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Report No: PD000026

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR THREE

PROPOSED CREDITS

IN THE AMOUNT OF SDR 95 MILLION (EQUIVALENT TO US$125 MILLION)

COMPRISING

A DEVELOPMENT POLICY CREDIT OF SDR 53.4 MILLION (US$70.3 MILLION EQUIVALENT)
AND
A DEVELOPMENT POLICY CREDIT ON SHORTER MATURITY LOAN TERMS OF SDR 18.8 MILLION (US$24.7 MILLION EQUIVALENT)
AND
A DEVELOPMENT POLICY CREDIT WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION OF SDR 22.8 MILLION (US$30 MILLION EQUIVALENT)

TO

THE REPUBLIC OF FIJI

FOR THE

FIJI GROWTH AND RESILIENCE FIRST DEVELOPMENT POLICY FINANCING WITH A CATASTROPHE DEFERRED DRAWDOWN OPTION

May 24, 2024

Macroeconomics, Trade and Investment Global Practice
Finance, Competitiveness and Innovation 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 April 30, 2024)

Currency Unit

FJD1.00 = USD0.4418

SDR1.00 = USD1.3179

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AM	Accountability Mechanism
CAR	Capital Adequacy Ratio
Cat DDO	Catastrophe Deferred Drawdown Option
CIT	Corporate Income Tax
COVID	Coronavirus
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnostic
DFAT	Department of Foreign Affairs and Trade
DFS	Digital Financial Services
DPF	Development Policy Financing
DRF	Disaster Risk Financing
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
EAP	East Asia and Pacific
ECAL	Environment and Climate Adaptation Levy
ECE	Early Childhood Education
EFL	Energy Fiji Limited
EU	European Union
FAS	Family Assistance Scheme
FCCC	Fiji Competition and Consumer Commission
FJD	Fijian Dollar
FPO	Fiji Procurement Office
FRA	Fiji Roads Authority
FRC	Fiscal Review Committee
FY	Fiscal Year
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GNI	Gross National Income
GoF	Government of Fiji
GRS	Grievance Redress Service
HIES	Household Income and Expenditure Survey
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPP(s)	Independent Power Producers
JPM	Joint Policy Matrix
LEDS	Low Emission Development Strategy
MHMS	Ministry of Health and Medical Sciences
MOE	Ministry of Education
MoF	Ministry of Finance
MSME	Micro, Small, and Medium Enterprise
MTFS	Medium-Term Fiscal Strategy
MWCSP	Ministry of Women, Children and Social Protection
NAP	National Adaptation Plan
NCD(s)	Non-Communicable Disease(s)
NDC	Nationally Determined Contribution
NDMA	Natural Disaster Management Act
NDMO	National Disaster Management Office
NDP	National Development Plan
NDRM	National Disaster Risk Management
NEP	National Energy Policy
NES	National Economic Summit
NFA	National Fire Authority
NFIS	National Financial Inclusion Strategy
NPL(s)	Non-Performing Loan(s)
OHS	Occupational Health and Safety
PA(s)	Prior Action(s)
PCRIC	Pacific Catastrophe Risk Insurance Company
PDO(s)	Program Development Objective(s)
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PICs	Pacific Island Countries
PMT	Proxy Means Test
PPA(s)	Performance and Policy Action(s)
PSIP	Public Sector Investment Programme
RBF	Reserve Bank of Fiji
SDR	Special Drawing Rights
SFDRR	Sendai Framework for Disaster Risk Management
SOE	State-Owned Enterprises
SP	Social Protection
SPO	Strategic Planning Office
TA	Technical Assistance
TC	Tropical Cyclone
UMICs	Upper Middle-Income Countries
US	United States
US$	United States Dollar
VAT	Value Added Tax
VMS	VAT Monitoring System
WB	World Bank
WBG	World Bank Group

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REPUBLIC OF FIJI

Fiji Growth and Resilience First DPF with a Cat DDO

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P500609	Yes	1st in a series of 2

Proposed Development Objective(s)

To support the Government of Fiji in its efforts to build fiscal, climate and disaster resilience, and the foundations for private sector development.

Organizations

Borrower:	Government of Fiji
Implementing Agency:	Ministry of Finance, Strategic Planning, National Development and Statistics

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**125.00**

DETAILS

World Bank Group Financing

International Development Association (IDA)	125.00
IDA Credit	100.30
IDA Shorter Maturity Loan (SML)	24.70

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	92.80	0.00	24.70	0.00	117.50
Crisis Response Window (CRW)	7.50	0.00	0.00	0.00	7.50
Total	**100.30**	**0.00**	**24.70**	**0.00**	**125.00**

PRACTICE AREA(S)

Practice Area (Lead)

Macroeconomics, Trade and Investment

Contributing Practice Areas

Urban, Resilience and Land; Finance, Competitiveness and Innovation

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

OVERALL RISK RATING

Overall Risk	Substantial

RESULTS

Indicator Name	Baseline (FY2022)	Target (FY2027)
1. Tax revenue (percent of GDP)	18.0 (FY22-23)	23.1 (FY26-27)
2. Share of population covered by divisional Disaster Risk Management (DRM) Plans	Nil	20
3. Renewable energy capacity enabled (MW)	182 (FY21)	220
4. Share of Micro, Small and Medium Enterprises (MSMEs) accessing financial services from a regulated financial institution (percent)	39	45
5. Share of low risk businesses[1] with reduced frequency of inspections and certificate renewal (percent)	Nil	100
6. Increase in volume of digital payments (percent)	Nil	35
7. (i) Share of students from early childhood to secondary school who are malnourished[2] identified and referred for treatment (percent)	Nil	60
7. (ii) Share of students meeting recommended physical activity guidelines Girls Boys (percent)	 18.5 22.5	70

[1] Businesses are classified as either high or low risk based primarily on the sector of activity.
[2] Underweight, stunted, wasted, overweight or obese.

IDA PROGRAM DOCUMENT FOR THREE PROPOSED CREDITS TO THE REPUBLIC OF FIJI

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) series has two Program Development Objectives (PDOs) and pillars.** These are: (i) building fiscal, climate and disaster resilience, and (ii) building the foundations for private sector development. The proposed operation is the first in a programmatic series of two. This US$125 million operation consists of (i) an IDA credit on regular terms of US$70.3 million, (ii) an IDA credit on Shorter Maturity Loan (SML) terms of US$24.7 million, and (iii) a Catastrophe Deferred Drawdown Option (Cat DDO) credit on regular terms of US$30 million (US$7.5 million from IDA Country Allocation, US$7.5 million from the Crisis Response Window (CRW), and US$15 million from IDA general resources).

