised downward by 2 percentage points of GDP, the public debt to GDP ratio would peak at 86 percent in 2022.

Table 6: Downside Scenario (Most Severe Shock/Contingent Liability Shock)

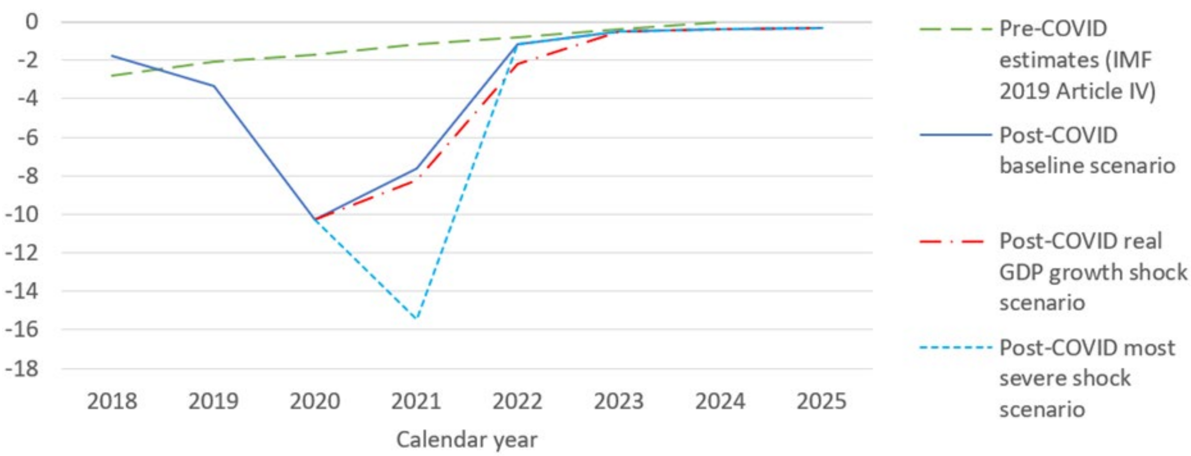
	2020 Est.	2021 Proj	2022 Proj	2023 Proj	2024 Proj.	2025 Proj.
Real GDP Growth (percent)	-19.0	0.7	6.3	6.9	5.0	4.5
percent point change from baseline	*0.0*	*-1.9*	*-1.9*	*0.0*	*0.0*	*0.0*
Primary Balance (% GDP)	-10.3	-15.5	-1.2	-0.5	-0.4	-0.3
percent point change from baseline	*0.0*	*-7.8*	*0.0*	*0.0*	*0.0*	*0.0*
Current Account Balance (% GDP)	-15.7	-15.9	-11.3	-6.1	-4.0	-2.3
percent point change from baseline	*0.0*	*-3.4*	*-4.0*	*0.0*	*0.0*	*0.0*
Nominal Public Sector Debt (% GDP)	75.3	94.6	92.5	87.4	85.2	82.7
percent point change from baseline	*0.0*	*9.3*	*11.0*	*10.5*	*10.4*	*10.2*

Sources: Ministry of Economy, and World Bank staff calculations.

29. **A slower recovery in 2021 and 2022 would have measurable impact on Fiji's debt dynamics.** If growth declined by one-standard deviation in 2021 and 2022 (reducing average real GDP growth to 3.5 percent against 5.4 percent in the baseline), thwarting the expected recovery from the COVID-19 crisis, the debt and the GFN would reach nearly 88 percent and 18 percent of GDP in 2021, respectively. The targeted gradual reductions in debt levels would be delayed by two years, declining only to 77 percent by 2025. Such a scenario is a risk if international borders remain closed until the end of the 2021 calendar year, delaying the recovery of international tourist arrivals to pre-crisis levels to 2024. The slow recovery in international tourism would result in an expansion of current account deficits. On the fiscal front, revenue collection would be subdued due to weaker growth and expenditure would have to remain

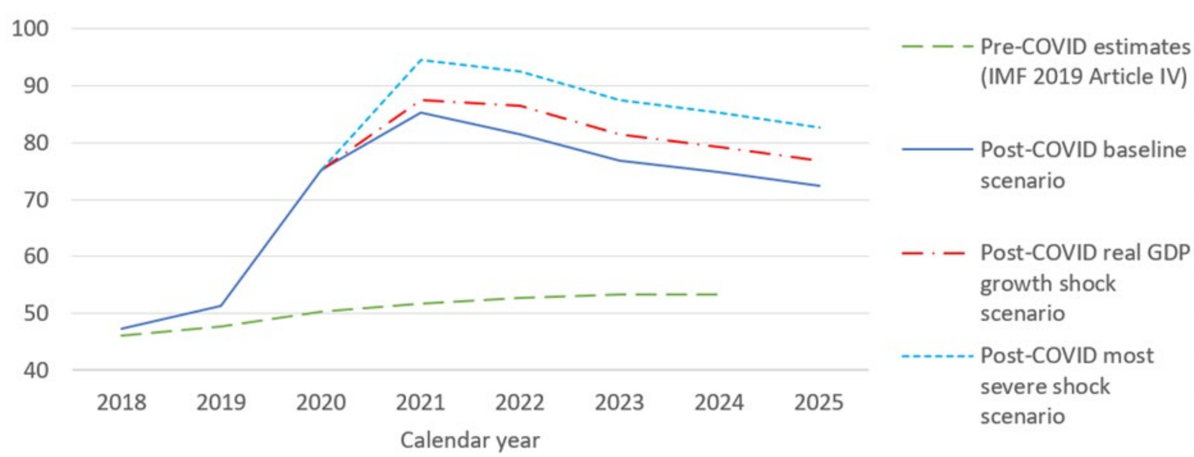
largely flat, resulting in larger deficits. The Government would have to seek additional resources from development partners and/or tap domestic sources of financing to finance these deficits (see Table 6).

Figure 1: Comparison of Pre- and Post-COVID-19 General Government Balances (percent of GDP)



Sources: International Monetary Fund, Ministry of Economy, and World Bank staff estimates.

Figure 2: Comparison of Pre- and Post-COVID-19 Government Debt (percent of GDP)



Sources: International Monetary Fund, Ministry of Economy, and World Bank staff estimates.

30. **While debt sustainability depends critically on the authorities' ability to deliver fiscal adjustment, current evidence indicates that debt management policies are prudent.** Recent new external borrowing has mostly been contracted on concessional terms, and Fiji has refinanced the US$200 million global bond that matured on October 2, 2020 using lower cost funds from multilateral creditors that were set aside in an offshore sinking fund. Fiji's first Medium Term Debt Management Strategy (MTDS) is supported by this operation and is one of Fiji's Performance and Policy Actions (PPAs) under the World Bank's (WB) new Sustainable Development Finance Policy (SDFP). The authorities will formulate an

annual borrowing plan consistent with the MTDS and integrate it into the Medium-Term Fiscal Strategy (MTFS) in FY2021.

31. **Fiji is participating in the Debt Service Suspension Initiative (DSSI)**. Fiji's bilateral debt represents about 28 percent of total external debt, nearly all of which (over 99 percent) is Chinese. In August 2020, the Government sent a letter to China EXIM Bank to communicate Fiji's intention to participate in the DSSI. The suspension of debt service payments will free up US$10.2 million (0.3 percent of GDP) to address short-term fiscal needs in FY2021. The Government will participate in the 2021 DSSI extension and has sent the extension letter to China EXIM Bank.

32. **The Government's strong commitment to debt sustainability and transparency measures is demonstrated by the endorsement of the PPAs under the SDFP.** The first PPA (PPA1) is: to improve debt management, (i) the Cabinet has approved Fiji's first MTDS, which includes clear targets for external and domestic borrowing; (ii) the Ministry of Economy (MOE) has published the MTDS on its website; and (iii) the MOE has published the information on the cost and risk indicators in the Third Quarter Government Debt Bulletin 2020/2021 to track progress on the implementation of the MTDS. The second PPA (PPA2) is: the MOE has included the risk profiles of publicly guaranteed liabilities in the Government Debt Status Report for the Year ending July 2020 and has published the Report on its website. The parts (i) and (ii) of PPA1 constitute a proposed prior action of this operation. The part (iii) of PPA1 will be completed by May 2021 and is supported through the implementation of this operation. PPA2 is directly linked to the implementation of the Government Guarantee Policy and constitutes a results indicator and a critical element of Fiji's comprehensive debt management strategy. These were also key components of the Fiji Second Fiscal Sustainability and Climate Resilience Development Policy Operations (P168402). PPA2 has been achieved in November 2020. [8]

33. **Fiji's 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 exchange rate peg is expected to continue to provide a credible nominal anchor. The authorities continue to show resolute commitment to responsible fiscal policies and debt management, and to support a sustainable and inclusive economic recovery. This is demonstrated by their commitment to: (i) recognizing the need to balance fiscal prudence with actions to support the short-term economic recovery and to provide the basis for a recovery in revenues that will allow for fiscal consolidation over the medium and long-term; (ii) reverting back to a path of medium-term fiscal consolidation by managing expenditure within the available revenue envelope as soon as the impacts of the large COVID-19 shock have subsided; (iii) limiting new external borrowing primarily to financing on concessional terms;[9] and (iv) strengthening debt management and implementing an MTDS and annual borrowing program anchored to the MTFS. The Government has also been careful to ensure budgetary measures to support the economy during the crisis will catalyze revenue recovery over the medium-term.

[8] *https://www.economy.gov.fj/images/Resources/DebtReport/July_2020_Annual_Debt_Report.pdf*

[9] As a blend IBRD/IDA borrower Fiji should expect some financing from the World Bank and other development partners to be on non-concessional, market-based terms.

3. GOVERNMENT PROGRAM

34. **The Government continues to incentivize and engage the private sector in its COVID-19 recovery and medium-term growth agenda.** The latest budget includes several incentives (expenditure and tax) to encourage investment by the private sector and provided concessional financial packages to enable MSMEs to remain operational during COVID-19 pandemic. Building on the support from the previous DPO to improve efficiency of registration of new businesses, the Government's streamlined online process has led to issuance of business licenses within 2 days (compared to 11 days previously) and helped register 19,277 businesses in a year.

35. **The Government has a strong commitment to strengthen Fiji's resilience to the impacts of climate change and natural hazards.** It has integrated climate and disaster risk and resilience into the NDP 2017. Building on the policy reforms from the previous DPO, it has used proceeds from the green bonds and the Environment and Climate Adaptation Levy to finance climate resilience investments, and continued its outreach on the *Guidelines For Improving Building Safety And Resilience,* including to households in the informal settlement.

36. **The Government is committed to mitigating fiscal risks and enhancing debt management.** The fiscal impacts of COVID-19 have highlighted the importance of managing fiscal risks and maintaining a prudent debt management strategy over the medium-term. The Government's debt policies aims to: (i) lower borrowing costs by maximizing concessional financing from bilateral and multilateral partners, including refinancing of the global bond in October 2020; (ii) actively manage the loan portfolio to ensure prudent liability management with an optimal cost and maturity structure; and (iii) develop and efficiently manage the domestic market. The Government also aims to strengthen budget execution and cash management, including through mandated annual procurement and cash plans; and improve the management of assets and maintenance of a register of non-financial government assets.

37. **The Government has demonstrated its capacity to deliver social assistance in response to natural disasters and economic shocks**. The 2002 National Health Emergencies and Disaster Management Plan was revised in 2013 and includes standard operating procedures and guidelines for various types of hazards including dengue (increasing due to climate change) and typhoid fever and has been used to successfully manage public health risks of the COVID-19 pandemic. Fiji was the first country in the Pacific to provide support to social assistance recipients after a tropical cyclone (Winston in 2016). In 2020, top-up benefits to a range of social assistance beneficiaries were provided to those affected by COVID-19 and TC Harold. The Government also provided top-ups to beneficiaries of social assistance programs in August and September 2020 with the support of the Government of Australia.

38. **Fiji has several disaster risk financing instruments and mechanisms to manage the financial impacts of natural disasters**. It recently signed a Stand-by Emergency Credit for Urgent Recovery with the Government of Japan for up to US$50 million and also has a contingency fund within its budget for disaster response. The Cat-DDO will provide additional contingent finance for dealing with climate-related disasters and public-health risks. Fiji does not access catastrophic risk insurance through the Pacific Catastrophe Risk Insurance Company (PCRIC). It became a member of the PCRIC Foundation in 2020 and could potentially access risk insurance products against climate-related hazards in the future. Given the impact of increasing disasters (especially climate-related ones) on Fiji's budget, the Government could

consider developing a disaster risk financing policy, which embeds a risk-layering approach to manage debt and deficit after disasters.

39. **Overall, the Disaster Risk Management (DRM) framework has a sound and tested foundation**. The Natural Disaster Management Act (NDMA), passed in 1998, forms the foundation of Fiji's DRM. The NDMA is implemented through the 1995 National Disaster Management Plan, which outlines the roles, responsibilities and procedures for Government entities and communities to follow in case of a disaster. Fiji actively supports its international DRM commitments and is implementing the Sendai Framework for Disaster Risk Reduction at the provincial and national level. It has improved disaster preparedness in recent years enabling a faster response to tropical cyclones and reduction in damage and loss of lives: 4.5 percent of GDP and 4 lives lost from TC Yasa in 2020 compared to 20 percent of GDP and 44 deaths from TC Winston in 2016.

40. **Fiji launched a National Gender Policy in 2014 that includes gender aware approaches in development.** The Policy recognizes that "ethnicity, disability, religion and gender often intersect and create a multiplicity of sources of discrimination against women". It is consistent with the Government's commitment to implementing the Women's Plan of Action (WPA 2010- 2019) based on the Beijing Platform for Action, and with commitment to the Convention on the Elimination of All forms of Discrimination against Women. The Policy is also aligned with the SDG goals and Fiji's commitment for Agenda 2030 on poverty (no-one left behind).

4. PROPOSED OPERATION

4.1. LINKS TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

41. **As well as being responsive to current Government priorities, the reforms proposed in this operation are closely aligned with Government's priorities identified in the NDP 2017.** Specifically, the first development objective supports the Government's efforts to promote private sector-led economic recovery through measures aimed at modernizing the payment system and development of a wholesale corporate bonds market. The second objective supports the Government's efforts to improve sustainability and management of its oceans, strengthen its building assets as well as social protection programs aligned with its inclusive socio-economic development goals. The third development objective supports the Government's efforts over the medium-term to strengthen debt management and public financial management and contribute to recognition of gender priorities in budget implementation within the Public Financial Management (PFM).

42. **The design of the proposed operation reflects lessons learned from the previous DPOs, those in other small Pacific islands and the DPOs with Cat-DDO hybrid in the Pacific region**. It acknowledges that in weak-capacity environments, achievement of desired outcomes requires both approval of a policy reform and support for, and close monitoring of, its implementation. Specifically, lessons learned are:

- **Selectivity.** The country's small size and limited number of the Government officials assigned to each task is an argument for limiting the focus to key priorities and avoiding a lengthy 'to-do' list of prior actions. The proposed operation focuses on the three most important and central elements of Fiji's development agenda, which are critical to achieving the goals set out in the NDP 2017. The proposed operation will also be complemented by other instruments for World Bank Group support, including investment project financing, analytical activities and technical assistance to ensure policy reforms are completed, and targets are met and contribute to the successful outcome of the reforms.

