



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 14-May-2019 | Report No: PIDC26854



BASIC INFORMATION

A. Basic Project Data

Country Fiji	Project ID P168402	Project Name Fiji - Second Fiscal Sustainability and Climate Resilience DPO (P168402)	Parent Project ID (if any) P165276
Region EAST ASIA AND PACIFIC	Estimated Board Date Sep 25, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Fiji	Implementing Agency Ministry of Economy		

Proposed Development Objective(s)

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

Financing (in US\$, Millions)

SUMMARY

Total Financing	63.00
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DETAILS

Total World Bank Group Financing	63.00
World Bank Lending	63.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

1. **Despite major progress in development, Fiji faces challenges posed by frequent natural disasters that the government of Fiji needs to address.** Since independence from Great Britain in 1970, long-term growth has been modest, averaging 2.8 percent a year or 1.6 percent per capita. One reason for the lower than potential growth is frequent natural disasters, especially cyclones and floods. Fiji is on a tropical cyclone belt and, on average, one cyclone passes through its waters each year. In February 2016, a category 5 Tropical Cyclone (TC) Winston caused extensive damage and losses amounting to FJ\$2.9 billion, nearly 20 percent of 2014 GDP. With climate change, losses of 2.5 percent of GDP are expected every year and losses of 20 percent every 50 years. Another problem has been low private investment, reflecting high risk from frequent natural disasters as well as intermittent political crises. High costs of doing business and difficulties in finding and retaining skilled workers are also identified as important constraints to investment (Fiji Systematic Diagnostic 2017).

2. **Fiji's economy has proved resilient and recovered well from recent natural disasters.** Fiji has posted its ninth consecutive year of economic growth in 2018 despite the challenges arising from frequent natural disasters in recent years. Real GDP growth rose 3.2 percent up marginally over the 2017 level, with the resurgence in growth supported by reconstruction work, buoyant visitor arrivals, strong consumer demand generated by higher incomes, low unemployment (4.5 percent, the lowest on record for over fifteen years) and continued growth of remittances. Inflation was broadly contained but ticked-up to 4.1 percent year-on-year in December 2018 (3.4 percent in 2017) in response to increased excise taxes on tobacco and alcohol, higher fuel costs, and a rise in price of vegetables and yaqona (Fiji's traditional drink) due to the April floods.

Relationship to CPF

3. **The proposed DPO is fully aligned with the objectives and proposed outcomes of the upcoming CPF for Fiji.** The new World Bank Group strategy in Fiji, to be published in December 2019, builds on the findings of the Systemic Country Diagnostic (SCD) submitted to the Board in June 2017. The SCD was structured around strategic priorities to accelerate Fiji's growth toward the dual goal of ending extreme poverty and prompting shared prosperity in a sustainable manner; specifically strengthening fiscal sustainability; improving the investment climate; and building resilience to climate change. These core priorities, which underpin the NDP 2017, remain central to the new CPF under preparation. The program development objective of the proposed operation to support the government's effort to (i) strengthen medium-term fiscal sustainability; (ii) improve the investment climate; and (iii) build climate resilience contributes directly to these strategic priorities. Moreover, by supporting reforms that help create fiscal space, strengthen medium-term planning, improve the sustainability of government finance and improve the investment climate the proposed operation will, in turn, help avoid disruptions in capital spending, encourage long-run private investment in priority infrastructure that meets climate resistance standards, with a positive impact on Fiji's poor and vulnerable who are disproportionately impacted when natural disasters strike.

C. Proposed Development Objective(s)

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

Key Results



5. **The proposed operation has a potential to have a substantial positive impact on poverty, vulnerability and inequality.** Fiji's poor and vulnerable are disproportionately affected by earthquakes and climate-related risks, due to lower quality housing and a limited formal safety nets (e.g., savings, insurance) to cope with the impacts of shocks. Future investment in climate resilient housing and public infrastructure is expected to reduce the damage from natural disasters, and limit both the short and long-term impacts of climate change. The focus on rural housing is expected to contribute to improving poverty, which is higher in Fiji's rural areas and remote islands than its urban areas. Policy reforms that streamline the processes for business registration are expected to facilitate the establishment of small and medium enterprises that will boost formal economic opportunities, particularly for the poor households that have migrated to urban areas in search of jobs. The creation of new formal jobs in urban areas could reverse the uptick of urban poverty observed between 2008/09 and 2013/14¹.