2. **Fiji is a small island nation in the South Pacific Ocean with the second largest economy among the Pacific Island Countries (PICs).** It has an area of 18,000 square kilometers spread over 330 islands, of which about 110 are inhabited. Most of the population of 900,000 people lives on two large islands, Viti Levu and Vanua Levu. Fiji is also one of the most remote countries in the world—New Zealand is 2,000km away, Australia 3,000, and the United States 5,000km. It has a services-based economy and is a hub for re-exports to the rest of the PICs.

3. **Fiji is on a tropical cyclone (TC) belt, and on average one TC passes through Fijian waters each year.** Natural disaster episodes caused annual losses of 1.3 percent of GDP on average in the last 30 years with peaks of 11.4 percent in 1993 and 14.8 percent in 2016. Fiji only completed its recovery efforts by 2021—5 years after the 2016 Category 5 TC Winston. In addition to weathering COVID-19, Fiji was hit by three TCs: Category 4 TC Harold in April 2020, Category 5 TC Yasa in December 2020, and Category 3 TC Ana in January 2021. The Notre Dame Global Adaptation Index (ND-GAIN) ranks Fiji as 114 out of 185 countries for vulnerability, but also stresses it has good capacity to adapt.[3] Ninety seven percent of disasters in Fiji during 2000–23 were climate-related.[4] Climate change will likely worsen disasters wrought by TCs, storm surges, and heat waves (World Bank 2017). Such risks will be further exacerbated by an expected rise in sea level of 100cm by 2100 and will significantly impact the 75 percent of the population who live in coastal areas and low-lying islands. In addition, low-intensity, high-frequency floods will increase and contribute to the damage to agriculture and housing.

4. **Fiji also faces the development challenges of remoteness and economic concentration.** It has experienced greater political stability in the last decade, which has been conducive to economic growth and development supported by a robust tourism sector, rising household consumption, investment growth, and expansionary fiscal policies. Fiji is a small open economy that trades import-intensive tourism services (comprising one-fifth of Gross Domestic Product - GDP) for goods imports (comprising half of GDP). Tourists from Australia, New Zealand, and the United States comprise over three-quarters of arrivals, and fuel and food make up two-fifths of goods imports. Other economic challenges include remoteness from international markets, lack of scale due to its small land area and population, and fragmentation through the dispersion of population. With a Gross National Income (GNI) per capita of US$5,270 in 2022, Fiji is an upper middle-income country.

5. **The Government is committed to pro-growth reforms.** The December 2022 election ended the 16-year rule of the Fiji First Party, and a three-party coalition government came in power. In the lead up to the Government's first (FY24) Budget, it carried out extensive consultations including holding the first National

[3] The ND-GAIN summarizes a country's vulnerability to climate change and other global challenges with its readiness to improve resilience, composing a Vulnerability score and Readiness score. Vulnerability measures a country's exposure, sensitivity, and ability to adapt to the negative impacts of climate change. Lower rankings indicate lower vulnerabilities, i.e., 113 out of 185 countries are less vulnerable than Fiji.
[4] The only other disaster in Fiji during 2000–23 was the measles outbreak in November 2019 (Source: EM-DAT https://www.emdat.be).

Economic Summit (NES) in 15 years. The Government of Fiji (GoF) also established a Fiscal Review Committee (FRC) that produced a blueprint of new Government's socio-economic priorities. It passed an ambitious FY24 Budget to address infrastructure gaps while launching a bold revenue-based fiscal consolidation path to reduce high debt. Most notably, tax measures announced in the Budget are estimated to add about 3 percent of GDP to revenues. The GoF is finalizing a new National Development Plan (NDP) with a focus on deepening fiscal consolidation; economic diversification and private sector-led growth; infrastructure, health, and education improvements; and climate adaptation. The GoF has set up a Growth Reset Strategy 2023 to capitalize on "Quick Wins" and conduct "Deeper Dives" across seven areas including investment, electricity, and land. The Government places a strong emphasis on consensus, which is likely to strengthen the sustainability of reforms.

6. **The economy has recovered fully on the back of a robust tourism rebound and improved confidence post-election, but fiscal buffers and sources of growth remain limited.** Fiji has surpassed its pre-pandemic output level based on tourism recovery above pre-pandemic levels following the reopening of borders in end-2021. However, high debt levels leave the country with limited buffers to address shocks and highlight the scale and urgency of fiscal consolidation, of building resilience, and of expanding the economy. Beyond a more sustainable and higher value-added tourism sector, investing in education, health, connectivity, resilient infrastructure, and creating more opportunities for women will help create higher, sustainable, and inclusive growth.

7. **Extreme poverty is low, but the country trails behind in delivering higher living standards to its population.** Prior to COVID-19, Fiji had a poverty rate of 24.1 percent in 2019–20 as defined by the national standards of living. The 2019–20 Household Income and Expenditure Survey (HIES) estimated the incidence of extreme poverty (US$2.15 per person per day, 2017PPP) at 1.3 percent, which is on par with upper middle-income countries (UMICs). The UMI poverty rate (US$6.85, 2017PPP) stands at 52.6 percent, nearly double the UMIC average of 23.5 percent. Projections suggest that poverty increased sharply during the pandemic but has declined to pre-pandemic level in 2023. The consumption Gini for 2019–20 was 30.7, which is among the lowest in PICs and East Asia and Pacific (EAP). However, inequality is evident from the large gaps in regional poverty rates. Basic needs poverty in 2019–20 was highest in the outer islands (39.2 percent), but rural areas in the main islands of Viti Levu and Vanua Levu also experienced much higher poverty (36.2 percent) than urban centers (13.8 percent).