- **Government ownership.** The proposed operation supports reforms that have strong Government commitment and ownership and are closely aligned with its own priorities as articulated in the budget statement, the medium-term program of fiscal consolidation and the NDP 2017 that includes objectives to 2030.

- **Coordination among development partners.** The proposed operation follows established good practice in the Pacific Islands where a joint donor matrix for budget support is adopted, focusing on reducing the Government transaction costs and increasing the policy impact.

- **Technical assistance.** Continued technical assistance is necessary to support stakeholders that have not worked with development policy operations and for implementation and dialogue to strengthen reforms.

43. **This proposed operation has the following features:**

- Upfront financing: US$135 million of which US$25 million from IBRD and SDR76.4 million (US$110 million equivalent) from IDA Crisis Response Window would be provided as regular DPO financing, once the operation has been declared effective.
- Contingent (Cat-DDO) financing through a development policy IDA Credit: Subject to the drawdown trigger condition being met (see below), a credit of up to SDR7.0 million (US$10 million equivalent) would be available for full or partial disbursement at any time within a three-year drawdown period.
- The closing date for the proposed operation is March 25, 2024 (and is not affected by the timing of any drawdown of the Cat-DDO).

44. **The proposed Cat-DDO drawdown trigger and renewal conditions include the following**:

- **Drawdown trigger**: The Cat-DDO proceeds may be drawn down when the Association is satisfied, based on evidence satisfactory to it, that a Declaration of Natural Disaster[10] has been declared by the Cabinet on advice of the National Disaster Management Council[11] in accordance with Article 17(1)[12] of the Natural Disaster Management Act in response to a "Natural Catastrophe". For the

[10] Under the 2013 Constitution, the Prime Minister can declare a State of Emergency due to a natural disaster, however this has not happened given the need for temporary suspension of some aspects of the Constitution (such as Bill of Rights, powers of prosecuting agencies). The Declaration of Natural Disasters for tropical cyclones (e.g. Winston in 2016, Harold and Yasa in 2020) and COVID-19 were made under the Natural Disaster Management Act. The declaration of a State of Emergency under the Constitution is, therefore, not included as a possible drawdown trigger to withdraw Cat-DDO proceeds.
[11] Should the National Disaster Management Council not be able to meet, the Emergency Committee (as per Article 17(2) of the NDMA) will advise the Cabinet.
[12] The Article 17 (1) of the Natural Disaster Management Act 1998 states that "A natural disaster in respect of the whole or part of the Fiji Islands may be declared by the Cabinet on the advice of the Council". The Council here means the National Disaster Management Council and is the body responsible for disaster management policy and operations.

purpose of this operation, "Natural Catastrophe" is defined as "an imminent or occurring emergency situation at national scale, caused by an earthquake, tsunami, cyclone, high winds, storm, heavy rain, flood, volcanic eruption, drought, bush fire or any other natural hazard, or any public health emergency, that requires Fiji to promptly mobilize its capacity and/or financial resources, but excluding man-made disasters".

- **Drawdown period and renewals:** The drawdown period for the Cat-DDO component will be three years. The Cat-DDO component may be renewed once for an additional three years, at the Government's request, if the Association is satisfied with the progress achieved by the Recipient on the Program and with the adequacy of the Recipient's macroeconomic policy framework. Renewal must occur no earlier than one year and no later than six months before the closing date.

45. **Monitoring policy actions and reforms would occur throughout the three-year term of the operation.** Parallel TA will support such monitoring. Ongoing engagement with the Government and the preparation of DPO2 will also support the monitoring, maintain the integrated policy dialogue across the three pillars and leverage support from other development partners.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Promoting Private Sector-led Economic Recovery

46. **The first development objective is to create a better environment to mobilize private sector financing and promote private sector-led inclusive economic recovery.** This includes creating a stronger legal and regulatory framework to promote digital payments and access to finance. Financial infrastructure is a cross-cutting theme and foundation of a country's financial system that enables financial intermediation. The proposed reforms under this pillar create a modern infrastructure by: (i) allowing innovative digital solutions that serve both sophisticated and underserved sections of the country, including MSMEs particularly in the tourism sector; and (ii) improving efficiency and cost effectiveness of retail and business transactions for businesses particularly supply chain financing. The corporate sector is entirely dependent on the banking sector with no corporate bond market. Access to capital becomes challenging due to COVID-19 and diversifying funding sources is critical to the private sector for working capital or investment. This pillar supports the Government's effort of a digital economy to create a conducive business environment for payments and create incentives for the private sector to embrace alternative means of financing such as corporate bonds.

47. **The reforms in this pillar builds on from those in the previous DPO that centered on creating an enabling and conducive business environment for private investment.** Some key results were the introduction of an online company registration platform and adoption of a streamlined, risk-based business licensing framework which reduced municipal councils license processing times from 11 to 2 days. An online portal has also been launched to improve access to regulatory information and application forms. Enactment of the Business Licensing (Repeal) Act 2020 that abolished the business licensing process was a significant development. This regulatory framework enables start-ups and small businesses to commence operations once the business name and tax identification number are registered and comply with all relevant regulatory requirements within six months of registration. The proposed reforms

contribute to Fiji's short- and medium-term recovery efforts and assist the poor and rural dwellers. As highlighted in Annex 5, over the past year, the Government has introduced several measures to safeguard employment and household incomes and business earnings. A digital payments platform complements these measures and provide access to finance for businesses whilst generating economic activity.

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.

48. **Payment and settlement systems are vital to promoting e-payments and e-commerce amongst individuals and businesses alike.** These systems enable consumers, businesses and other organizations to transfer funds between accounts in different financial institutions and are essential to the day-to-day business of the economy. Fiji's existing legislation does not adequately deal with modern-day payment instruments, or the speed and volume of electronic transactions and functionality of new interbank Real-Time Gross Settlement (RTGS) systems. The inability to offer certainty and efficiency for financial transactions limits the longer-term growth of the payment system and hinder Fiji's shared growth and prosperity. Fiji's present-day retail payments market has limited interoperability, forcing customers to hold multiple accounts and cards, which translates into long delays in clearing cheques, and high fees and charges. MSMEs are particularly impacted by the lack of digital payments systems as it limits their ability to engage in online sales.

49. **Under this operation, the RBF in collaboration with the Government seeks to establish a new national payment system.** The framework has three main elements: (i) an enabling legal framework for the national payment system benchmarked to international best practices through the new legislation and subsequent implementing regulations; (ii) an upgraded modern RTGS and an Automated Clearing House (ACH) to facilitate and ensure the safe and efficient transfer of large value and retail payments; and (iii) a new Central Securities Depository (CSD) system to ensure proper liquidity management mechanisms within the financial sector and support capital market development. The National Payment System Bill allows the RBF to more effectively monitor financial system risks, protect consumers, establish a modern and safe national payment system infrastructure and give the market a reliable, efficient, and convenient clearing and settlement mechanisms. These payment reforms are expected to lead to increased use of electronic payments, reducing risks in the financial sector, lowering the incidence of human errors and speeding up the availability of funds. Implementation is supported by the Fiji Payments Project (Project ID: 605169). The RBF is the key counterpart for the implementation of the new system and has the necessary technical, financial and human resource to successfully roll-out the new systems.

50. **The indicative trigger for the next operation is the issuance of a new oversight framework for payments and guidance on retail payments instruments and services.** It will facilitate RBF's oversight function and responsibility for promoting safety and efficiency objectives through monitoring of existing and planned payment, clearing, settlement and related arrangements, and assessment against these objectives. These arrangements include financial market infrastructures and other payment, clearing, settlement and reporting arrangements and activities, both within and across jurisdictions as well as retail payment instruments or schemes.

51. **Expected Results:** Introduction of the new national payment system legal framework based on international standards and best practices for regulating the payments system. One of the main principles defined in the National Payment System Bill relates to clearing and settlement systems, including those processing securities. Following enactment of the Bill, implementation of a modern RTGS is planned and will be critical for settling large value payments and the provision of intraday liquidity. The annual volume of: (i) payments made electronically through the RTGS would increase from 148,786 in 2019 to 181,000 (approximately by 20 percent) in 2023; and (ii) retail payments made electronically through the ACH would have increased from zero in 2019 to 20,000 in 2023.

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.

52. **Fiji's capital markets are at an early stage of development and provide limited access to long-term finance for both the private and the public sector.** The Fiji International Finance Corporation (IFC) Country Strategy FY20-24, concludes that capital markets remain underdeveloped with limited listed securities, illiquid, but with large Government bond portfolio and no corporate bond market.[13] Access to capital is critical for prospective issuers and investors and to meet the growing demand for financing from private sector entities. Issuances of corporate bonds can provide medium-to-long term capital to private sector entities with stable balance sheets and help them overcome the challenges of the COVID-19 crisis when many companies are likely to have demands for additional financing that the corporate banking sector may not be able to meet. The Companies Act 2015 created the opportunity to issue corporate bonds, but there are gaps in the regulatory framework. It lacks clarity regarding both the process and legislative requirements for issuing corporate bonds in the primary market and trading in the secondary market.

53. **The Government is committed to developing the capital markets including through tax incentives and regulations to provide an overarching legal framework.** In the 2020-2021 budget, the Government announced several tax benefits for issuers and investors in the corporate bonds market. The fiscal cost arising from issuances would be offset by the broader economic benefits because bonds will be funding corporate projects that benefit Fiji's economy. For example, a corporate issuing a wholesale corporate bond (WCB) to develop a warehouse or other capital expenditure will create multiplier effects such as additional job opportunities, sources of income for households and potential revenue for the Government in the form of taxes.[14] The MOE has issued regulations that provide the legal framework for issuance of Companies (WCBs) in Fiji. Supported by the IFC Capital Markets Project, these regulations set out the eligibility requirements, the information memorandum and trust deed arrangements that must be filed with RBF before issuing WCBs. In addition, template documentation is being drafted to set the market standards. This will include the development of rules for listing the WCBs in the securities exchange.

54. **The indicative trigger for the next operation is for the Government to facilitate access to capital for small and medium-sized enterprises (SMEs).** Access to capital, particularly for startups and micro/small businesses, is a challenge in Fiji. Whilst having an active corporate bonds market is a step in the right direction, there is scope to introduce other financial market instruments to enable access to finance. The requirements for raising capital on the securities exchange is cumbersome and exorbitant for SMEs. Likewise, the stringent requirements of commercial banking sector add to challenges that SMEs face in accessing finance. The proposed reform will provide platforms, such as peer to peer lending and crowd funding facility, offer of debt, and equity securities by businesses, to meet the financing gap of

[13] At end of calendar year 2019, the Government bond portfolio had a total value of outstanding bonds of about FJD4.4 billion (approximately 47.8 percent of GDP).
[14] The notion of tax incentives will be reviewed once the market develops post demonstration transactions.

SMEs and provide alternative capital raising platforms. It will also attract those wanting to invest relatively small amounts but in a regulated environment.

Expected Results: Creating an enabling infrastructure and platform for issuance of wholesale corporate bonds is an essential first step to help issuers raise financing in a safe, secure, and timely manner and/or attract investors to invest in credible corporates. A proportionate regulatory framework, such as the Companies WCB Regulation, creates a conducive environment for issuance of wholesale corporate bonds. By 2023, the number of corporate bond issuances in the market will increase from zero to two.

Pillar 2: Enhancing Climate, Disaster and Social Resilience

55. **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**. This pillar builds on the reforms in the previous DPO for strengthening single-story houses and schools and the ongoing TA for social protection. The proposed reforms address multiple climate-related risks and collectively contribute to improving resilience of the people, economy and environment. Management for sustainable use of natural resources in marine areas benefits populations in coastal zones, remote islands and the economy. Strengthening of buildings reduces economic and social costs after climate-related disasters. The improved social assistance programs provide financial protection to improve the resilience of the poor and vulnerable including after climate-related disasters that are increasing.

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*.*

56. **The National Ocean Policy 2020-2030 (NOP) provides a framework for sustainable management of Fiji's vast ocean resources which are vital for climate resilience.** The Policy's 10-year implementation plan is structured around seven interlinked objectives to reduce excessive pressure on ocean natural resources, enhance resilience to climate change and improve the carbon sinks contributing to Fiji's climate mitigation commitments under the Paris Agreement of the United Nations Framework Convention on Climate Change. The NOP covers both Fiji's area within national jurisdiction (AWNJ) and the Exclusive Economic Zone (EEZ).[15] The AWNJ is home to about 9 percent of the coral reefs in the Pacific and around 350 hard coral and 1,200 fish species. It is under increasing pressure from land-based sediment flow and pollution, including plastics, unsustainable harvesting practices and impacts of climate change e.g., rising ocean temperatures and acidification. One focus of the NOP is also to streamline and strengthen marine governance, currently under the jurisdiction of multiple ministries, with support from the public and private sector and civil society. [16]

57. **Creation of Marine Protected Areas (MPAs) enhances climate resilience of major ecosystems, and livelihoods and incomes of communities in coastal areas and remote islands.** The MPAs are off-

[15] Under the United Nations Convention on the Law of the Sea (UNCLOS), each nation has the right to an EEZ. Within this area, Fiji can exercise sovereign rights and exclusive fisheries management authority over all fish and fisheries. Fiji's EEZ is the area that extends "*beyond and adjacent to the territorial sea*" to 2000 nautical miles (around 370 kilometers) off the coast (UNCLOS Art. 55). The territorial sea themselves extends to around 22 kilometers from the archipelagic baselines (UNCLOS art. 3) i.e., "*baselines joining the outermost points of the outermost islands and drying reefs of the archipelago*" (UNCLOS Art. 47).

[16] Although not included in the NOP, Fiji also has 460 inshore areas that are part of the Fiji Locally Managed Marine Area (FLMMA) network. These are managed traditionally and recognize traditional rights and management approaches, which are important for the livelihoods of coastal communities. They complement the actions in the NOP.

shore and will be determined through a consultative process with no-take-zones and regulated fishing grounds to act as reservoirs for the replenishment of fish stocks and biodiversity. Limiting fishing and recreational pressures through conservation measures in the MPAs improves their biodiversity and productivity and makes them resilient to effects of climate change including damage from cyclones, coral bleaching from high seasonal ocean water temperatures.[17] Increased productivity also improves the carbon stored in corals and sediments contributing to the overall improvement in carbon storage of these areas. The increased productivity and general conservation measures in the MPAs improves the fish population in the surrounding areas, contributing to a community's ability to catch fish and other marine species for their livelihood and income. The NOP commits the Government to designating 30 percent of the AWNJ as MPAs by 2030 with an interim target of 5 percent by end of 2023 and 10 percent by end of 2025. This is a significant challenge given the geographical extent of the AWNJ and Fiji's technical and financial capacity. The NOP also envisages a much larger role for women in the decision-making process with a target that at least 25 percent of the 15 member NOP Steering Committee be women.