D. Concept Description

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

7. There are two identified prior actions (PA) for Pillar 1 - strengthen medium-term fiscal sustainability. These are: (PA1) The Recipient has introduced in its 2019-2020 budget expenditure measures to help achieve the government's medium-term fiscal consolidation, including: (i) rationalizing capital expenditure; (ii) keeping the wage bill constant in nominal terms; and (PA2) The Recipient, through its Cabinet, has approved a policy framework for granting government guarantees to SOEs.

8. Three prior actions have been identified for Pillar 2 - improve the investment climate. These are: (PA3) The Recipient, through its Cabinet, has approved an Investment Bill and an Investment Policy Statement that set out a comprehensive investment framework for domestic and foreign investment, providing a simple, transparent process for entry of foreign investment and establishing investor protections consistent with good international practice; (PA4) The Recipient, through its Cabinet, has adopted the World Bank Doing Business Reform Memorandum, and mandated the Ease of Doing Business Taskforce to facilitate implementation of recommendations; and (PA5) The Recipient, through its Cabinet, has approved: (i) the institutional and technical framework under the Personal Property Securities Act, which would allow moveable property to be used as collateral for credit purposes; (ii) establishment of the Personal Property

¹ The share of income from formal wages and salaries increased from 43 percent in 2002/03 to 61 percent in 2013/14, indicating an increased formalization of the economy. However, labor force participation was lower among the poor than the non-poor – at 52.5 percent and 57.5 percent, respectively (Fiji 2013/14 HIES) – and unemployment was also higher among the poor.



Securities Registry.

9. One prior action has been identified for Pillar 3 - enhancing resilience to the effects of climate change and natural hazards which is: (PA6) The Recipient, through its Cabinet, has approved Guidelines which will: (i) enable the application of the National Building Code to strengthen new single-story schools and residential housing in rural areas against climate-related risks and earthquakes; and (ii) form the material for training and certification of building contractors involved in the single-story residential housing.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

10. **The proposed operation supports a suite of Prior Actions that promote the creation of more and better jobs, with potentially high poverty reduction impacts. PA3 is expected to reduce poverty and inequality through greater job growth, depending on the accessibility of those jobs to the Bottom 40.** The reforms supported by the PA would increase interest in Fiji from foreign investors, which in turn would lead to job creation. However, the impact on poverty and inequality depends on whether the poor and vulnerable have the required qualification and skills to access these jobs, and whether there exist ways to obtain these qualifications and skills through education and training. **PA4 is expected to reduce poverty and inequality by boosting formal economic opportunities, particularly in urban areas.** The taskforce seeks to develop policy reforms that, if successful, will streamline the processes for business registration and other constraints identified in the Doing Business report. This, in turn, will facilitate the establishment of small and medium enterprises that could create more employment opportunities in the formal sector, particularly for the poor households that have migrated to urban areas in search of jobs. The creation of new formal jobs in urban areas could reverse the recent uptick of urban poverty seen between 2008/09 and 2013/14. **PA5 is expected to reduce poverty through improvements in the credit market that enable access by poorer entrepreneurs.** The enforcement of the Personal Property Securities Act in PA5 will improve access to credit, which is a challenge for all businesses but is a binding constraint for poorer entrepreneurs. Allowing the use of moveable assets as collateral could make it easier for poor and vulnerable households to boost their productivity by starting small businesses that are not hampered by unfavorable credit terms. Finally, **PA6 supports the Government in its efforts to boost resilience to disaster-related shocks, which will have a positive impact on the poor, and will reduce the urban-rural gap in disaster resilience.** PA6 seeks to ensure that future investment activities in housing and public infrastructure follow guidelines that reduce the damage from natural disasters and climate change. This could have a substantial impact on poverty and inequality, as Fiji's poor and vulnerable are disproportionately affected by earthquakes and climate risks, due to lower quality housing and a lack of formal safety nets (e.g., savings, insurance) to cope with the impacts of shocks. The focus on rural areas in PA6 is also relevant for the reduction in urban-rural inequality, as poverty is still much higher in Fiji's rural areas than its urban areas, and because the building codes are currently better enforced and implemented in urban areas, which has left rural areas more heavily impacted by past disasters.

Environmental Impact

11. **The policy actions supported under the operation – including those related to climate and disaster resilience – are not expected to create negative impacts on Fiji's environment, natural resources or forests compared with the status quo.** PA6 supporting the use of guidelines to single-story schools and housing in rural areas, which ensure that climate and disaster risks are better accounted for in the design and location of key social and economic assets, is expected to have positive effects on the environment. These measures should serve to lengthen the lifespan of these assets and thus decrease demand on material sourced from the environment, such as sand, rocks and/or timber for houses and schools building. The environmental impacts from PA1-5 are not expected to be adverse.



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APPROVAL

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