8. **The proposed series supports the GoF in its efforts to build fiscal, climate, and disaster resilience, and the foundations for private sector development.** Pillar 1 supports (i) enhancing revenue mobilization and building fiscal buffers; (ii) strengthening disaster preparedness; and (iii) securing energy supply and supporting energy transition. Pillar 2 supports (i) facilitating micro, small and medium enterprise (MSME) access to finance; (ii) streamlining the business environment; (iii) promoting the utilization of digital financial services; and (iv) unlocking productive potential of working-age population. The proposed program forms part of the GoF's first Joint Policy Matrix (JPM), coordinated by the Asian Development Bank (ADB) and the World Bank, comprising of 22 reforms across public financial management (PFM), sustainable economic growth, and climate and community resilience. The JPM is supported by Fiji's other development partners: Australia, European Union (EU), and New Zealand. These partners are providing technical assistance (TA) to support reform design, implementation, and monitoring.

9. **The macroeconomic policy framework is adequate for the purposes of the proposed operation.** The economy is expected to return to below trend growth of 3.3 percent over 2024–27 driven by tourism and consumption. Monetary policy has been appropriately accommodative with manageable inflation and adequate foreign reserves. The exchange rate peg continues to provide a credible nominal anchor. The financial sector is well capitalized and liquid, but non-performing loans (NPLs) need close monitoring. The GoF is committed to fiscal consolidation with the fiscal deficit projected to fall from 5.9 percent in 2023 to 3.2 percent of GDP in 2027. Public debt is sustainable but expected to stay around 81 percent of GDP by 2027.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

10. **Output has surpassed pre-pandemic level in 2023 due to full recovery in tourism.** The combined impact of COVID-19 and multiple TCs resulted in a deep contraction during 2020–21, but the reopening of international borders in December 2021 bolstered economic recovery, leading to full recovery in 2023. This is marked by the swift recovery in tourist arrivals of 4 percent over 2019 levels, a countercyclical fiscal response to the pandemic, and a pick-up in domestic demand. On the supply side, about 50 percent of the contribution to growth came from services sectors (accommodation, transport, wholesale, retail, and finance). Elevated government spending and private consumption largely offset the negative terms-of-trade shock due to higher commodity prices from COVID-induced trade disruptions, Russia's invasion of Ukraine, and conflicts in the Middle East.

Table 1: Contributions to Real GDP Growth (percent)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Pre-COVID	COVID		Act.	Est.		Proj.		
Real GDP Growth	**-0.6**	**-17.0**	**-4.9**	**20.0**	**8.0**	**3.5**	**3.3**	**3.3**	**3.2**
Demand Side									
Private Consumption	-0.1	-4.0	-1.2	4.3	1.7	0.8	0.7	0.7	0.7
Government Consumption	-0.4	-13.1	-4.0	16.1	6.2	2.6	2.4	2.3	2.1
Capital Formation	-0.1	-3.2	-0.9	3.7	1.4	0.6	0.5	0.5	0.5
Changes in Inventories	0.0	0.5	0.0	0.1	-0.4	-0.1	0.0	0.1	0.2
External Balance of Goods and Services	0.1	2.8	1.3	-4.2	-0.9	-0.4	-0.3	-0.3	-0.3
Supply Side									
Agriculture	-0.1	-2.1	-0.6	2.3	0.9	0.4	0.4	0.4	0.3
Industry	-0.1	-3.8	-1.0	3.9	1.7	0.7	0.7	0.7	0.7
Services	-0.4	-11.2	-3.2	13.8	5.5	2.4	2.2	2.3	2.1

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

11. **Inflation began rising in August 2023 after the tax measures of the FY24 Budget.** Headline inflation gradually declined from end-2022 to July 2023, but increased to 5.1 percent (y/y) at end-2023, the highest in the last decade. This was due to the value added tax (VAT) rate increase from 9 percent to 15 percent in August 2023, which affected 78 percent of commodities. Price increases were also compounded by higher import prices and tariffs.[5] Prior to the VAT change, relative to PICs and EAP, inflation in Fiji has often remained low on account of comprehensive price controls[6] and mitigation measures introduced from time to time. During 2022–23, these measures included zero VAT rate on essential items, the removal of the Environment and Climate Adaptation Levy (ECAL) and fiscal duty on fuel, and a support package for the vulnerable segment of the population for Fijian Dollars (FJD) 60 million (0.5 percent of GDP).

12. **The external position strengthened in 2023 despite a negative terms-of-trade shock, maintaining an adequate level of foreign exchange reserves.** The current account deficit narrowed to 5.5 percent of GDP in 2023, down from 17.3 percent of GDP in 2022, on the back of the swift tourism recovery as well as remittances. The improvement came despite the worsening terms-of-trade. The current account deficit was largely financed by official borrowing. Foreign exchange reserves remained adequate, covering 5.7 months of retained imports.

[5] These FY24 Budget measures include a 5 percent increase in import excise duty on alcohol and tobacco products, on new and used passenger vehicles, and in excise tax per liter on carbonated/sugar-sweetened beverages; and 40 cents excise tax per kg/liter and 15 percent import excise duty on sugary products.
[6] Fiji has been administering price controls since 1970s. The coverage has expanded over time and price-controlled items comprise a third of the consumption basket. While the intention may be noble to safeguard the poor, price controls often distort market signals and crowd out investment (IFC 2022).

13. **Monetary policy remains accommodative to support the recovery.** The overnight policy rate has been maintained at 0.25 percent since 2020. Liquidity in the banking system has increased considerably since the pandemic from 5.1 percent of GDP in 2019 to 17.2 percent in 2023, due to large external financing inflows. High liquidity has helped keep interest rates in check and at near historic lows, which has supported the revival of private sector credit by 7.6 percent in 2023 compared to a 3.2 percent cumulative contraction (y/y) during the pandemic (2020–21). However, it has not fully recovered to pre-pandemic level of 10 percent (2015–19).

14. **Fiji operates a fixed exchange regime and capital controls to stabilize the economy.** The Fiji dollar is pegged to a currency basket of five currencies - the US dollar, Australian dollar, New Zealand dollar, the euro, and the Japanese yen. In addition, Fiji maintains (and reviews from time to time) various exchange controls/capital flow measures to safeguard foreign reserves. The real effective exchange rate contracted by 0.4 percent (y/y) in 2023, reflecting lower domestic prices relative to the US and a gain in competitiveness.