58. **The indicative trigger for the next operation is to reduce marine plastic pollution through amendment to the Environmental Management Act (2005) and Customs Act (1986) to phase-out foamed polystyrene.** Like other Pacific Island countries, Fiji faces challenges from single use plastic products. These include expanded or foamed polystyrene[18] and polyethylene terephthalate (PET) products[19]. Fiji does not have a recycling program for such waste which is disposed of informally or goes to landfill. Such actions are leading to such waste becoming increasingly visible, threatening coastal and marine species and creating blockages in drains leading to localized flooding and damage to assets during heavy rainfall. The Government intends to manage such waste by amending the Environmental Management Act (2005) and Customs Act (1986). The amendments aim to phase out the importation and local production of foamed polystyrene material. A specific results indicator for this trigger will be finalized during the preparation of the next operation but could include a reduction in the importation and local production of foamed polystyrene.[20]

59. **Expected Results:** Designation of the MPAs after extensive stakeholder consultations amongst communities, civil society organizations, the private sector (particularly the tourism sector), Government agencies and Fiji's Navy. The proposed result aims to capture the outcome of the interim target. By 2024: (i) at least 5 percent of area within the national jurisdiction is legally designated as Marine Protected Areas that contribute to climate resilience of coastal and marine areas and communities; and (ii) at least 25 percent of the National Ocean Policy Steering Committee members are women.

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[17] IPCC 2002. Climate Change and Biodiversity. Gitay, H. Suarez, A. Watson, R. T. and Dokken, D (eds.). IPCC Technical Paper V. WMO/UNEP Publication also at http://www.ipcc.ch/pub/tpbiodiv.pdf

[18] A common brand is Styrofoam used in food service industries (e.g., food containers, foamed cups, plates).

[19] Mostly used for beverage and oil bottles.

[20] The results can be monitored through the importation of products and surveys similar to those used for plastic in the past.

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 the Fiji Standard AS/NZS 4671 for Steel Reinforcing Materials.

60. **Material and design standards are critical to ensure the performance of buildings during the increasing cyclonic winds**. From a regulatory perspective, standards[21] are a quality control mechanism that ensure the construction and design of buildings are consistent across all regions and provide a framework for assessing structure. Typically, poor or deteriorating building elements, especially defective reinforcing steel, lead to excessive damage under cyclonic wind loading or even failure of building structures. The most common form of deterioration in buildings is corrosion of these metal reinforcements. This is particularly the case for 2+ storey buildings, both residential and commercial, that have been destroyed in recent storms or cyclones, which are increasing with climate change.

61. **The revised Fiji Standard (FS) AS/NZS 4671 specifies reinforcing material requirements and will be used by enforcement agencies to ensure standards are met.** The revised standard specifies the chemical composition, the mechanical and the geometrical properties of reinforcing steel for three different strength grades and the three different ductility classes as a construction element.[22] Reinforcing steel needs to behave in a specific way to ensure that a building is resilient against imposed loading such as from strong wind and heavy rain. Fiji does not have the capacity to manufacture and/or test such materials and thus revisions to the FS AS/NZS 4671 were benchmarked against New Zealand (NZ) requirements, due to similarity in geographical location. The Regulator for the standard is the Department for Buildings and Government Architect within the Ministry of Infrastructure and Meteorological Service. Enforcement will be managed primarily through the Customs and Border Control Agency who require import permit, issued by the Regulator, for all importers. With the support of development partners, the Regulators and Customs and Border Control agents have been trained on the new requirements. In addition, Building Inspectors, as part of monitoring the building permit requirements, have the authority to stop work onsite if there is doubt of the standard of the reinforcing steel while spot testing results are obtained.

62. **The indicative trigger for the next operation is to improve the resilience of single- or two-story housing and other building structures through the revision of the Fiji Standard AS 4055 –Wind Loads for Housing and of the Fiji Standard AS/NZS 1170.2 – Structural Design Actions (Part 2: Wind actions).**[23] The revisions to these standards are aimed at making them simpler to use by architects, designers and engineers to reduce the possibility of misinterpretation. Enforcing the use of these standards will help the Government regulate the design and construction of building structures and reduce the damaging impacts of cyclonic winds on this vulnerable sector. Once Standard AS4055 is adopted – referred to as FS AS 4055 – it will be used for all single or double-story buildings subject to a building permit (single-story houses on

[21] A Standard is a document that sets out the specifications and procedures (for design, construction and manufacturing) to ensure that products, services (and the built environment) perform safely, reliably and consistently in the way they are intended to do. Generally, they are law and must be adhered to.

[22] Although the standard stipulates the "manufacturing" of reinforcing steel, it needs to be employed along with other standards. The use of reinforcing steel in building structures is specified in the design standards, which include: AS3 600: Concrete Structures; AS 3700: Masonry Structures; and AS 2870: Design of Residential Slabs and Footings.

[23] Wind load is the force on a structure arising from the impact of wind on it. The Housing Standard specifies wind speed classes for calculating wind loads that can be tolerated by buildings. It also considers local topographical features (hills, ridges and cliffs) that may affect the calculation. The revision of these standards aims to address the design and construction of housing and the manufacture of residential building products to withstand wind speeds of up to 240km/hour or Category 5 cyclones.

customary lands are excluded) and complement the work on Guidelines supported through the previous DPO. Standard FS AS/NZS 1170.2 will apply to multi-storey building structures where the wind loads are critical in terms of the resilience and safety of the buildings. A specific result indicator for this trigger will be finalized during the preparation of the next operation but could include requiring construction firms to include legally binding statements in building permit applications.

63. **Expected Results:** The importer must have prior approval from the Regulator before steel reinforcing materials are loaded on ships from the country of origin. The import permit issued by the Regulator must be presented to the Customs and Border Control Agency and must reflect the minimum requirements of the revised FS AS/NZS 4671: Steel Reinforcing Materials. The Customs and Border Control Agency has the authority to return or detain the reinforcing steel bars if an import permit is not provided. The result captures enforcement of the revised FS AS/NS Standard and proposes a target of at least 70 percent for the first three years is proposed. By 2024, the Customs and Border Control Agency will require importers to provide the import permit for steel reinforcement material being manufactured in accordance with the revised Fiji Standard AS/NZS 4671: Steel Reinforcing Materials, or suitable equivalent standard.

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.

64. **The Government has a range of Social Assistance (SA) programs to support the poor and vulnerable but recent shocks have highlighted gaps in the social protection systems.** SA programs i.e. non-contributory cash or in-kind benefits are important for alleviating poverty and protecting the vulnerable. Around 14 percent of Fiji's population is covered by at least one social assistance program but this is much lower than in Fiji's peers (i.e., upper-middle-income countries) where they cover 30 percent of the population.[24] The recent shocks have highlighted gaps in the social protection systems to effectively target the poor and to scale up to the vulnerable or informal sector workers ('adaptability'). In addition, with increasing climate-related disasters, there is a need to ensure efficient and timely support to those vulnerable and often impacted by low-intensity, high-frequency floods as well as cyclones. However, SA programs cannot reach households just above the poverty line due to operational challenges, including the absence of a social registry.[25] In addition, the proxy means test (PMT) model relies on outdated survey data. Although Fiji's SA programs are considered to be pro-poor (as more than 20 percent of its total beneficiaries of the Poverty Benefit Scheme belong to the poorest quintile of the income distribution), the share of beneficiaries in the poorest quintile of the income distribution is only 30 percent. This is lower than the global average of the beneficiary incidence of 37 percent.[26]

65. **The Social Assistance Policy addresses these gaps in targeting and efficiency by strengthening the design and delivery, making SA programs adaptable to economic and climate-related shocks**. The Policy sets out a framework for protecting the poor and vulnerable by delivering targeted and adaptable social assistance programs. It specifies conditions when social assistance can be provided after cyclones

[24] The Atlas of Social Protection: Indicators of Resilience and Equity (ASPIRE), World Bank Group. Available at https://www.worldbank.org/en/data/datatopics/aspire/region/income-group-comparison

[25] A 2019 WB Business Process Review concluded that manual processes and the lack of integrated systems significantly reduced staff efficiency and the Government's ability to respond quickly.

[26] The World Bank State of Social Safety Nets 2018. Global average is calculated based on the most recent household survey data from 96 countries (Figure 3.12) Available at https://openknowledge.worldbank.org/handle/10986/29115.

and floods to the poor who due to their low income are highly vulnerable to the impacts of such climate related disasters. Having cash available after disasters reduces the impacts of these shocks and enhances their resilience. The policy will be implemented under the direction of the National Social Protection Coordination Committee (NSPCC). The NSPCC is chaired by the Permanent Secretary of the Ministry for Women, Children and Poverty Alleviation and its members are representatives of the relevant ministries and agencies. The policy addresses the gaps through strategic priorities, such as gender-responsive and affordable SA programs; cost-effective selection processes for stronger poverty reduction impact; development of IT systems including establishment of a social registry and an integrated information system to support rapid scale-up of programs in the event of climate-related disasters; and training, capacity building, and monitoring and evaluation. These priorities are expected to be implemented by 2025 with some supported through a World Bank funded Fiji Social Protection COVID-19 Response and Systems Development Project (P175206). The PMT model will be finalized in 2021 with support from a WB TA.

66. **The indicative trigger for the next operation is the establishment of a social registry, which is a key element of adaptable social protection systems**. The establishment of the social registry will include installing management information systems with information on households and individuals that have applied for social assistance programs and cross-checking this information against Civil Registry (births, deaths and marriages) whenever possible. Establishment of the social registry will enable the Government to effectively and efficiently identify and support the poor and vulnerable, including informal workers and those affected by climate-related events.

67. **Expected Result:** The Social Assistance Policy focuses on targeting and delivering SA programs to the poor and vulnerable. Monitoring performance of SA programs, by identifying the number of beneficiaries that are in the poorest quintile ensures that SA programs - within specific budgets - could achieve greater inclusion of the poor and greater impact on poverty reduction and climate resilience. The results indicator beneficiary incidence captures the effectiveness of such an outcome. By 2024, the beneficiary incidence of the poorest quintile included in the poverty-targeted social assistance program meets the global average of at least 35 percent.

Pillar 3: Strengthening Debt and Public Financial Management

68. **The third development objective of the proposed operation is to strengthen debt and public financial management.** The fiscal impacts of COVID-19 have highlighted the importance of managing fiscal risks and maintaining a prudent debt management strategy over the medium-term. This pillar builds on reforms supported by previous DPO series, including: (i) implementation of a Medium-Term Fiscal Strategy (MTFS) that strengthened fiscal discipline and initiated fiscal consolidation through expenditure-side measures consistent with debt sustainability; and (ii) a Government Guarantee Policy aimed at managing risks associated with contingent liabilities. Formulation and implementation of a Medium Term Debt Strategy (MTDS) will help manage borrowing costs through an optimally balanced debt portfolio consistent with the Government’s cost-risk trade-off preferences. The Public Finance Amendment (PFM) Bill and Gender Responsive Budgeting (GRB) included in the FY2021 budget aim to increase the efficiency, effectiveness and accountability of the PFM system. The GRB should help ensure gender-related needs are reflected and resourced through the annual Government budget process (see Annex 7).

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.

69. **Fiji's core debt management objective, set out in the National Plan and MTFS, is to put the public debt-to-GDP ratio on a downward trajectory when the economy rebounds.** Debt policies are stated in the Annual Budget document and supported by the MOE's internal benchmark targets for an appropriate mix of domestic and external financing. The principal policy goals are to: (i) lower borrowing costs by maximizing concessional financing from bilateral and multilateral partners; (ii) actively manage the loan portfolio to maintain an optimal cost and maturity structure; and (iii) develop an efficient domestic debt market. Implementation of a MTDS integrated annual borrowing plan anchored in the MTFS approved by Cabinet in the FY2021 budget will strengthen debt management and support realization of the debt management objective.

Table 7. Cost and Risk Indicators of Existing Debt Portfolio, FY2020

<table>
<tr><th colspan="2">Risk Indicators</th><th>External debt</th><th>Domestic debt</th><th>Total debt</th></tr>
<tr><td colspan="2">Amount (in millions of FJD)</td><td>1,709.5</td><td>4,976.5</td><td>6,686.0</td></tr>
<tr><td colspan="2">Amount (in millions of US$)</td><td>805.9</td><td>2,345.9</td><td>3,151.8</td></tr>
<tr><td colspan="2">Nominal debt as percent of GDP</td><td>16.7</td><td>48.7</td><td>65.5</td></tr>
<tr><td colspan="2">PV as percent of GDP[1]</td><td>15.5</td><td>48.7</td><td>64.2</td></tr>
<tr><td rowspan="2">Cost of debt</td><td>Interest payment as percent of GDP</td><td>0.3</td><td>3.4</td><td>3.6</td></tr>
<tr><td>Weighted Avg. IR (percent)</td><td>2.3</td><td>6.7</td><td>5.6</td></tr>
<tr><td rowspan="2">Refinancing risk</td><td>Average time to maturity (years)</td><td>7.2</td><td>9.3</td><td>8.7</td></tr>
<tr><td>Debt maturing in 1yr (percent of total)</td><td>28.3</td><td>9.9</td><td>14.6</td></tr>
<tr><td rowspan="3">Interest rate risk</td><td>Average time to refixing (years)</td><td>2.4</td><td>9.3</td><td>7.5</td></tr>
<tr><td>Debt refixing in 1yr (percent of total)</td><td>75.6</td><td>9.9</td><td>26.9</td></tr>
<tr><td>Fixed rate debt incl. T-bills (percent of total)</td><td>54.9</td><td>100.0</td><td>88.3</td></tr>
<tr><td rowspan="2">Foreign exchange risk (FX)</td><td>FX debt (percent of total debt)</td><td colspan="3">25.6</td></tr>
<tr><td>Short-term FX debt (percent of reserves)</td><td colspan="3">22.0</td></tr>
</table>

Source: WB staff estimates.

70. **An MTDS and consistent annual borrowing plan is essential for coherent public borrowing decisions.** Risks are associated with managing public debt without an MTDS, particularly now when debt levels have risen sharply because of the combined impact of increased borrowing to counter the impact of the COVID-19 pandemic and the steep contraction in GDP. At present Fiji's core debt management objectives are not translated into a targeted and monitorable MTDS anchored to the MTFS approved by Cabinet as part of the FY2021 budget. This operation supports the formulation of Fiji's first MTDS, which is one of Fiji's PPAs under the WB's new SDFP. WB's MTDS TA began in mid-September 2020 to support the Fijian authorities and will mitigate risks to delay or failure of implementation. The MTDS will also serve broader debt management goals, including maintaining an efficient market for Government securities,

and as an important communication tool with domestic and external investors. It will bring a significant increase to the transparency and accountability of the Government's financing decisions.

71. **The indicative trigger for the next operation is the formulation of an annual borrowing plan consistent with, and integrated into, the MTDS.** The objective of an annual borrowing plan is to manage the level and composition of public borrowing within the parameters and objectives of the MTDS. The size and timing of new borrowing will be determined by the Government's needs and prevailing market conditions, taking into account any underlying volatility in Government cash flows, but will also be governed by the debt policy priorities set out in the MTDS. The annual borrowing plan will enable the MTDS to be operationalized and monitored on an ongoing basis thereby strengthening accountability and adherence to the agreed debt policies.

72. **Expected Results:** Debt management practices will be strengthened through the implementation of MTDS-set debt management priorities and targets to guide public borrowing decisions. This will allow the reduction of the weighted average interest rate of total debt portfolio from 5.6 percent in FY2020 to below 5 percent by FY2024.

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 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.

73. **The Government recognizes the importance of PFM for the country's development agenda in its NDP 2017 and acknowledged gaps in the legal framework.** The Plan outlined the Government's agenda to improve the efficiency, effectiveness and accountability of the PFM system and the legislative framework lays the foundation for strong PFM and provides guidance on the allocation, management, control and accountability of public resources. The 2019 Public Expenditure and Financial Accountability (PEFA) Assessment Report (published in February 2020) found the PFM system performs particularly well for budget execution but identified several weaknesses that hamper the efficient use of public resources and risk undermining service delivery. Important shortcomings identified were budget reliability and transparency of public finances, absence of a medium-term perspective in expenditure budgeting, delayed annual financial reporting, and the lack of a debt management strategy. Further, promulgation of Fiji's new constitution in 2013 delegated responsibility for the efficient, effective and economical management to permanent secretaries. The controls and accountability of the PFM framework need to be strengthened and brought into line with these delegated responsibilities.

74. **The Amendment Bill strengthens public financial management by providing for greater transparency and accountability and includes mandatory preparation of a fiscal and a debt management strategy for the medium term, and introduces new legal requirements for procurement, cash management and internal audit.** The Amendment Bill has: (i) revised principles of responsible fiscal management; (ii) fiscal strategy content and preparation, parliamentary review and publishing requirements; (iii) clear guidance to strengthen budget execution and cash management, including mandated annual procurement plans and cashflow forecasts; (iv) requirements for the better management of assets and risks; (v) improved debt management practices, including the content and preparation of a debt management strategy; and (vi) a new part providing legal backing for the internal audit function. It assigns authority to the minister and permanent secretary responsible for finance and

expands responsibilities of all permanent secretaries and other key authorities. Another important objective of the Amendment Bill is to facilitate realistic revenue forecasts which have previously been systematically been overly optimistic, undermining cashflow planning and ultimately budget implementation. This is reflected in a score of D of the performance indicator measuring aggregate revenue outturn in the 2019 PEFA assessment, signifying that actual revenue was less than 92 percent of budgeted revenue in at least two of the last three years. The Government will establish a Revenue Technical Committee comprising the MOE, the Fiji Revenue and Customs Service, and the RBF to review revenue forecasts and ensure revenue targets are based on a realistic macroeconomic framework and aligned to the approved fiscal strategy mandated through the PFM amendment bill.

75. **Fiji's public financial management has major gaps in gender-responsiveness.**[27] PFM in Fiji lacks any coherent and systematic planning with regard to gender-responsiveness or gender-disaggregated data, ex ante gender impact assessments, tracking of allocations, evaluations, and revenue impact assessments. Sex-disaggregated information is absent from both planned outputs for key service delivery ministries (with the partial exception of the Ministry of Education) and the national development plan. Prior to FY2021, when GRB was piloted in two ministries, budget processes did not include any analysis of impacts on men and women. The experiences of Indonesia[28] and other countries in Asia and the Pacific,[29] indicates the collection of sex-disaggregated data, on which planning, monitoring and evaluation depend, is key for effective implementation. The availability of sex-disaggregated data and indicators is also critical for informing the design of policies and addressing gender gaps in various sectors of the economy. Given a large proportion of women in the labor force are in sectors heavily impacted by the COVID-19 pandemic, sex-disaggregated data can also guide decisions to help close the gender-gap.

76. **The GRB pilot in FY2021 and expected rollout across ministries centers on improving capacity and establishing mechanisms for data-driven planning, analysis, monitoring and evaluation**. The GRB framework consists of a new budget submission template, requires gender analysis of programs and budget allocations based on sex-disaggregated data, and provides for capacity building for data collection and evaluation within ministries. Prior to the gradual rollout across all ministries, the Ministry of Commerce Trade, Tourism and Transport (MCTTT) and the Ministry of Fisheries each trialed the template for two of their major programs. Following inclusion of GRB in the budget circular and budget submission templates, both pilot ministries have received training, carried out gender impact analysis for their two priority programs, and integrated results into their budget submissions. One agency where the GRB rollout is expected to result in tangible gender equality improvements, and to support the increase in gender-based violence during COVID-19, is the police force. Currently, only 22 percent of police officers and 19 percent of new recruits are female (2020), and less than one percent of women officers in the Fiji Police Force serve as officers of or above the rank of Assistant Superintendent, while only a small number of these hold senior positions. Inclusion of the Fiji Police Force in the GRB process will enable specific financial resources to be focused on the review of existing legislation, policies and programs to determine the extent to which they meet the needs and respect the rights of female employees and citizens. As a result of this review, action will be taken to address the current barriers and opportunities for women's employment in the Fiji Police Force, including the delivery on targets focusing on hiring more

[27] Fiji PEFA Gender-Responsive Budgeting Assessment Report 2019.
[28] Indonesia PEFA Assessment of Gender Responsive Public Financial Management 2020.
[29] United Nations. 2018. *Gender-Responsive Budgeting in Asia and the Pacific.*

policewomen. International evidence,[30] including from other countries in the Pacific region[31], shows that recruiting more female police officers has the potential to expand women's employment opportunities and increase the rate of reporting of violent crimes against women, which is of particular relevance given the high rate of violence women and girls face in Fiji.

77. **The indicative trigger for the next operation is to align the Financial Instructions and Procurement Regulations with the amended legislation.** The Amendment Bill provides for periodic issue or amendment of Finance Instructions and Procurement Regulations by the responsible Minister. The regulations under the existing Financial Management Act 2004 are the Finance Instructions 2010 and the Procurement Regulations 2010. Following approval of the Amendment Bill by Cabinet, the consequential process is to align financial policies and manuals to the amended Bill, including to avoid legal ambiguities that may arise in interpreting provisions between the financial laws. The approval of such subordinate legislation is a continuation of the Government's efforts to establish an updated and comprehensive legal framework for PFM.

78. **Expected Results:** The expected results for this Prior Action are: (i) the performance indicator measuring aggregate revenue outturn in the PEFA assessment will improve from D to C by FY2024, aided by the publication of a fiscal strategy and implementation of a parliamentary review process in accordance with the provisions of the Amended PFM Bill that aims to improve the integrity of revenue forecasts; (ii) by FY2024, the rollout of GRB is expected to result in 35 programs (out of about 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 25 percent by 2024.

79. **The underlying underpinning of the prior actions are presented in Annex 8.**

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

80. **The proposed operation is fully aligned with the objectives and proposed outcomes of the new Country Partnership Framework (CPF) covering FY2021-24.** 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 NDP 2017, remain central to the new CPF.

81. **The proposed operation builds on the reforms supported through the previous DPO series and complements the ongoing policy engagement and development partner operations.** The IBRD-financed Transport Infrastructure Investment Project (TIIP), co-financed with the ADB, and the Fiji Connectivity Project are providing much needed infrastructure to underpin future growth. The World Bank has also mobilized resources from the Global Environment Fund to finance a Sustainable Energy Finance Project

[30] Miller and Segal (2014), find that increase in female police officers in an area led to significantly higher rate of reporting for violent crimes and domestic violence against women. Miller, A.R & Segal C, 2014 - Do Female Officers Improve Law Enforcement Quality? Effects on Crime Reporting and Domestic Violence Escalation.

[31] In a large-scale randomized experiment, Cooper (2019) finds that the presence of female police of officers increases reporting of violent crimes against women in rural Papua New Guinea. Cooper, J. 2019. State Capacity and Gender Inequality:

to increase the use of renewable energy by households and small businesses. Through the Forest Carbon Partnership Facility and the Carbon Fund Emission Reductions Program, Fiji has set up the building blocks for land-based emission reduction program and is expected to generate about US$12 million in performance-based payment.

82. **The country program has undergone significant adjustments in light of the COVID-19 pandemic.** The CPF proposed a range of measures to support Fiji's response to and recovery from the COVID-19 pandemic. Revisions to the Small Islands Economies Exception reclassified Fiji as an IDA-eligible country as of 1 July 2019, expanding the envelope of financial resources and instruments available to the country. Fiji has gained access to the World Bank's Fast Track facility for COVID-19 and the Fiji COVID-19 Emergency Response Project (P173903), which aims to help prevent, detect and respond to the threat posed by COVID-19 and strengthen national systems for public health preparedness. To strengthen Fiji's social protection policy and programs, an IDA Fiji Social Protection COVID-19 Response and Systems Development Project (P175206) was approved in February 2021. Furthermore, the Government has requested support to revive the tourism industry through critical investments and master planning for the second largest island of Vanua Levu (delivery also estimated in FY2021). Combined, these engagements form a critical part of the Bank's support to help Fiji mitigate the effects of COVID-19 and cushion the impact of the pandemic on the country's most vulnerable people. They are also laying a foundation for a longer-term engagement in critical sectors and this operation provides an essential tool for policy dialogue in new sectors of vital importance for the country's continued development.

83. **The proposed operation also builds on the considerable policy engagements 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. Efforts are underway to develop a joint WBG Country Private Sector Diagnostic for Fiji. The IFC program is focused on:

- **Supporting and growing MSMEs, particularly in the tourism, trade and agribusiness sectors.** The goal is to improve access to capital and financial services through improved regulation, deepening of capital markets and improved corporate governance practices.
- **Enhancing Fiji's business climate.** Focusing on supporting investment policy, law reforms and regulatory reforms will improve the environment for doing business.
- **Increasing private sector investment, including foreign direct investment**. Activities that help businesses expand in the services, tourism, trade and agribusiness sectors. The program will also support opportunities to develop renewable energy projects as well as to attract private sector investment in the provision of public utilities through Public Private Partnership initiatives.

84. **The projects under implementation include investment policy and doing business reforms, which have resulted in a new Bill following approval by the Cabinet on investment law and appointment of a task force to undertake doing business reforms.** A tourism project is helping Fiji revive its tourism sector and develop a strategy for the development of Vanua Levu, the second largest island in Fiji as a tourism destination. The program is developing a market segmentation and product development strategy for the post-COVID-19 era. The DPO builds on the results of the Fiji COVID-19 Business survey, jointly implemented by the IFC and MCTTT, which identified key challenges and response mechanism for private sector survival and recovery from COVID-19.

85. **A capital markets reform project and a payment systems reform project to introduce corporate bonds to attract capital and introduce a national payment system architecture to enable smooth and efficient functioning of the banking system with respect to making and receiving payments respectively.** The IFC Gender program for Fiji is focused on the objective to close gender gaps in employment in target firms by increasing women's recruitment, retention and promotion. As part of this program, IFC will be partnering with the Pacific Corporate Governance Institute (an initiative set up by IFC) to deliver a *Pacific Governance Series - Addressing gendered impacts of COVID19 to create safe and resilient businesses.* The Public Private Partnership (PPP) program has enabled the first ever health sector PPP in the Pacific with the establishment of Health Care (Fiji) PTE Limited. The PPP team is also undertaking an affordable climate resilient housing project, which would involve building in excess of 2,000 housing units in six sites across the country. The PPP team has signed a mandate with Energy Fiji Limited to develop an independent power producer project in Viti Levu using best practice global knowledge and technology on solar energy. Fiji's temporary eligibility for Private Sector Window, would enable access to local currency financing at a reasonable cost, which would help close some of the deals around green buildings and roof top solar projects.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

86. **The NDP 2017 vision of inclusive socio-economic development, and widely shared prosperity evolved from extensive consultations with a wide range of stakeholders.** The NDP 2017 "Transforming Fiji" combines a long-term transformational 20-year Development Plan with a comprehensive 5-year Development Plan and action agenda with specific targets and policies aligned to the long-term goals. Formulation of the NDP 2017 drew on support and input from a wide range of stakeholders, including national administrators, business leaders and other private sector representatives, and civil society at large. A common thread to emerge was the importance of economic growth, democracy, security and opportunities for all. This translated into a set of 20-year NDP 2017 targets that include doubling real per capita income by 2035, eradicating poverty, redressing rural-urban gaps, lowering the public debt burden, and creating more jobs.

87. **Formulation of the annual budget involves extensive consultation, both before and after the budget announcement.** Public meetings encompass professional groups and business leaders and representatives from of all facets of civil society. Similarly, changes to national legislation reflect broad-based input from all relevant sectors of the economy. In formulating these revisions, the Government also benefitted from technical assistance from the World Bank and other development partners. Prominent and widespread reports in local and national media also underscore the Prime Minister's commitment to reforms and served as a channel for garnering public support.

88. **Climate and disaster resilient actions continue to be developed through a consultative process.** The Government has continued its momentum on improving climate and disaster resilience after its Presidency of the 23rd session of the Conference of the Parties to the United Nations Framework Convention on Climate Change in 2017. Over the past two years, the Government has consulted with stakeholders (including civil society, development partners, NGOs, the private sector and academia) as it developed the NOP. For the revisions to the building-related standards, it also held extensive consultations with the construction industry and development partners.

89. **In preparing this operation, the World Bank worked closely with other development partners**. The operation's objectives mirror the priorities of the ADB Country Partnership Strategy 2019-2023 and are within the parameters of the Government of Australia's extended aid and technical support program. Consistent with established practice in the Pacific, the operation uses a joint policy matrix for budget support that reduces transaction costs for the Government and maximizes the policy impact. The ADB and the Australian Government are providing budget support using criteria consistent with the World Bank's proposed operation. The World Bank consults regularly with the ADB, European Union, the Australia and New Zealand High Commissions, and the IMF and its Pacific Financial Technical Assistance Centre (PFTAC) to coordinate policy advice and technical assistance.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

90. **The policy reform supported in PA1 is expected to have a neutral impact on the poor and vulnerable**. The transition to digital and non-cash payments supported in PA1 is expected to improve the overall efficiency of the 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. Poor households are more likely to be unbanked and have low financial and digital literacy, and steps are needed to ensure they will be able to maintain or increase their level of participation in the increasingly digital economy. Mitigation measures, such as mass awareness campaigns, will be undertaken to ensure the poor and vulnerable are able to take full advantage of the transition to digital payments.

91. **The NOP supported in PA3 will likely have positive long-term impacts on the livelihoods of fishers in coastal communities and remote islands and neutral from that supported by PA4.** As the MPAs are created, the health, productivity, diversity of fish resources will be restored and sustained, and their resilience to climate change improved, which should boost the livelihoods of small fishers in the medium run and safeguard them in the long run. Some restrictions of access to fisheries by these small fishers, when MPAs are created in nearshore areas, could however affect their livelihoods in the short term. They may require support during the transition period when fish resource is rebuilding. Steel reinforcing materials are unlikely to be used by the low-income and poor household for construction of their houses and thus the effects are not likely to be negative or positive.

92. **The Social Assistance Policy supported in PA5 is expected to have significant positive effects on the poor and vulnerable.** The improvements in the targeting mechanisms will ensure that the poorest comprise a higher proportion of those receiving benefits from of Poverty Benefit Scheme. The "adaptive social protection" component of the policy – complemented by technical assistance provided to the Government to strengthen social protection systems to be more efficient and adaptive across multiple agencies under the Fiji Social Protection COVID-19 Response and Systems Development project in preparation (P175206) – will also ensure that the poor and vulnerable are able to get timely assistance in response to natural disasters or economic shocks. However, the changes have some risks associated with them which can be mitigated through a nation-wide communication of the new policy to manage public

expectations and pre-empt backlash, such as awareness of the rationale for any resulting additions and removals from existing beneficiary lists.

93. **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**. The proposed Prior Actions will contribute to long-run fiscal sustainability in Fiji through better public financial management. This, in turn, will allow the Government to sustain public service provision and human capital investments such as health and education. Such support would disproportionately benefit the poor and vulnerable. According to analysis of the 2019 HIES, the poorest individuals and households tend to be the most likely to be deprived of access to water, sanitation, electricity, and health services. The poor also lack viable alternatives to public services. The gender-responsive budgeting processes being introduced could also improve the quantity and quality of public spending on women and girls, which would lead to positive social outcomes.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

94. **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 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 demands on ecosystems, especially for meeting livelihood needs such as food and fuelwood.