Table 2: Key Macroeconomic Indicators

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Pre-COVID	COVID		Act.	Est.		Proj.		
Real Economy	Annual percentage change, unless otherwise indicated								
Real GDP Growth	-0.6	-17.0	-4.9	20.0	8.0	3.5	3.3	3.3	3.2
GDP Deflator (%)	1.5	-1.5	-2.5	2.5	4.4	4.2	3.2	3.1	3.1
Inflation (y/y)	-0.9	-2.8	3.0	3.1	5.1	3.3	3.2	3.1	3.0
Fiscal Accounts	Percent of GDP								
Revenues	27.8	21.0	25.6	21.6	24.7	26.7	26.8	26.7	26.6
Expenditures	30.5	34.0	37.3	31.9	30.6	33.3	32.7	31.3	30.1
General Government Balance	-2.7	-13.0	-11.7	-10.3	-5.9	-6.6	-5.9	-4.6	-3.5
Government Debt	52.1	73.8	92.8	85.6	81.8	82.4	83.2	82.7	81.3
Domestic	38.8	52.9	61.3	54.1	51.6	51.9	52.4	52.1	51.2
External	13.3	20.9	31.6	31.5	30.3	30.5	30.8	30.6	30.1
Balance of Payments	Percent of GDP, unless otherwise indicated								
Current Account Balance	-12.8	-13.7	-15.9	-17.3	-5.3	-7.1	-7.3	-7.2	-7.2
Trade Balance	-25.5	-14.8	-22.0	-32.8	-30.1	-29.0	-27.6	-26.3	-25.4
Goods Imports	44.4	33.3	42.6	54.0	49.6	48.1	46.2	44.5	43.3
Goods Exports	18.9	18.5	20.6	21.1	19.4	19.1	18.7	18.1	17.8
Services (net)	15.1	-1.9	-5.2	11.7	19.5	18.8	17.9	17.3	16.8
Primary Income (net)	-8.3	-6.3	-5.8	-5.3	-6.9	-7.3	-6.9	-7.0	-7.3
Secondary Income (net)	5.9	9.3	17.1	9.1	12.2	10.4	9.3	8.9	8.2
Foreign Direct Investment (net)*	-6.6	-5.1	-8.7	-1.8	-3.5	-5.2	-5.6	-5.7	-7.2
Portfolio Investment (net)	-0.3	4.0	0.6	0.5	1.2	0.1	0.1	0.1	0.1
Other Investment (net)	-5.0	-6.7	-10.1	-12.7	-1.2	-1.7	-0.4	-0.2	-0.2
Foreign Reserves (in US$, m)	1,035	1,075	1,512	1,548	1,551	1,539	1,441	1,299	1,254
In months of retained imports	7.3	7.7	9.9	6.9	5.7	5.3	4.8	4.3	4.1
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated								
Base Money	15.2	13.5	48.8	15.8	-4.0	11.6	10.8	10.3	9.7
Credit to Private Sector	4.6	-3.1	-0.1	6.7	7.6	7.6	8.3	8.6	8.7
Interest (key policy rate, %)	0.5	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.25
Other memo items									
GDP (nominal FJ$, m)	11,762	9,613	8,914	10,963	12,364	13,336	14,219	15,148	16,110
Nominal GDP (US$, m)	5,485	4,714	4,209	4,945	5,585	6,024	6,423	6,843	7,277
Remittances (% of GDP)	5.2	7.6	9.4	9.5	10.1	10.2	10.3	10.3	10.4
Tourism Earnings (% of GDP)	17.6	3.3	0.4	13.7	19.2	18.4	17.3	16.4	17.6
Increase in Government Debt (US$, m)	324.7	471.8	558.1	502.0	329.9	395.0	380.4	316.0	254.3

Sources: Ministry of Finance, and IMF and World Bank staff estimates.
* Negative sign means higher non-residents investment in Fiji compared to investment abroad, in general accordance with principles laid down by the IMF.

15. **The fiscal position strengthened in 2023.** The deficit shrunk from 10.3 percent of GDP in 2022 to 5.9 percent in 2023. The primary deficit also declined from 6.6 percent of GDP to 1.9 percent due to a substantial decrease in capital spending while tax revenues recovered well. However, revenue gains were partly offset by inflation mitigation payouts discussed above. The fiscal deficit was financed through external (33 percent) and domestic financing (67 percent).

16. **Tax revenues increased from 18.6 percent of GDP in 2022 to 20.5 percent in 2023** primarily driven by VAT whose collection increased by 38.6 percent, as well as strong collection in income taxes, customs, and departure tax. Total revenues, however, remained below the pre-COVID level of 27.8 percent of GDP.

17. **Public spending declined owing to the phase out of COVID-19 fiscal support measures.** Total expenditures fell from around 32 percent of GDP in 2022 to 30.6 percent in 2023 (close to pre-COVID levels). This was underpinned by a decline in personnel spending, goods and services, and current and capital transfers.

18. **Despite a sharp decline in public debt to GDP, it remains 30 percent higher than the pre-COVID level.** Public debt to GDP had increased substantially during COVID-19; however, it decreased to 81.8 percent in 2023 due to quick economic recovery combined with a lower primary deficit. Domestic debt comprises almost two-thirds of public debt. Contingent liabilities, including loan guarantees to state-owned enterprises (SOEs) and implicit liabilities, decreased from 15.4 percent of GDP in 2022 to 14.1 percent in 2023.

19. **Bank balance sheets are healthy, although NPLs need close monitoring.** The NPL ratio has decreased from 8.5 percent in 2021 to 6.5 percent in Q2, 2023. The level of provisioning for NPLs by commercial banks has increased from 26.1 percent in 2021 to 32.7 percent in Q2, 2023 but is still low. The banking sector is profitable with an aggregate 20.1 percent capital adequacy ratio (risk-weighted CAR) in Q2, 2023, and a Tier 1 Capital to risk weighted asset ratio of 16.1 percent in Q2, 2023. All commercial banks complied with the prudential minimum capital adequacy requirement of 12 percent.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

20. **The economy is normalizing and expected to return to below trend growth over the medium term.** Tourist arrivals are projected to revert to the long-term trend. This will support momentum in the economy with real GDP projected to grow by 3.5 percent in 2024 and above 3 percent over 2025–27. Growth would come from government investment spending[7] and private sector enabling reforms, some of which are supported under Pillar 2 of the proposed series. These projections incorporate the expected tax rate increase. Growth will be anchored by manufacturing, wholesale and retail trade, accommodation, transport, and finance sectors on the supply side. Inflation is projected to return to trend over the medium term owing to moderating commodity prices.