95. **Fiji's systems for reducing adverse environmental impacts and enhancing positive impacts is reasonably strong at the policy level, but implementation weaknesses continue**. The Ministry of Waterways and Environment derives its legal mandate from the Environment Management Act 2005 – Part 2 Administration. It promotes the sustainable use and development of the environment and implements the Environmental Impact Assessment (EIA) process. The EIA unit, one of four units in the Department, examines and processes every development proposal referred to it by an approving authority, or that may come to the attention of the unit as having a significant environmental impact. The Department has a small staff with a limited number of technical officers in the head office in Suva to review EIAs. Divisional offices in Labasa and Lautoka can provide additional support. Rural Local Authorities also work with the Department of Environment in the implementation of the Environment Management Act 2005 and monitor the conditions of EIAs within their area. Over the past two years, with support from development partners, the Government has increased capacity building efforts to improve the implementation capacity of the Department of Environment, especially in the areas related to the Ocean agenda. Fiji is well known for its commitment to integrating climate-risk awareness and responsiveness into the country's economic and operational planning. The World Bank's engagement in Fiji in environmental area is relatively new but deepening and is supported by a TA and investments in areas such as Oceans, forest and landscape management.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

96. **Fiji has been actively reforming its PFM practices in recent years, with support from development partners.** The 2019 PEFA report, published in February 2020, established a new baseline using the 2016 PEFA methodology. Overall, the results of the 2019 PEFA show a PFM system in Fiji that is on track to be strong regarding control of the execution of the budget. The notable weaknesses in timeliness of the annual financial statements impinges Fiji from fully realizing the benefits of its sound external scrutiny. This is off-set by good in-year budget execution reports and an emerging internal audit with the establishment of a proper framework. The budget process is evolving, and some features of a multi-year approach are in place and reflected in the budget calendar, but it is hindered by the absence of a functional or program classification system and the absence of key performance indicators. Unrealistic revenue forecasts contribute to the inability to realize the prepared budget. In-year revenue reporting is good as is revenue administration. On the expenditure side, cash planning is relatively effective, and for all intent and purposes, replaces the budget forecasts. Effective commitment control enables effective management of the budget's release determined by monthly warrants linked to cash availability which is guided by the budget's priorities. However, this also requires rearranging the budget as planned expenditures cannot be funded, which can result in cash rationing. The 2019 IMF Article IV notes the 2019 PEFA will aim to strengthen the PFM legislative framework, improve service delivery and revamp the quality of public spending.

97. **Fiji has put in place a comprehensive PFM improvement program and has been successful in implementing PFM reforms in the past.** Fiji had a PEFA assessment in 2013, which lead to the Public Financial Management Implementation Plan (PFMIP) 2013-19. Notable achievements under the four year reform plan include: (i) tax reform initiatives particularly on the review and amendment of the Income Tax Act 2015 supported by the previous operation in the series; (ii) formulation of the Citizen's Budget; (iii) implementation of e-Procurement for advertisement and receipt of tenders; (iv) adopting International Public Sector Accounting Standard (IPSAS) Financial Reporting under the cash basis of accounting for the whole of the Government accounts; (v) progress on budget transparency[32]; (vi) enhancement of quality of expenditure through strengthened monitoring of projects aligned to the NDP 2017; and (vii) improved oversight of fiscal risk from public sector entities, through the new framework to guide the strengthening of fiscal oversight of SOEs supported by the previous operation in the series. The 2019 PEFA results will guide the next PFMIP phase, and the broad areas of focus include: (i) strengthen institutions; (ii) improve service delivery; and (iii) raising the quality of expenditure.

98. **Fiji had an IMF Safeguards Assessment in 2011, and this review of the Foreign Exchange Control Environment is based on RBF's publicly available audited financial statements.** The RBF publishes annual audited financial statements that are both prepared and audited in accordance with internationally recognized standards. The 2016 (7 months), 2016/2017, 2017/2018 and 2018/2019 audit opinions were all unqualified but emphasized matters related to divergence from International Financial Reporting Standards IAS21. This divergence does not impact significantly on the fair representation of the RBF's financial statements.

[32] The Government's budget and all relevant documents are made publicly available on the MOE's external website. https://www.economy.gov.fj/index.php/index.php?option=com_content&view=article&layout=edit&id=83

99. **Fiji's legal framework for public procurement is comprehensive**. It is comprised by the Procurement Regulations 2010 (and amendments), which were issued under the Financial Management Act 2004. It establishes, for instance, open advertising of the procurement opportunities and publication of contract award information. The Fiji Procurement Office under MOE, which is responsible for regulating and controlling procurement over FJD50,000, was established under Section 4 of the Fiji Procurement Regulations 2010 and commenced operations on the 1st of August 2010. Weaknesses identified by the most recent PEFA assessment relate to the fact that the country's systems provide for independent complaints system and that public access to procurement information was found to be unreliable.

100. **The fiduciary risk rating for the operation is moderate.** The weaknesses noted above in Fiji's PFM and foreign exchange environment are not expected to pose more than a moderate risk to the achievement of the PDO of the proposed operation. The main weaknesses in the foreign exchange environment are being mitigated by the additional measures described below. The Country Procurement Assessment of Fiji conducted in 2014 recommended adopting procurement risk rating at the country level as moderate. Ongoing challenges include limited procurement and contract management capacity. Fiji's procurement legal, regulatory and institutional framework is considered suitable for use under donor financed projects, subject to clarifications of application of donor Procurement Regulations.

101. **IBRD and IDA financing will be disbursed according to IBRD and IDA disbursement procedures for development policy operations.** The full amount of the IBRD loan and IDA credit will be disbursed against satisfactory completion of the specified policy actions and the Government agreement as summarized in the Letter of the Development Policy, and adequacy of the macroeconomic policy framework, and is not tied to any specific purchases. Once the total financing is approved by the Board and becomes effective, the proceeds of the IBRD loan and IDA credit will be deposited by the WB, at the request of the Borrower, into a dedicated Foreign Currency Deposit Account that forms part of the official foreign exchange reserves, and an equivalent amount in FJD will be immediately accounted for in the Government's budget management system. As a due diligence measure, within 30 days of receipt. the Borrower will provide a written confirmation to the WB. In the past there has been delays in the receipt of the certification letters and the Borrower is encouraged to adhere to the deadline in the future. Disbursements will not be linked to specific purchases. The proceeds of the operation will not be used to finance expenditures excluded under the General Conditions for IBRD and IDA Financing: Development Policy Financing (2020) (General Conditions). If, after being deposited in a Government deposit account, the proceeds of the operation are used for excluded expenditures as defined in the General Conditions, the WB will require the Borrower to refund the amount directly to the WB. Any such amount refunded to the WB shall be cancelled.

102. **The funds for the partial or full disbursement of the Cat-DDO will be made available after the drawdown trigger condition is met.** At the request of the Recipient, and with the WB being satisfied that a Government Declaration of a Natural Disaster has been issued, the proceeds will be deposited into the Foreign Currency Deposit Account. The Recipient shall ensure that upon the deposit of the funds into the Foreign Currency Deposit Account, an equivalent amount in FJD is credited in the Recipient's budget management system, in a manner acceptable to the WB. The proceeds cannot be used for ineligible expenditure, but will not be tied to any specific purchases.

103. **The Post Cyclone Winston Emergency Development Policy Operation and First Fiscal Sustainability and Climate Resilience Development Policy Loan audits have been received with no material issues in the audit reports**. The Second Fiscal Sustainability and Climate Resilience DPO did not

have an audit requested by the WB. The audit reports of the dedicated Foreign Currency Deposit Account for each fiscal year in which receipts exist, if requested in writing by the WB, will be required to be received within nine months of the end of the Recipient's fiscal year in which the disbursement is made. In that event the Borrower would report: (i) receipts—the exact sum received into the deposit account and its supporting details; (ii) payments—(a) payments made in foreign currency by major categories, and (b) transfers to the Government Treasury account for local currency budget expenditures; and (iii) balance.

104. **The closing date for the proposed operation will be March 25, 2024.**

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

105. **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 for Economy. The Committee comprises representatives from relevant divisions of the Ministry of Economy, the Fiji Revenue and Customs Service, MCTTT, and the Office of the Solicitor-General.

106. **The results indicators chosen for the operation were selected with a view to the ready availability of data of reasonable timeliness and quality.** 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.

107. **Grievance Redress**. Communities and individuals who believe they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has had the opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

108. **The overall risk of the operation is substantial.** 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.

109. **Political and governance risk is substantial due to the COVID-19 crisis.** The Fiji First party led by Frank Bainimarama was returned to power in November 2018 for another four-year term gaining an

outright majority, albeit by a slimmer margin than in 2014, in an election process conducted fairly, according to an international observer mission. This continuity should serve to maintain the reform momentum and keep policies aligned to the priorities set out in the NDP 2017. 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.

110. **Macroeconomic risk to Fiji's economy is high due to uncertainty regarding the duration and impact of the COVID-19 pandemic.** Significant downside risks are associated with the baseline economic projections presented. International travel restrictions may remain in place beyond August 2021, and recovery in tourism may be slower than projected once these restrictions are eased. Re-emergence of COVID-19 in the community would prompt the imposition of strict public health measures. These measures would result in a decline in economic activity, reduce the available fiscal space to support businesses and livelihoods, and divert the Government's focus away from implementation of longer-term reforms and fiscal consolidation. Another major natural disaster could threaten macroeconomic stability, create additional hardships on the population, and slow-down the structural reform agenda as the bureaucracy shift its attention to disaster recovery and reconstruction efforts. High private debt and expected increase in non-performing loans when commercial banks begin to cease loan repayment holidays for businesses and individual customers remains a fiscal risk as Government may resort to introducing bank-focused stimulus to salvage the finance sector. The realization of any of these risks would significantly constrain domestic economic activity and reduce the available fiscal space to support businesses and livelihoods, putting at risk achievement of the DPO. These risks are mitigated by the proposed operation, and financing provided by other development partners 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.

111. **Environmental and social risk is substantial.** Fiji is on a tropical cyclone belt and, on average, one cyclone passes through Fijian waters each year. Localized flooding during the wet season (November to April) is also 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 and communities will help minimize the risks. These reforms build on those supported by the previous DPO which focused on rural areas and customary land thus benefitting the poorest and most vulnerable populations.

Table 10: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Low
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Indicative Triggers: Prior Actions under DPF 1	Prior actions and Indicative Triggers: Indicative Triggers for DPF 2	Results: Indicator Name	Results: Baseline	Results: Target
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.	Results Indicator #1: The annual volume of: (i) payments made electronically through the Real-Time Gross Settlement System; and (ii) retail payments made electronically through the Automated Clearing House	(i) 148,786 (ii) 0 (2019)	(i) 181,000 (ii) 20,000 (2023)
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.	Results Indicator #2: Number of outstanding corporate bond issuances	0 (2019)	2 (2023)
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.	Results Indicator #3: (i) Area within the national jurisdiction legally designated as Marine Protected Areas that contribute to climate resilience; (ii) share of women in the National Ocean Policy Steering Committee	(i) 1 percent (ii) 0 (2019)	(i) at least 5 percent (ii) at least 25 percent (2024)

Prior actions and Indicative Triggers		Results		
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 Fiji Standard AS 4055 for Wind Loads for Housing and the Fiji Standard AS/NZS 1170.2 – Structural Designs Actions Part 2: Wind action.	Results Indicator #4: Share of import permits for steel reinforcement material being manufactured in accordance with the revised standard, or suitable equivalent standard, provided to the Border Control Agency	0 (2019)	At least 70 percent (2024)
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 the Social Assistance Policy, the Recipient, through the Ministry of Women, Children and Poverty Alleviation, has established a Social Registry.	Results Indicator #5: Share of the beneficiaries that are in the poorest quintile included in the poverty-targeted social assistance program	30 percent (2019)	At least 35 percent (2024)
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.	Results Indicator #6: The weighted average interest rate of total debt portfolio	5.6 percent (FY2020)	Less than 5 percent (FY2024)
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 principles in its FY2020-2021 budget process with regard to two pilot ministries, namely, the	(Indicative) Trigger # 7. To strengthen public financial management and align with the Public Financial Management Amendment Act, the Recipient, through its Cabinet, has approved revised Financial Instructions and Procurement Regulations.	Results Indicator #7: The performance indicator measuring aggregate revenue outturn in the PEFA assessment Results Indicator #8: Number of programs across budget agencies performing gender impact	D (FY2019) None (FY2020)	C (FY2024) 35 out of 200

Prior actions and Indicative Triggers		Results		
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.		assessments and collecting sex-disaggregated data for monitoring and evaluation		(FY2024)
		Results Indicator #9: Share of women in total new police recruitments	19 percent (2020)	At least 25 percent (2024)

ANNEX 2: FUND RELATIONS ANNEX

Republic of Fiji–Assessment Letter for the World Bank and the Asian Development Bank
December 16, 2020

Recent Development, Outlook and Risks

1. **The COVID-19 pandemic has had a severely negative impact on the Fijian economy.** Fiji was quick to act in the early days of the outbreak—enacting travel restrictions and self-quarantine requirements on visitors from affected countries. Fiji experienced two local outbreaks, but these were contained successfully (42 cases in total, two reported deaths, and 7 active cases in border quarantine, as of 30 November 2020). Nevertheless, with the evolution of COVID-19 to a global pandemic, and the closure of borders to all but freight and essential travel, tourism earnings are projected to decrease by 82 percent in 2020. Tourism directly contributes about 18 percent to annual GDP and is closely interlinked with related industries such as retail trade, construction, transport, real estate, and finance. As such, real GDP is expected to contract by 19.0 percent and inflation to fall to -3.0 percent in 2020.

2. **While the balance of payments has deteriorated, foreign exchange reserves have been less affected.** Notwithstanding the loss of tourism inflows, the trade balance has improved in 2020—reflecting an offsetting reduction in imports from the tourism sector as well as lower aggregate demand. Fiji has also benefited from continued growth in inward remittances—by 7.5 percent in 2020 despite lower economic growth in host countries. The overall current account is expected to deteriorate from a deficit of 12.7 percent in 2019 to a deficit of 16.8 percent in 2020. The impact on the balance of payments has been offset by increased financing flows (mostly loans from multilateral and bilateral creditors). As a result, foreign exchange reserves are expected to increase marginally by end-year.

3. **The fiscal impact of the COVID-19 pandemic is significant.** Fiscal revenue is projected to slump by an estimated F$1,100 million (about 11.6 percent of GDP) in CY2020, driven by reduced economic activity as well as reduced taxes and tariffs as part of the government's March stimulus package and the FY2020-21 official budget. Reduced government spending is expected to partially offset the revenue impact on the fiscal balance, with the 2020 fiscal deficit projected at 14.4 percent of GDP in CY2020 (corresponding to deficits of 8.1 percent and 15.5 percent in FY19-20 and FY20-21, respectively. Overall public debt is projected to increase to 75.3 percent of GDP by end-2020, from 48.9 percent in 2019. Domestic financing has taken the brunt of the fiscal financing need. Domestic and external public debt are projected to rise to 55.1 percent and 20.2 percent of GDP in 2020, compared to 36.2 and 12.7 percent, respectively, in 2019.