21. **The current account deficit is projected to stabilize at 7.2 percent of GDP in 2024–27, supported by tourism and remittances.** Remittances are projected to remain above a tenth of GDP reflecting Fiji's higher participation in labor mobility schemes, notably in Australia and New Zealand. The deficit will be largely financed by official external borrowing. Foreign reserves are expected to decline to 4.1 months of imports by 2027 as imports rise commensurate with domestic demand. This is in line with the Reserve Bank of Fiji (RBF) target of four months and above the three months of imports considered adequate by the IMF.[8] These reserves are sufficient to maintain the capital control regime over the medium term.

22. **The fiscal deficit is expected to narrow from 5.9 percent of GDP in 2023 to 3.5 percent by 2027.** This

[7] The impact multiplier for government investment is estimated at 0.14 and grows over time (World Bank 2023).
[8] Under a shock scenario that incorporates Fiji's high vulnerability to natural disasters, its adequate level of reserves is assessed to be 4.9 months of imports.

implies a fiscal adjustment of 2.4 percent of GDP which will be achieved through a combination of revenue-generating reforms (1.9 percent) and expenditure rationalization (0.5 percent). This fiscal adjustment, however, masks the one-off increase in the deficit to 6.6 percent in 2024. On average, two-thirds of the projected fiscal deficits will be financed through external concessional loans. Bilateral grants will be 1 percent of GDP on average.

23. **Revenues are expected to significantly increase due to tax reforms supported in this series.** In addition, the GoF has approved excise, customs, and water resource tax increases in the FY24 Budget and will reform tax expenditure and concessions and reintroduce dividend withholding tax. These reforms are expected to boost tax to GDP to 23 percent over the medium term, in line with pre-pandemic trends. This will be complemented by a modest permanent uptick as tax administration reforms already underway and planned (such as the roll-out of phase 3 of the VAT Monitoring System, VMS) begin to bear fruit. These reforms are also supported by the proposed series. Moreover, Fiji joined the Global Forum on Transparency and Exchange of Information for Tax Purposes in November 2023 and plans to join the Inclusive Framework and implement the base erosion and profit sharing (BEPS) minimum standards over 2025–26.[9]

Table 3: Key Fiscal Indicators

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Pre-COVID	COVID		Act.	Est.		Proj.		
Fiscal Accounts				Percent of GDP					
Total Revenues	27.8	21.0	25.6	21.6	24.7	26.7	26.8	26.7	26.6
Tax Revenues	23.0	17.2	16.0	18.6	20.5	23.0	23.1	23.1	23.1
Of which:									
Company Tax	3.0	2.7	2.4	2.4	2.9	3.2	3.3	3.3	3.4
Value Added Tax	6.4	5.7	6.0	7.3	9.0	9.8	9.9	9.9	10.0
Customs	5.2	4.9	4.7	4.1	4.1	4.4	4.5	4.5	4.5
Departure Tax	1.1	0.7	0.1	0.3	0.6	0.8	0.8	0.8	0.8
Non-tax Revenues	4.8	3.8	9.6	3.0	4.2	3.8	3.7	3.6	3.5
Of which:									
Grant	0.4	1.2	4.6	0.4	1.3	1.5	1.1	0.9	0.8
Sale of Government Assets	1.8	0.1	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	30.5	34.0	37.3	31.9	30.6	33.3	32.7	31.3	30.1
Current Expenditures	20.6	23.8	24.1	22.1	21.7	23.3	22.7	21.6	20.6
Personnel	8.6	10.0	10.4	8.6	7.9	8.4	8.5	8.3	8.1
Goods & Services	2.3	2.9	2.9	2.5	2.4	2.5	2.5	2.4	2.3
Current Transfers	6.1	6.5	6.2	6.2	5.9	6.6	6.3	5.8	5.5
Interest	2.8	3.7	4.0	3.6	4.0	4.1	4.1	4.1	3.9
Other	0.7	0.7	0.7	1.1	1.5	1.7	1.3	1.0	0.9
Capital Expenditures	9.6	9.9	12.9	9.5	8.5	9.1	9.2	9.1	9.0
Loans	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Transfers	7.7	8.1	11.7	8.5	7.7	7.6	7.7	7.6	7.6
Purchase of Physical Assets	1.3	1.4	1.2	1.0	0.8	1.6	1.6	1.5	1.4
Government VAT (SEG 13 VAT)	0.3	0.3	0.3	0.3	0.4	0.8	0.8	0.7	0.5
Primary Balance	0.0	-9.2	-7.8	-6.6	-1.9	-2.5	-1.9	-0.5	0.4
Net Deficit	-2.7	-13.0	-11.7	-10.3	-5.9	-6.6	-5.9	-4.6	-3.5
Financing	5.4	10.3	12.8	10.8	5.9	6.6	5.9	4.6	4.0
Domestic	4.5	5.4	4.1	4.7	3.9	4.4	3.9	3.1	2.7
External	0.9	4.8	8.7	6.1	2.0	2.2	2.0	1.5	1.3
Government Debt	52.1	73.8	92.8	85.6	81.8	82.4	83.2	82.7	81.3
Domestic	38.8	52.9	61.3	54.1	51.6	51.9	52.4	52.1	51.2
External	13.3	20.9	31.6	31.5	30.3	30.5	30.8	30.6	30.1

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

[9] These steps will help get Fiji off the EU list of non-cooperative jurisdictions for tax purposes.

24. **2024 would see an uptick in spending driven by the GoF's expenditure priorities and to counter the impact of tax hikes on the poor and vulnerable.** The FY24 Budget, covering August 2023 to July 2024, increased pensions by 15 percent, raised the retirement age from 55 to 60 years, and reinstated permanent appointments to the civil service. It also increased spending on secondary and primary health care facilities and funding for agricultural research and extension. It raised the benefit amount of social protection programs by 15 percent, considering the impact of inflation. As a result, 2024 is expected to see increases in both revenues and expenditure with the spending increases (of 2.6 percent of GDP) more than offsetting gains from revenues (of 2 percent). Two-thirds of that spending increase is due to higher recurrent expenditure, as noted earlier, while one-third is capital expenditure (notably on roads and bridges).

25. **Following the uptick in 2024, public spending is projected to gradually decline from 2025 onwards to below pre-pandemic levels in line with the GoF's fiscal consolidation path.** Personnel, goods and services, current transfers, and capital spending are expected to contribute to this decline. Social assistance will be maintained above pre-COVID levels to protect the poor and vulnerable, including from the impacts of rising food prices. Interest payments will stay at 4 percent of GDP on average due to the build-up in public debt. The GoF is implementing the investment appraisal and selection process, in a phased manner (nine ministries and agencies for FY25 Budget), under the Public Sector Investment Programme (PSIP) Guidelines.[10] The GoF is also integrating value for money and sustainable procurement principles in public procurement to generate cost savings through the amendment of Procurement Regulations and revision of Financial Instructions.

26. **The GoF is committed to expenditure-based fiscal consolidation as stipulated in its second Medium-Term Fiscal Strategy (MTFS) 2025–27.** The MTFS was endorsed by Cabinet in February 2024 and tabled to Parliament in March 2024.[11] The MTFS includes five fiscal anchors to ensure a strategic fiscal consolidation path (through additional expenditure measures): (i) reduce the budget deficit to 3 percent of GDP; (ii) maintain debt at 75 percent of GDP; (iii) ensure operating/recurrent spending below revenue; (iv) borrow only for investment spending; and (v) maintain an operating to capital mix of 70:30. The MTFS has also instituted a nominal recurrent spending freeze until 2027.[12] Together, these expenditure-based fiscal consolidation reforms will help reduce expenditure from 33.3 percent of GDP in 2024 to 30.1 percent by 2027, below the pre-pandemic level.

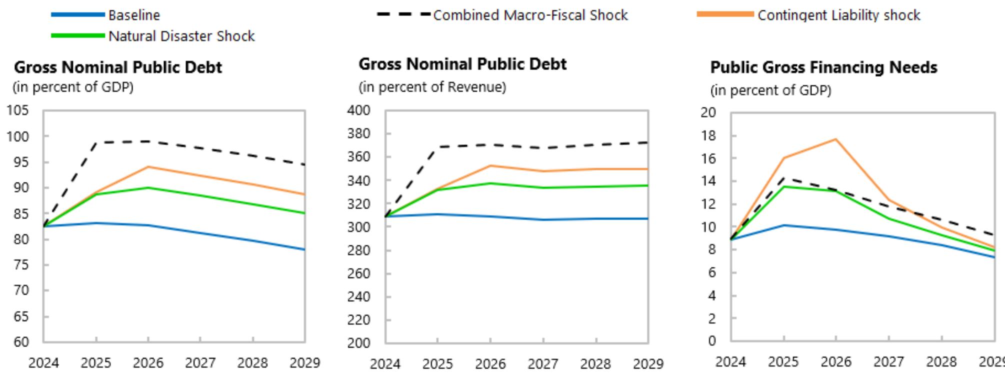
Table 4: External Financing Requirement and Sources

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Pre-COVID	COVID		Act.	Est.		Proj.		
	In USD million								
Total Financing Needs	**704**	**646**	**669**	**855**	**299**	**426**	**468**	**490**	**526**
Non-interest Current Account Deficit	670	615	663	837	245	354	402	425	460
Government Interest Payments	34	31	6	18	53	71	65	65	65
Total Financing Sources	**704**	**646**	**669**	**855**	**299**	**426**	**468**	**490**	**526**
Capital Account Deficit	3	4	3	3	4	4	4	4	4
Foreign Direct Investment (net)	360	241	367	87	195	312	362	391	523
Portfolio Investments (net)	17	-189	-24	-25	-66	-5	-5	-5	-5
All Other Flows (net)	285	-90	112	185	56	67	40	42	44
Government Loans (net)*	-8	406	314	442	9	36	-14	-28	-32
Errors and Omissions	141	255	374	255	124	0	-17	-56	-55
Change in Reserves Assets	-95	19	-477	-91	-23	12	98	142	45

Sources: Ministry of Finance, and IMF and World Bank staff estimates.
* Government drawdown *less* principal repayments.

[10] Cabinet approval of the PSIP Guidelines was one of the FY23 Performance and Policy Actions (PPAs).
[11] As required under the Financial Management (Amendment) Act 2021. The amendment to the Act was supported under the Fiji Recovery and Resilience First DPF with a Cat DDO (P173558).
[12] The DPF projections assume the spending freeze continues beyond 2025. Subsequent MTFS/Budgets may deviate from these targets.

Figure 1: Fiji Debt Sustainability Analysis, 2024



Source: World Bank March 2024 DSA

27. **The World Bank's Debt Sustainability Analysis (DSA) assesses public debt as sustainable but subject to considerable risks.** The baseline scenario reduces public debt to GDP slowly to 81.3 percent by 2027—well above the benchmark of 70 percent—that will continue to limit the fiscal space needed to respond to future shocks. The WB DSA results show debt to be particularly sensitive to a combined, a contingent liability, and a natural disaster shock. A combined shock to real GDP growth, the fiscal deficit, and interest rates in 2024 would increase the debt-to-GDP ratio by 16.4 percentage points in 2027 relative to the baseline. An expenditure shock of 2.5 percent of GDP lasting through 2024 and 2025, for example to respond to a protracted crisis or a natural disaster, would increase the debt-to-GDP ratio by 7.2 percentage points in 2027 relative to the baseline.

28. **Fiji faces the additional risk of realization of contingent liabilities.** Explicit government guarantees declined from 9.2 percent of GDP in January 2023 to 7.5 percent of GDP in January 2024. A 3-tier risk assessment approach is used by the GoF to assess the level of fiscal risks from SOEs based on (i) the latest three-year historical performance; (ii) interim financial statements and cash flow projections; and (iii) general industry assessments including economic conditions. In the FY23 Annual Debt Report, most SOEs receiving guarantees fell in the medium and high-risk tiers. If 70 percent of the contingent liabilities were to materialize in 2024–25, public debt would rise to 88.8 percent of GDP by 2027.

29. **The GoF is committed to addressing debt vulnerabilities through Sustainable Development Financing Policy.** The two Performance and Policy Actions (PPAs) for FY24 are anchored in the FY24 Budget: (i) replace three VAT rates with a two-VAT rate system (15 percent and maintaining zero percent); and (ii) increase corporate income tax rate from 20 percent to 25 percent. Both PPAs are integrated within Prior Action 1 of the operation.