4. **The outlook is subject to considerable uncertainty and hinges in large part on when borders can be reopened to allow for a resumption of inbound tourism.** Under a baseline scenario that assumes some partial border opening in July and overall tourist arrivals at about one-third 2019 levels, real GDP growth in the range of 5 percent could be achievable in 2021. Higher growth would be possible in 2022 and beyond with full reopening, a normalization of tourism flows, and higher activity in associated sectors. There are upside and downside risks to this scenario. On the upside, some reopening may be possible earlier, based on travel corridors with source countries that have achieved greater success in containing COVID. On the downside, delays in vaccine distribution, slower

reopening of borders, or reluctance by tourists to resume travel could also materialize. In the event that borders open late in 2021, real GDP growth could well be flat.

Policy Response and Settings

Fiscal Policy

5. **To mitigate the impact of the COVID-19 pandemic, the Fijian authorities first announced a stimulus package of FJ$1 billion (10.4 percent of GDP) in a supplemental budget on March 26, 2020.** Most of the stimulus came from non-budgetary support via the Fiji National Provident Fund (FNPF), loan repayment holidays offered by commercial banks, and concessional loans from the central bank. The package also included supplemental transfers and expenditures on public health as well as tax and tariff reductions.

6. **The second stage of the fiscal response came through the FY2020-21 budget and included major changes to Fiji's tax and tariff regime.** The budget provides immediate support to the private sector and is intended to position the tourism sector to be competitive in the post-pandemic environment. A centerpiece of the budget announced in mid-July is a reduction or elimination of fiscal and import excise duties on over 1,600 items. The budget also included removal of the service turnover tax, and cuts to the Environment & Climate Adaptation Levy (ECAL—including a raising of the threshold), and the departure tax. The budget also entails a total of F$100 million for unemployment assistance (administered through the FNPF) and a subsidy to Fiji Airways of F$60 million to boost tourism in 2020-21.

7. **The authorities acknowledge that the revenue profile created by these changes is not sustainable over the medium-term and are committed to fiscal consolidation post-pandemic.** The downward shift in government tax revenue that results from the measures and the recession is equivalent to 5.5 percentage points of GDP in FY20-21 relative to the previous year. The broad reduction in taxation was deemed necessary by the authorities to make Fiji price competitive in the tourism market once borders reopen and sustain domestic consumer spending. To avoid such a shift becoming permanent, the authorities have reiterated to staff their commitment to achieving an overall fiscal deficit of 5 percent of GDP in FY21-22, and 3 percent of GDP (equivalent to a small primary surplus) in FY22-23—in line with the domestic financing constraint as well as their pre-pandemic plans. Such an adjustment will likely require a reduction in recurrent expenditure to about 15-16 percent of GDP (from a peak of 20.8 percent in CY2020) mainly through phase-out of temporary measures after the economy normalizes and efforts to contain personnel expenses, accompanied by a significant revenue reform package beginning next fiscal year to bring tax revenues up to roughly 22-23 percent of GDP on a sustainable basis (compared with an estimated 16.9 percent in CY2020 but close to the 22.5 percent of GDP achieved in CY2019).

8. **The fiscal outlook carries significant risk.** While the staff views the fiscal adjustment underlying the baseline scenario-an adjustment of 9.5 percent of GDP over the next two years—as feasible, it is vulnerable to various risks. The measures taken in the FY20-21 budget should make Fiji more price competitive in the global tourism market, they do so at the cost of raising fiscal vulnerabilities going forward (Table 1). A first area of concern is the assumption of border reopening and a resumption of tourism in the second half of 2021. While not unreasonable, the uncertainties surrounding production and distribution of a vaccine and about whether confidence to resume travel will rebound are still imponderables

at this stage. Second, while it is technically feasible to rationalize public spending and raise revenues going forward (particularly given Fiji's strong base of tax revenue in the pre-pandemic period), careful planning and political commitment will be needed: a critical milestone in this respect is the forthcoming FY21-22 budget, which will need to lay out in detail the steps to be taken. Third, Fiji remains vulnerable to climate change, natural disasters, and other external shocks—at a time when fiscal buffers have largely been depleted: should unfavorable shocks materialize, they would need to be met through a combination of new loans, grant financing, and compression of public spending (most likely capital expenditures).

Monetary and Exchange Rate Policy

9. **The Reserve Bank of Fiji (RBF) moved early to ease monetary policy to counter the economic impact of COVID-19.** On March 18, the overnight policy rate was cut to 0.25 percent from 0.5 percent. Given disinflationary trends and the large negative output gap, the lower policy rate was justified. With inflation likely to remain in negative territory into 2021, maintaining the current stance seems appropriate. Careful review will be needed as economic growth resumes. Any temporary increase in headline inflation owing to the weakening of the exchange rate should be accommodated.

10. **The pandemic led to a weakening in the value of the Fijian dollar relative to the US dollar—a fall of 9 percent between the beginning of 2020 and the third week of March.** However, this largely reflected appreciation of the U.S. dollar vis-à-vis other currencies in the basket. In real effective terms, the Fijian dollar has depreciated by 2.4 percent in the 9 months to September 2020. Looking ahead, continued monitoring will be needed with respect to currency movements and the stability of the peg to the basket.

11. **Fiji maintains exchange restrictions for payments on current international transactions, some of which were tightened on April 2.** These restrictions include: i) limits on large external payments and ii) the tax certification requirement for the transfer of profits and dividends abroad, proceeds of airline ticket sales, and for making external debt and maintenance payments. These restrictions are inconsistent with Article VIII, hamper Fiji's international trade, and discourage foreign investment. They should be phased out with a view to proper sequencing based on Fiji's tax compliance risks and consistency with the peg.

Financial Sector Policies

12. **The banking sector appears well capitalized and liquid.** Its stability is underpinned by the dominance of large foreign banks that operate as branches and have access to their parent banks for capital and liquidity. The most recent stress tests suggest existing buffers and provisioning for classified loans are sufficient to cover all losses under a worst-case scenario (30 percent of classified loans become non-performing). However, vulnerabilities in banks' balance sheets will become clearer after the end of loan repayment holidays in early 2021. Vigilance to risk and close monitoring of developments will be needed given the unusual nature of the COVID shock, and the possibility that even severe stress tests might prove to be too benign.

13. **Pockets of vulnerability are evident in non-bank financial institutions (NBFIs).** Credit unions and financial cooperatives are not fully regulated. There is a lack of detailed and reliable information on credit unions, and even less information on thrifts and credit cooperatives. The three big public NBFIs (Fiji National Provident Fund (FNPF), Fiji

Development Bank (FDB) and Housing Authority (HA)) have governance shortcomings in terms of the tenure, independence, and expertise of their board members.

14. **Transparency in the implementation of prudential rules is of paramount importance to safeguard financial stability going forward.** If capital and liquidity buffers fall below regulatory minima, the RBF should agree with banks on plans to restore them above the minimums required, while showing some flexibility on the timing in light of the crisis. The RBF should encourage banks to restructure the debt of temporarily illiquid but otherwise solvent borrowers with viable prospects under normal conditions.

Structural Issues

15. **Enhancing the business environment and strengthened governance are essential to foster private investment and potential growth.** Reducing impediments to doing business would boost competitiveness, enhance productivity and catalyze private sector development. More frequent consultation of policy changes with the private sector would also contribute favorably to the business environment. Another priority is to tackle the labor force gender gap in order to boost potential growth and make it more inclusive.

Debt Sustainability

16. **Under the baseline scenario, the public debt-to-GDP ratio is expected to peak in FY20-21 at 82.1 percent, and then to fall gradually.** This projection is subject to significant risks. It assumes the authorities fully implement revenue and expenditure reforms as envisaged and that tourism flows rebound as envisaged in the macroeconomic framework. Under this scenario, the overall fiscal deficit should decline to 3 percent of GDP by FY22-23 (equivalent to a small primary surplus), and the ratio of public debt to GDP should fall to 71.8 percent by FY24-25. As noted above, this scenario is subject to wide degrees of uncertainty and risk, and close monitoring of economic outcomes and policies is warranted. Risks to this projection include policy implementation risks; a slower economic recovery (which could be contingent on border reopening); materialization of contingent liabilities from state-owned enterprises; and natural disaster risk. Particularly important to mitigate these risks is the development of a detailed medium-term fiscal framework to guide policy making, rebuild fiscal buffers in a growth-friendly way, and create space to respond to future natural disasters and ensure public debt sustainability.

IMF Relations

17. **Fiji is on a standard 12-month Article IV consultation cycle.** The 2019 Article IV consultation was concluded by the IMF's Executive Board on February 24, 2020, and the staff report was published shortly thereafter (IMF Country Report No. 20/80). The Fund provides technical assistance and training from headquarters, PFTAC, and the Singapore Training Institute. The regional resident representative is also based in Suva and is in frequent communication with the authorities.

18. **The Fund provides technical assistance and training from headquarters, PFTAC, and the Singapore Training Institute.** The regional resident representative is also based in Suva and is in frequent communication with the authorities.

5

Table 1. Fiji: Selected Economic Indicators, 2018-25

	2018	2019	2020	2021	2022	2023	2024	2025
		Est.			Proj.			
Output and prices (percent change)								
Real GDP	3.8	-0.4	-19.0	5.0	9.0	6.5	4.8	3.7
GDP deflator	3.0	2.4	-1.3	-1.1	2.5	2.5	2.5	2.5
Consumer prices (average)	4.1	1.8	-1.3	-1.1	2.0	2.0	2.0	2.0
Consumer prices (end of period)	4.8	-0.9	-3.0	1.5	2.0	2.0	2.0	2.0
Central government budget (percent of GDP)								
Revenue	26.9	25.5	20.2	18.5	24.9	24.9	24.9	24.9
Tax revenue	23.8	22.5	16.9	16.5	22.9	22.9	22.9	22.9
Other revenue	3.1	3.0	3.3	2.0	2.0	2.0	2.0	2.0
Expenditure	32.4	29.9	34.6	31.2	28.2	27.8	27.9	27.9
Current	18.0	17.6	20.8	18.3	16.0	15.5	15.5	15.5
Capital	11.7	9.5	10.0	9.5	9.0	9.0	9.0	9.0
Overall balance	-5.5	-4.4	-14.4	-12.7	-3.3	-2.9	-3.0	-3.0
Primary balance	-2.8	-1.6	-10.6	-9.3	-0.1	0.4	0.4	0.4
Central government debt	46.4	48.9	75.3	85.3	79.6	75.8	73.6	72.2
External sector (in percent of GDP)								
Current account balance	-8.4	-12.7	-16.8	-11.7	-7.4	-6.0	-5.3	-4.8
Trade balance	-24.2	-25.2	-18.8	-18.5	-18.5	-19.5	-19.5	-19.5
Services balance	16.6	14.9	2.5	9.2	12.8	15.0	15.5	15.8
Primary Income balance	-6.4	-8.2	-6.2	-7.9	-7.2	-7.0	-6.8	-6.6
Secondary Income balance	5.6	5.8	5.7	5.5	5.5	5.5	5.5	5.5
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance (-= inflows)	-12.0	-11.8	-6.0	-8.8	-8.1	-8.0	-7.9	-7.7
FDI	-8.5	-6.5	-4.7	-6.0	-6.7	-6.9	-6.8	-6.7
Portfolio investment	0.6	-0.3	2.1	-0.7	0.4	0.4	0.4	0.4
Other investment	-4.2	-5.0	-3.5	-2.1	-1.8	-1.5	-1.5	-1.4
Errors and omissions	-6.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (-=increase)	2.2	-1.7	0.8	2.9	-0.7	-2.1	-2.7	-3.0
Gross official reserves (in months of prospective imports)	4.0	7.9	6.7	4.6	4.2	4.3	4.6	...
External central government debt	13.1	12.7	20.2	22.8	21.3	20.3	19.7	19.3
Money and credit (percent change)								
Net domestic credit depository corporations	9.7	4.9	-5.0	5.0	7.0	6.0	5.0	4.0
Private sector credit	7.3	4.6	-7.0	6.0	8.0	6.0	5.0	4.0
Broad money (M3)	2.7	2.8	-4.0	5.0	8.0	5.0	4.5	4.0
Monetary base	-9.9	15.2	-6.0	6.0	9.0	7.0	6.0	5.0
Central Bank Policy rate	0.5	0.5	0.3					
Commercial banks deposits rate	3.4	4.1	3.9					
Commercial banks lending rate	5.7	6.3	6.1					
Memorandum items								
Exchange rate (Fiji dollars per U.S. dollar; Jan-Sep average)	2.07	2.15	2.19					
Real effective exchange rate (Jan-Sep average)	111.9	113.8	109.4					
GDP at current market prices (in millions of Fiji dollars)	11,651	11,874	9,493	9,858	11,014	12,023	12,915	13,728
GDP per capita (in U.S. dollars)	6,273	6,144	4,861	5,137	5,707	6,196	6,619	6,997

Sources: RBF, Ministry of Economy and IMF staff estimates and projections.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

**Attorney-General and Minister for Economy,
Civil Service and Communications**

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11 February 2021

Mr. David Malpass
President
World Bank
Washington DC 20433 USA

Dear President Malpass

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

1. Fiji's stable political environment, alongside our re-engagement with the international financial community, innovative and sustainable policies, and strong structural reforms, enabled us to realise an unprecedented nine years of consecutive economic growth. The global COVID-19 pandemic has put much of that economic progress at risk, as Fiji now faces a historic 19 percent economic contraction due to the virtual closure of our borders since March 2020. This economic impact has been exacerbated by the impact of category 4 Cyclone Harold in April 2020, category 5 Cyclone Yasa in December 2020 and category 2 Cyclone Ana in January 2021.

2. Despite these crises, Government has remained committed to its development agenda through prudent financial management and with financing support from development partners. As articulated in our 5-year and 20-year National Development Plan (NDP), we are working to realise a vision of an inclusive society that provides equal opportunity for all Fijians and expands national access to a climate-resilient network of public services, notably education and health.

3. There is considerable uncertainty regarding the duration of the pandemic and the magnitude of its impact on the economy over the coming 12-18 months. To safeguard the health and well-being of our population, we anticipate borders to remain closed to tourism until at least the final quarter of 2021, resulting in an expected economic contraction of 19 percent in 2020 and a sluggish near-term recovery.

4. Fiscal consolidation remains central to our development agenda. Fiscal space has been squeezed by COVID-19 and the recurrent climate-related events, including tropical cyclones Harold, Yasa and Ana as well as the significant economic costs of smaller flooding events. Growth is projected to recover in 2021 and 2022 as international tourism gradually resumes. The 2019 current account deficit of 12.7 percent of GDP is projected to rise to more than 15 percent in 2020 and drop to 12.1 percent and 7.2 percent of GDP

in 2021 and 2022, respectively, due to inflows from multilateral and bilateral creditors and the rebound of international tourism.

5. Fiji's capacity to mobilize domestic resources has remained strong, with an average ratio of tax revenue to GDP of 24.4 percent in 2015-18, which is above that of many of our peers and higher than the average for the East Asia and Pacific region. Recently, with revenue sources collapsing, our ability to fund essential and priority expenditures and meet our commitment to safeguard social services has been significantly restrained. We are building fiscal buffers and strengthening debt sustainability by reducing expenditures. This is highlighted in our FY2021 budget, which scaled back spending and suspended activities in non-priority areas such as on the wage bill, travel, communication and other non-essentials. The budget has also included cuts to large expenditure programs, including in the sugar industry and tertiary education (e.g., loans scheme). To further support fiscal consolidation, we plan to prioritize high-spending capital projects on a stricter value-for-money basis in FY2022 and FY2023. We have been prioritizing reforms to introduce a multi-year perspective towards planning and budgeting as well as mandating feasibility and economic cost-benefit analyses as criteria for the appraisal and selection of new investment projects, including in infrastructure.