30. **The GoF is successfully implementing debt management reforms.** It has updated the Medium-Term Debt Strategy for FY24–26 to ensure annual borrowing plans are well-anchored. With support from Pacific Financial Technical Assistance Centre (PFTAC), the GoF is planning to implement the Liability Management Operations Policy 2022. This involves buybacks, switches, and callbacks, aimed at building an efficient domestic debt market. The GoF issued the first FJD20 million 3- and 15-year blue bond on November 2, 2023, to support its oceanic resources through nature-based solutions, aquaculture, sustainable towns and cities, and solid waste management.[13]

31. **Risks remain skewed to the downside, highlighting the importance of rebuilding fiscal buffers.** These include further increases in outmigration and skilled labor shortages, low growth in its main tourism markets

[13] The 3-year coupon rate is fixed at 1 percent per annum and 4.2 percent over 15 years. The bonds were 3 times oversubscribed.

(Australia and New Zealand), delays in investment plans, stretched hotel capacity, high global commodity prices, higher shipping costs, wage pressures, and natural disasters and climate change. Structural reforms are needed to enhance growth and build resilience, while fiscal consolidation is critical to ensure macroeconomic stability.

2.3. IMF RELATIONS

32. **Fiji does not have a program with the IMF and Article IV consultations are conducted on a 12-month cycle.** The 2024 Article IV consultation discussions were held during February 28 to March 12, and the staff report was concluded by the Executive Board on May 22. The Board welcomed the strong economic rebound driven by the recovery in tourism and commended the authorities for implementing significant revenue-enhancing measures in the FY24 Budget to reduce the fiscal deficit, reverse the debt trajectory, and finance increased social spending. Downside risks to the economic outlook include a slowdown in tourism, commodity price shocks, and climate change. Directors emphasized the importance of pursuing sound macroeconomic management, while advancing efforts to address structural challenges related to fiscal buffers, resilience, and inclusive growth.

3. GOVERNMENT PROGRAM

33. **Fiji is implementing its 5- and 20-Year NDP 2017 "Transforming Fiji" while finalizing a new NDP.** NDP 2017 consists of two mutually inclusive approaches: "Inclusive Socio-economic Development" and "Transformational Strategic Thrusts" and mainstreams critical cross-cutting issues such as climate change, environment, gender equality, and governance. Fiji has passed legislation and established policies that form the institutional framework to meet its NDP objectives and international obligations across multiple conventions, including those for climate change, disaster, and gender. The GoF started working on the new NDP soon after it took office and plans to launch it by mid-2024. It also re-established the Strategic Planning Office (SPO) within Ministry of Finance (MoF). The Bank and development partners are bolstering SPO's staff and technical capacity.

34. **The Natural Disaster Management Act (NDMA) 1998 forms the foundation for Disaster Risk Management (DRM).** The NDMA provides for the establishment of the National Disaster Management Council, the National Disaster Management Office (NDMO), and the National Emergence Operation Centre and for the appointment of the National Disaster Controller, the National Disaster Coordinator, and the Disaster Service Liaison Officer. 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 (SFDRR) 2015–30. The GoF has proposed amendments to the NDMA through the National Disaster Risk Management (NDRM) Bill to align it with the SFDRR and will table the Bill to Parliament in May 2024 (Pillar 1). Climate change policy is the mandate of the Climate Change Department within the Prime Minister's Office.

35. **Fiji has a robust institutional system for health emergencies.** The COVID-19 task force and divisional and sub-divisional "Command Centers" continue to monitor infectious disease outbreaks and health system readiness. The ongoing Fiji COVID-19 Emergency Response Project (P173903) has strengthened their functionality by enhancing digital connectivity and providing ICT equipment in 56 health facilities, including outer islands. Health challenges persist however, including stagnating health outcomes due to the high burden of non-communicable diseases (NCDs). Additionally, capacity for high quality health services is constrained by limited human resources. Fiji's vulnerability to extreme weather places it at risk of repeated interruptions to service delivery potentially rolling back on human capital gains.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

36. **The proposed series supports the GoF's reforms to build fiscal, climate, and disaster resilience, and the foundations for private sector development.** PDO1 supports the GoF's efforts to build fiscal buffers, improve disaster preparedness and address the effects of climate change. PDO2 supports its efforts to promote private sector development. The proposed reforms represent a subset of the Joint Policy Matrix (JPM) agreed by the GoF with development partners using the following filters: (i) alignment with the GoF's priorities as articulated in the FY24 Budget, the MTFS, and the NDP 2017; (ii) strong government commitment and ownership; (iii) continuity of reforms supported in past World Bank DPFs; and (iv) TA support to implement reforms.

37. **The proposed series scales up previous structural reforms supported by the Bank.** The previous series, Fiji Recovery and Resilience First (with a Cat DDO) and Second DPFs (P173558 and P175543) delivered during 2021–22, addressed pandemic-induced macroeconomic challenges and protecting the most vulnerable. Specifically, this included increased priority on attracting foreign and domestic investment, a focus on climate resilience, protecting the marine and land ecosystems, and reducing fiscal deficit. The series is satisfactorily delivering on its program and provides a solid foundation of policy reforms and inter-sector coordination for future engagements. The proposed series builds on those foundations. The proposed operation is Fiji's second hybrid DPF with a Cat DDO, building on the targeted, sector-specific reforms of the previous Cat DDO (P173558).

38. **Fiji has put in place several disaster risk financing instruments and mechanisms to manage natural disasters and the proposed Cat DDO will complement these and reduce the funding gap for expected losses.** Fiji signed a commitment letter in October 2023 for its first parametric insurance with the Pacific Catastrophe Risk Insurance Company (PCRIC). The GoF also maintains a contingency fund within its budget for disaster response. Ex-post financial instruments are typically reallocated from the budget, acquired through external and domestic borrowing or with donor assistance. Fiji has access to the World Bank Cat DDO (P173558) of US$10 million (0.2 percent of GDP) until March 24, 2027. Moreover, the GoF is exploring contingency financing options with development partners for up to 1 percent of GDP.[14] However, a gap remains for expected losses that can go as high as 10 percent of GDP. The proposed Cat DDO will help bridge this gap and enhance financial resilience. Given the impact of increasing climate-related disasters on budget, the GoF is developing a disaster risk financing policy, supported under Pillar 1, which embeds a risk-layering approach to manage debt and deficits after disasters.