6. Promoting private sector growth remains a key policy priority. The alignment of public policies to create a conducive environment to meet the immediate needs of the private sector is fundamental for economic stability, reduced unemployment, and improved livelihoods in the medium-term. The private sector will be a catalyst of Fiji's recovery in the coming 12-18 months, generating economic activities and creating jobs such as in the tourism and construction sectors. In the FY2021 budget, we announced several incentives (expenditure and tax) to encourage private sector investments. We also introduced a number of concessional financial packages to allow micro, small and medium-sized enterprises to access finance to meet short-term obligations and, where possible, remain operational during the COVID-19 pandemic. In 2019, we also streamlined processes for issuing business licenses, resulting in licenses being issued within 48 hours compared to 11 days in the past. This enabled the registration of 19,277 businesses by June 2020. We will continue with further streamlining to improve licensing efficiency, create an accommodative investment environment, and introduce policies and reforms to unlock investment bottlenecks, for example, by requiring only business incorporation and tax registration certificates that are available online from the authorities.

7. Fiji, like other Pacific Island countries, faces existential risks from natural disasters and other climate impacts. Scaling up activities to enhance resilience of our people and vulnerable areas and sectors continues to be a central element of our Climate Change Policy 2018-2030 and development agenda. Our improved disaster preparedness has enabled a faster response to tropical cyclones as reflected in the decreased damage and loss of lives from TC Yasa in 2020 compared to TC Winston in 2016: with damages of 4.5 percent versus 20 percent of GDP and four lives lost compared to 44, respectively. Recognizing that houses and community schools in customary lands are exempt from compliance to the National Building Code (NBC) 1991, we approved Guidelines to improve the resilience of houses and schools, especially in customary lands. We will continue with reforms that will improve the resilience of residential and commercial

buildings. The recent gazette released on improving the requirement of the quality of steel reinforcing material imported into the country being the most recent example.

8. We have demonstrated our capacity to manage health-related epidemics and pandemics. In late 2019, we quickly and successfully managed the measles outbreak without any loss of life, primarily through a rapid revaccination program. We are proud to have managed the health risks from COVID-19 to our highly vulnerable population. As of February 11, 2021, a total of 56 cases have been recorded since our first case detected on March 19, 2020, and we have marked 299 days since the last case was detected outside of a border quarantine facility. Sadly, two Fijians died in March after contracting the virus overseas, but fortunately all others have fully recovered. Given the impact of COVID-19 and tropical cyclones, assistance to the disadvantaged and most vulnerable through social protection mechanisms has been a key priority. We have provided unemployment benefits to those who lost their jobs in the tourism sector due to the COVID-19 travel restrictions. We have also activated top-ups to support the needs of children, the Food Voucher Program, the Poverty Benefit Scheme and the Disability Allowance after tropical cyclones. We have also allowed members of the Fiji National Provident Fund to withdraw funds from their general account balances to help alleviate the unprecedented socio-economic impacts of the pandemic.

9. The availability of highly concessional financing with long grace periods and maturities to replace more costly, shorter term external (and possibly domestic) debt has provided a critical avenue for minimizing debt-servicing costs and refinancing risks over the medium- and long term. Most new borrowings are on concessional terms, and we have successfully refinanced the US$200 million global bond that matured on October 2, 2020, with more reasonable and low-cost loans from multilateral creditors. Our first Medium-Term Debt Management Strategy (MTDS) is one of our Performance and Policy Actions (PPAs) under the World Bank's new Sustainable Development Finance Policy (SDFP) and will be underpinned by an annual borrowing plan and integrated into our Medium-Term Fiscal Strategy in FY2021. We are also participating in the Debt Service Suspension Initiative (DSSI) and are committed to continue disclosing all public sector financial commitments during the suspension period and beyond. Around 7 percent of our debt is bilateral. The debt suspension freed up US$10.7 million to address short-term needs in FY2020.

10. Government is firmly committed to implementing an ambitious set of reforms aimed at improving the environment for private sector growth and development and promoting a private sector-led economic recovery; improving the climate resilience of marine areas, residential buildings, enhancing the effectiveness and efficiency of social protection programs; and strengthening debt and public financial management. These reforms are closely aligned with our priorities in the NDP. Key aspects of these reforms are contained in the policy matrix elaborated in partnership with the World Bank and other development partners.

11. Against this backdrop, we seek the World Bank's favorable consideration of our request for a development policy loan of US$25 million, a development policy credit of US$110 million and a Catastrophe-Deferred Drawdown Option (Cat-DDO) credit of US$10 million,

based on completion of the reform measures set out in this policy matrix. We are pleased to be able to include the Cat-DDO in this program as it will allow us access to financial liquidity after a disaster.

12. We look forward to the continuing engagement of the World Bank in Fiji and take this opportunity to again extend our sincere appreciation for the close relationship we have had with the World Bank over many years.

Thank you.

Yours sincerely,

Aiyaz Sayed-Khaiyum

Attorney-General and Minister of Economy

cc: Permanent Secretary for Economy

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Promoting Private Sector-led Economic Recovery		
PA#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.	No significant positive or negative effects	No significant positive or negative effects
PA#2: To develop wholesale corporate bonds market, the Recipient, through the Ministry of Economy, has approved the Companies (Wholesale Corporate Bonds) Regulations 2021.	No significant positive or negative effects	No significant positive or negative effects
Pillar 2: Enhancing Climate, Disaster and Social Resilience		
PA#3: To enhance resilience of coastal communities by protecting marine ecosystems, the Recipient, through its Cabinet, has approved the National Ocean Policy 2020-2030.	Significant positive effects on marine and coastal ecosystems	Generally positive long-term impacts on livelihoods of fishers in coastal areas and remote islands, however, some restrictions of access to fisheries could have short-term negative effects on livelihoods of some fishers
PA#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.	Significant positive effects, especially on forests	No significant positive or negative effects
PA#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.	Positive effects through reduced pressure on ecosystems for meeting livelihood needs	Significant positive effects
Pillar 3: Strengthening Debt and Public Financial Management		
PA#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.	No significant positive or negative effects	Positive effects due to potential for maintaining the quality of public service provision

PA#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 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.	No significant positive or negative effects	Positive effects due to maintaining the quality of public service provision and improved gender-responsive allocation of public resources

ANNEX 5: MAJOR FY2020 AND FY2021 BUDGET POLICIES IN RESPONSE TO COVID-19

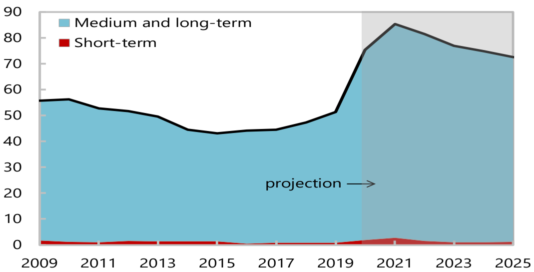
Measures	Beneficiary	Financier	Amount		Budget	Sunset
			Percent of GDP	FJD($) million		
Public health expenditures						
Ministry of Health allocation for procurement of supplies & consumables, personal protective equipment, thermal scanners, set up of isolation facilities, media awareness, infection control, contact tracing, emergency response and other contingencies.	All	Government	0.4	40	FY20 Budget	FY20 Budget
Ministry of Health - COVID-19 emergency response projects, and contingency fund	All	Government	0.3	32	FY21 Budget	FY21 Budget
Taxation and pension fund contribution measures						
Tax policies - a number of taxation and customs policy changes implemented providing immediate relief to businesses and individual taxpayers, revive investment & business activity, support exports & the tourism industry and protect employment.	Employers / employees	Government	>2.0	>200	FY20 and FY21 Budget	FY21 Budget
FNPF employer contribution reduced from 10 percent to 5 percent	Employers	FNPF	1.2	130	FY20 and FY21 Budget	Extended to 31 December 2021
FNPF employee reduced from 8 percent to 5 percent	Employees	FNPF	0.8	80	FY20 and FY21 Budget	Extended to 31 December 2021
Employer contribution exceed 5 percent mandatory FNPF contribution and up until 10%, allowed **tax deduction of 150 percent of the excess**. Deduction applied retrospectively from 1 April 2020.	Employers	Government	0.0	0.5	FY21 Budget	31 December 2021
Support to employees affected by restrictions and employment loss						
Unemployment Benefit - those whose working days or hours have been reduced receive $44 per fortnight for every day they are no longer working, those fully unemployed continue to get $220 per fortnight, Government tops up those with insufficient FNPF account balances.	Affected employees	FNPF / Government	1.0	Govt - 100	FY21 Budget	Reviewed after every 5 weeks
$1,000 through **FNPF to employees** who have lost jobs or are on reduced hours in the tourism and **hospitality industry**	Employees loss job in tourism sector	FNPF / Government	FNPF - 1.5 Govt - 0.6	FNPF – 150 Govt - 60	FY20 Budget	No sunset clause, evolved into unemployment benefit scheme announced in the FY21 Budget
$500 through **FNPF to employees** who are affected by the **lockdown/travel restriction** due to COVID-19	Employees affected by lockdown	FNPF / Government				
$150 for those affected in the **informal sector** in the **lockdown areas** - **Government** will provide relief	Informal sector employees in lockdown areas	Government				
COVID-19 quarantine related support						
Government reimburse employers 21 days of **COVID-19 leave** for employees that test positive with less than $30,000 annual income	Employees / employers	Government				
$1,000 relief by **Government** to employees in **informal sector tested positive for COVID-19**	Employees in informal sector with COVID-19	Government				
Employers who continue to pay their employees under **self-quarantine** allowed a 300 percent tax deduction. Employees required to take paid family care leave. Anyone not compensated will be paid **$100 by Government**. Only be applicable to those with less than $30,000 annual income.	Employees under self-quarantine and employers	Government				
Support through the financial sector						
Hardship package - commercial banks offer loan repayment holidays on principal and interest for up to 6 months for businesses and individual customers	Commercial bank & credit institution clients	Banks & credit institutions	3.8	400	FY20 and FY21 Budget	Banks' decision
Natural Disaster Rehabilitation Facility increased by $60 million to assist those affected by COVID-19 - commercial banks, Fiji Development Bank and licenced credit institutions access the funds	Employers / MSMEs	Reserve Bank of Fiji	0.6	60	FY20 and FY21 Budget	Continued
Micro, Small and Medium Enterprises (MSMEs) COVID-19 Concessional Loan Package - New and existing micro enterprises earning less than $50,000 annually are eligible for maximum loan of $7,000 with annual interest rate of 0.5%, small enterprises earning between $50,000 and $300,000 annually are eligible for maximum loan of $14,000 with annual interest rate of 1%, and medium enterprises earning between $300,000 and $1,250,000 annually are eligible for $21,000 with annual interest rate of 1.5%.	MSMEs	Government	0.3	30	FY21 Budget	30 June 2020

ANNEX 6: PUBLIC DEBT SUSTAINABILITY ANALYSIS

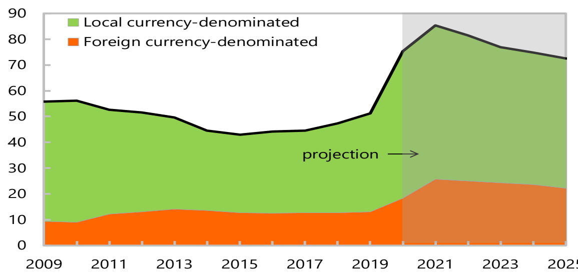
Fiji Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



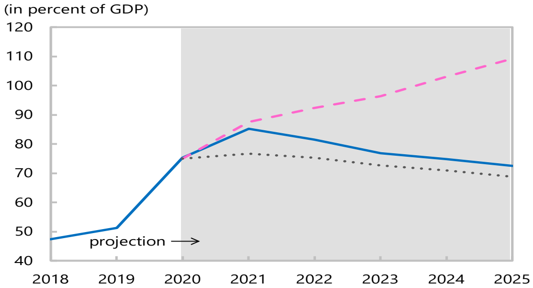
By Currency
(in percent of GDP)



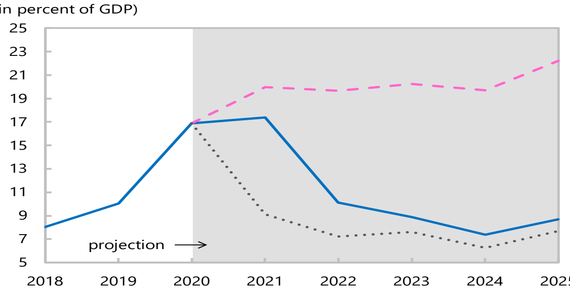
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt 1/
(in percent of GDP)



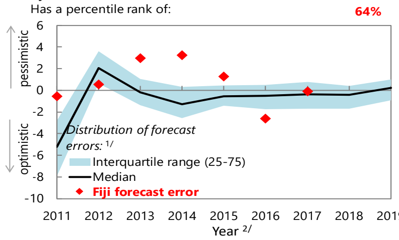
Public Gross Financing Needs
(in percent of GDP)



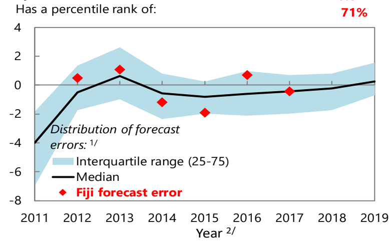
Fiji Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus all countries

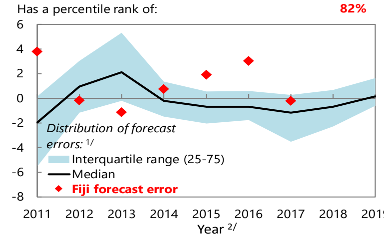
Real GDP Growth
(in percent, actual-projection)
Fiji median forecast error, 2011-2019: **-0.10**
Has a percentile rank of: **64%**



Primary Balance
(in percent of GDP, actual-projection)
Fiji median forecast error, 2011-2019: **0.02**
Has a percentile rank of: **71%**

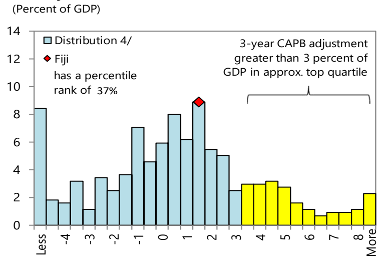


Inflation (Deflator)
(in percent, actual-projection)
Fiji median forecast error, 2011-2019: **0.73**
Has a percentile rank of: **82%**

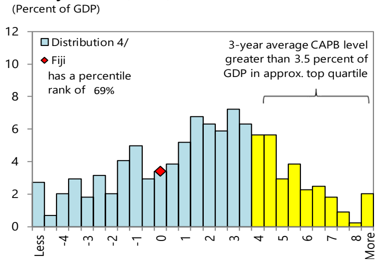


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

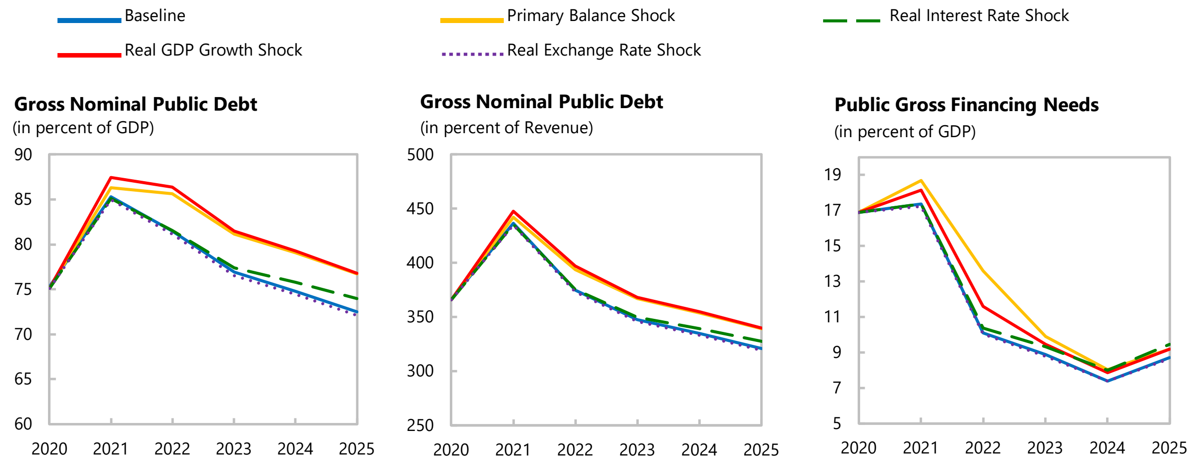


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

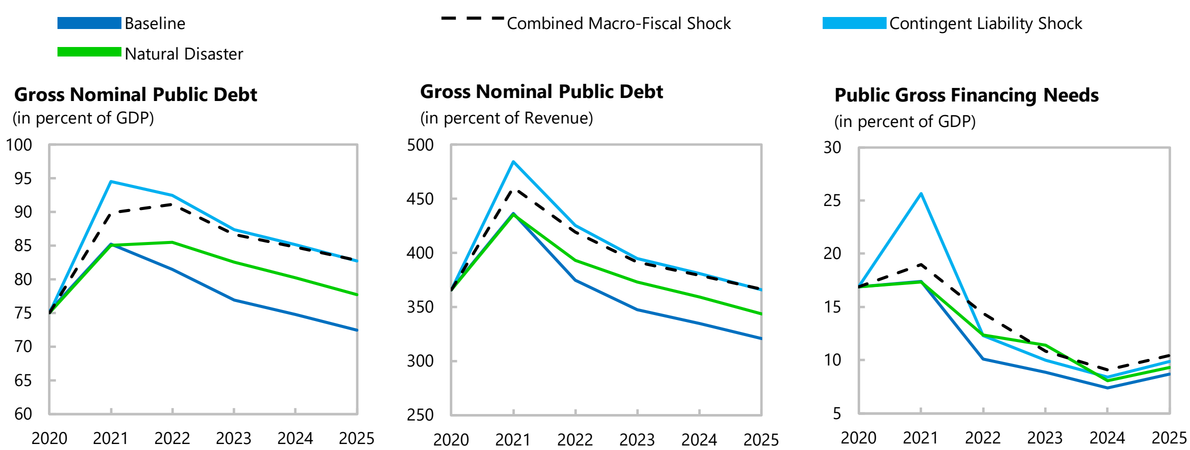


Fiji Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Fiji Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Notes:

Heat map colors are determined by comparing debt levels, gross financing needs, and debt profile indicators against early warning benchmarks. Red cells in the first two rows indicate that baseline debt-to-GDP and gross financing needs-to-GDP ratios exceed benchmark levels. In the last row, the cell is green if its corresponding debt profile indicator value is less than the lower early warning benchmark, red if it exceeds the upper early warning benchmark, and yellow if it lies in between.

ANNEX 7: WOMEN'S ECONOMIC EMPOWERMENT AND GENDER-RESPONSIVE BUDGETING

Gender responsive budgeting as an approach to women's economic empowerment

A widely recognized definition of gender budgeting is "integrating a clear gender perspective within the overall context of the budgetary process through special processes and analytical tools, with a view to promoting gender-responsive policies."[33] Others define gender budgeting more broadly as an approach that uses fiscal policy and public financial management instruments to promote gender equality and girls' and women's development.[34]

Gender-responsive budgeting can take different forms. One broad approach focuses on the Government's expenditure policies, budgetary allocations, and tax policies. A narrower approach limits its focus to public financial management practices, mainly related to different stages of the budget cycle—preparation, allocation, prioritization, execution, monitoring and evaluation—that are gender-responsive.[35] Some policies that are non-fiscal in nature also have gender-related objectives, e.g., equal opportunities legislation. Finally, some policies are neither fiscal nor specifically focused on gender-related objectives, but which have a gender impact, for example, policies and legislations that discriminate against women's access to labor markets, mortgage markets, and social security programs.

GRB has been applied by a few dozen developing countries since the mid-1980s, though to very different extents and in diverse forms. Bilateral and multilateral development agencies, including the World Bank and regional development banks such as the ADB, have mainstreamed gender into their strategies, programming and project design processes.

It is difficult to identify what the impact of GRB has been on gender outcomes and on resource distribution within the Government, due to a limited evidence base and to complexity in assessing and interpreting impact.[36] Nevertheless, some findings have emerged. While in some studies no clear impact could be established, multiple studies have shown positive outcomes, including:

- Better dynamics for gender equality in budget processes, even in ministries that previously placed no emphasis on gender issues.[37] Awareness, capacities and data related to gender equality have often increased, and budget transparency, accountability and participation and dialogue improved (e.g. in India, Australia, Republic of Korea, Bangladesh and Nepal).[38]
- Closing of remaining gender gaps through use of budgets, policies and service deliveries when gender-responsive budgeting was used in conjunction with other strategies, methods and tools for gender equality.

The evidence[39] identifies various factors that affect the impact of gender-responsive budgeting:

- Obstacles mainly include: (i) lack of sex-disaggregated data and of data on gender relations; (ii) limited capacity and resources for such a complex task; (iii) gaps in action (e.g. on the revenue side) and sustainability; and (iv) too much emphasis on process versus focuses on addressing existing gender gaps through programs across diverse public sector institutions.

[33] http://www.oecd.org/gender/Gender-Budgeting-in-OECD-countries.pdf
[34] Stotsky, Janet G., 2016, "Gender Budgeting: Fiscal Context and Current Outcomes," IMF Working Paper No. 149 (Washington, DC: IMF).
[35] Stotsky, Janet G., 2016, "Gender Budgeting: Fiscal Context and Current Outcomes," IMF Working Paper No. 149 (Washington, DC: IMF).
[36] https://gsdrc.org/publications/impact-of-gender-responsive-budgeting/
[37] https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Asia-A-Survey-of-Gender-Budgeting-Efforts-44143
[38] https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Asia-A-Survey-of-Gender-Budgeting-Efforts-44143
[39] https://gsdrc.org/publications/impact-of-gender-responsive-budgeting

- Enabling factors include: (i) securing sustained support for gender-responsive budgeting; (ii) engendering the broader budget process and economic policy; (iii) enhancing transparency, ensuring practical feasibility; (iv) building capacities; supporting women's participation in planning and budgeting, including engaging civil society organizations (CSO's) and women's groups; and (v) linking gender issues with relevant structural inequalities.

GRB and Challenges for Gender Equality in Fiji

Low female labor force participation driven by unpaid household work, lack of employment opportunities for young women, limited access to assets, and gender-based violence represent four of the most important challenges to women's economic empowerment in Fiji.

- The country has the largest gender gap in labor force participation among Pacific Island Countries: only 39 percent of females above age 15, compared to 78 percent of comparable males were in the labor force according to the 2015-2016 Employment and Unemployment Survey (EUS). Household responsibilities remain a crucial barrier for women entering the labor force in Fiji. Seventy-one percent of women outside the labor force, compared to only 4.6 percent of men reported household work as the main reason why they are not in the labor force. Even when they work, women bear the major share of household chores. Women in paid employment spend on average 24 hours per week in household work, while men spend only 10 hours. Nearly a third of women's work in the household consists of childcare. This is likely exacerbated by the lack of accessible childcare outside the home: in both urban and rural areas only about 16 percent of children under age 6 attended preschool.
- In addition, women's work is often poorly understood, undervalued and underappreciated roles This is evident for example in fish supply chains and also in women's participation in fisheries science and management (e.g., 18 percent of total staff working for fisheries in science and management in Government fisheries, environment institutions and environmental non-governmental organizations (NGOs) in Pacific Island countries and territories).[40]
- Furthermore, women, and especially young women, are significantly more likely to be unemployed: 26 percent of women aged 15-24 and 14 percent of men in the same age group were unemployed according to the 2016 EUS. This is despite more women than men completing secondary school (83 percent vs. 72 percent according to EUS) and the gender parity in tertiary education completion. This points to a disproportionate barrier faced by young women, which may be due to a mismatch between their qualifications and available positions, lack of access to vocational training, and discrimination in employment practices.
- Within the private sector, women represent about 30 percent of formal business owners, with nearly all (91 percent) of their businesses being micro-enterprises earning about US$14,000 or less. Women are more likely to be excluded from formal or the financial sector and are less likely to own land (IFC Business Survey 2020 and Fiji Women's Crisis Centre Survey 2013[41]). In addition, women are less likely to have access to the formal financial system: only 52 percent of Fijian women, compared to 68 percent of men, have formal bank accounts.[42]
- Gender based violence and sexual harassment are important issues affecting women's work and health in Fiji and the Pacific in general. 20 percent of employed women have experienced sexual harassment in the workplace (Fiji

[40] http://www.fao.org/3/i2092e/i2092e00.pdf
[41] Fiji Women's Crisis Centre. 2013. *Somebody's Life, Everybody's Business! National Research on Women's Health and Life Experiences in Fiji.* https://pacificwomen.org/wp-content/uploads/2017/09/FWCC-National-Research-on-Womens-Health-Fiji.pdf
[42] Reserve Bank of Fiji. 2016. Financial Services Demand Side Survey: Republic of Fiji

Women's Rights Movement 2016[43]), 64 percent of ever-partnered women have experienced intimate-partner violence, and 29 percent of women aged 15 or older have experienced non-partner violence (Fiji Women's Crisis Centre Survey 2013). The high prevalence of harassment and violence extracts a heavy toll on women and children's health and mental well-being, which, in turn, results in sizeable productivity losses for businesses (IFC 2019[44]). The Fiji Women's Crisis Centre Survey reveals that geographical and ethnic differences in prevalence of violence, help-seeking behaviors and access to adequate support from police and health facilities are among some of the important challenges that need to be addressed.

These findings underline the need for targeted data collection, analysis, and program design as well as evaluation to address existing challenges. Through incorporating these elements, gender-responsive budgeting in education, health, social protection, police and private sector development has the potential to effectively bridge these gaps.

[43] Fiji Women's Rights Movement. 2016. *Sexual Harassment in the Workplace – Follow-Up Survey. http://www.fwrm.org.fj/images/fwrm2017/publications/analysis/External-SH-WriteUP-MG-Final-1.pdf*

[44] International Finance Corporation. 2019. *The Business Case for Workplace Responses to Domestic and Sexual Violence in Fiji. https://pacificwomen.org/research/the-business-case-for-workplace-responses-to-domestic-and-sexual-violence-in-fiji/*

ANNEX 8: ANALYTICAL UNDERPINNING FOR THE PRIOR ACTIONS

Prior Actions	**Analytical Underpinnings**
Pillar 1: Promoting Private Sector-led Economic Recovery	
PA#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.	Pacific Financial Inclusion Program (PFIP) – Fiji Financial Services Sector Assessment (2009): Few countries in the world have adequate guidance or regulations to address the technologies driving branchless banking, and Fiji is no exception. The RBF needs to produce guidelines and support branchless banking, particularly agent banking and regulations on e-money.
PA#2: To develop wholesale corporate bonds market, the Recipient, through the Ministry of Economy, has approved the Companies (Wholesale Corporate Bonds) Regulations 2021.	A World Bank/IFC report on "Developing a Corporate Debt Market" November 2018. One of the report's key recommendations was that the model recommended by the mission is a simple framework for issuances to wholesale investors, incorporating debt programs and a fast track for corporates that already have listed equities. A less restricted framework would require significantly more oversight from the regulator and is not considered likely to attract any other significant investors.
Pillar 2: Enhancing Climate, Disaster and Social Resilience	
PA#3: To enhance resilience of coastal communities by protecting marine ecosystems, the Recipient, through its Cabinet, has approved the National Ocean Policy 2020-2030.	Various studies have shown the importance of protecting the oceans and improving the management of fisheries. These studies include: The Potential of the Blue Economy (2017), The Sunken Billions: The Economic Justification for Fisheries Reforms (2009); and The Sunken Billions Revisited: Progress and Challenges in Global Fisheries (2017).
PA#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.	Many Pacific island countries suffer from extensive damage to their buildings, particularly housing. To address this, countries have to improve enforcement of their regulations. If any building structures are exempt, they can also develop guidelines for the communities to help improve resilience. Work that illustrate these aspects include: Guidelines for Improving Building Safety and Resilience in New Single Storey Houses and Schools in Rural Areas of Fiji (2019); and Post-Disaster Needs Assessments (PDNA) after TC Winston.
PA#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.	A World Bank business process review (BPR), conducted in 2020, shows gaps in data management, targeting methodology and operating procedures, confirming the findings of the 2019 Auditor-General Report on Social Welfare Schemes. The World Bank technical analysis of the 2019-20 HIES (*mimeo*) provides quantitative evidence of how the Fijian social assistance programs are targeting the poorest quintile.
Pillar 3: Strengthening Debt and Public Financial Management	
PA#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.	Wheeler, Graeme, 2004. "Sound Practice in Government Debt Management," This study shows that prudent government debt management has critical linkages to the development process. It reduces the financial risk the Government faces, lowers the economy's vulnerability to financial shocks, strengthens the market infrastructure and institutions needed to support an efficient domestic financial market, and helps foster sound public sector governance practices.

	World Bank, 2007a. Managing Public Debt: From Diagnostics to Reform Implementation. This study finds that a good debt management strategy puts helps operationalize the overall objectives for debt management and sets out a medium-term framework for how the Government will manage the composition of debt. This is supported by a quantification of risk, including stress tests of the debt portfolio based on the economic and financial shocks to which the country is potentially exposed.
PA#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 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.	ADB, 2007. Public Financial Management Systems—Fiji: Key Elements from a Financial Management Perspective (pp. 7 and 38). This assessment highlights inconsistencies among the 2013 Constitution, the Financial Management Act (FMA) 2004, and the Finance Instructions 2010. An amendment that provides clear accountability and governance arrangements for public funds is recommended. Fiji PEFA Gender-Responsive Budgeting Assessment Report (2019): The report provides a comprehensive, peer-reviewed assessment of the gender-responsiveness of PFM in Fiji, highlighting weaknesses across all ten performance indicators (scores between C and D on a scale from A to D). The gender impact analysis of budget policy proposals, which is the entry point for mainstreaming gender into PFM, received a score of D+. It highlights that Fiji's program budgeting approach provides opportunities for the inclusion of gender-relevant information into the national budget and provides options for strengthening GRB in Fiji.