39. **The key features of the Cat DDO are as follows:**

- **Drawdown trigger**: No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied, based on evidence satisfactory to it, that a state of disaster has been declared by the Recipient's Cabinet in accordance with Sections 17 (1) and (2) of the Natural Disaster Management Act, or other applicable law which replaces such act, to respond to a Catastrophic Event.[15] If enacted into law, the NDRM Bill will replace this Act.[16] The trigger has been designed to operate under both legislations.
- **Drawdown period and renewals:** The drawdown period for the Cat DDO will be three years. The Cat DDO may be renewed once for an additional three years, at the GoF's request, If the Association is satisfied

[14] For instance, Fiji signed its first Stand-by Emergency Credit for Urgent Recovery worth US$50 million (or 1.1 percent of GDP) with the Government of Japan on February 21, 2020. Fiji withdrew those proceeds during proclamations for TC Harold and Yasa in 2021.

[15] A "Catastrophic Event" means an imminent or occurring emergency situation caused by: (i) a cyclone, a flood, drought, tsunami, earthquake, volcanic eruption, storm, storm surge, or other similar event; or (ii) an epidemic, pandemic, or other public health emergency, that requires the Recipient to promptly mobilize its capacity and/or financial resources but excluding an emergency situation caused by human induced hazard.

[16] The Cabinet approval of the Bill is one of the prior actions (PA 2). The Bill has been tabled to the Parliament for First Reading on May 23, 2024.

with progress achieved in carrying out the Program and the adequacy of the Recipient's macroeconomic policy framework.

40. **The design was informed by lessons learned from the implementation of previous DPFs and Cat DDOs in Fiji and other PICs.** The proposed series recognizes the need for selectivity, consensus building, and continuous engagement in policy dialogue. The design is based on critical, Government-led reforms, spread across ministries to avoid overburdening MoF. The design is also underpinned by coordinated budget support from development partners, reducing the Government's transaction costs and increasing policy impact. Given thin administrative capacity and high exposure to external shocks, flexibility to adjust the reform program is important to ensure that multi-year reform programs remain relevant and supported through TA.

41. **The proposed operation is aligned with the goals of the Paris Agreement.** First, the DPF reform program is consistent with the country's climate commitments and low-carbon pathways, such as the Nationally Determined Contribution (NDC) 2020 and Low Emission Development Strategy (LEDS) 2018–50, whereby Fiji commits to a 30 percent reduction in greenhouse gas (GHG) emissions from the energy sector by 2030, reaching close to 100 percent renewable energy power generation (grid connected) by 2030,[17] and net zero GHG emissions by 2050. Furthermore, climate-resilient development, ecosystem, and gender and human rights-based approaches to adaptation anchoring Fiji's National Adaptation Plan (NAP) 2018 underpin the DPF reform program. Second, on mitigation goals, none of the prior actions (PA) is likely to cause a significant increase in GHG emissions or reduce carbon sinks. Third, on adaptation and resilience goals, risks from climate hazards are not likely to have an adverse effect on any of the prior actions' contribution to the PDO. In addition, PA 2 directly supports building resilience response capacity through NDRM Bill. A detailed review of prior actions' alignment to the Paris Agreement is presented in Annex 5.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Building Fiscal, Climate and Disaster Resilience

42. **Pillar 1 aims to build resilience to risks from climate change and other natural hazards to economy, people, and infrastructure.** This Pillar builds on the reforms supported in the previous DPF series and addresses and contributes to improving the resilience of economy, people, and the environment to climate and disaster risks and economic shocks. Firstly, it supports building fiscal resilience to ensure sustainable debt and build buffers. Proposed revenue reforms will enable the financing of well-targeted spending programs that support growth and investments in service delivery.

43. **The Pillar also aligns with the Bank's three core areas to support Disaster Resilience in the Pacific:** (i) early warning and preparedness; (ii) building resilience into infrastructure; and (iii) resilient financing. While the previous Cat DDO (P173558) supported the building of resilient infrastructure through reforms to strengthen building standards, this Cat DDO will strengthen early warning and preparedness through the NDRM Bill. It also supports Fiji's transition towards lower carbon emissions in the energy sector in keeping with NDC targets and paves the way for a secure energy supply which is more resilient to future climate and disaster hazards. These reforms are supported by ongoing TA from the Bank and other development partners.

[17] As per the NDP and National Infrastructure Investment Plan, the 100 percent renewable generation target is to be achieved by 2036.

Enhancing Revenue Mobilization and Building Fiscal Buffers

Prior Action #1 for DPF1	Indicative Trigger #1 for DPF2
To enhance revenue mobilization and build fiscal buffers to respond to shocks, the Recipient, in line with its Supplement to the 2023-2024 Budget Address, has increased rates for the value added tax, the income tax, and the airport departure tax.	To enhance revenue mobilization and build fiscal buffers to respond to shocks, the Recipient has implemented additional tax reforms.

Background

44. **Fiji's persistent fiscal deficits and recent high public debt levels constrain its ability to absorb shocks.** Fiji has seen consistent fiscal deficits in the last three decades, reaching 11.6 percent of GDP in 2020–22. Public debt fluctuated between 35 and 50 percent of GDP between 1991 and 2019, but during COVID-19, Fiji saw the sixth largest buildup in public debt across the globe—amounting to 41 percent of GDP—as the GoF responded with stimulus and support packages and the lockdown severely affected fiscal revenues (World Bank 2023). A high public debt burden could negatively affect fiscal sustainability and credit conditions for the private sector.

45. **Enhancing revenue mobilization is crucial for Fiji to manage its high public debt and build fiscal buffers.** The 2023 Fiji Public Expenditure Review (PER, P177690) laid out alternative fiscal consolidation pathways. It concluded that ambitious fiscal consolidation (envisaged at 11.4 percent of GDP over 5 years) will support sustainably faster reduction in debt levels and rebuild fiscal buffers to respond to shocks. Revenue reforms are critical to achieving ambitious fiscal consolidation, with VAT reform having the biggest potential revenue impact.

Prior Action

46. **Through the FY24 Budget, the GoF has approved legislations that increased revenues from VAT, corporate income tax (CIT), and airport departure tax (PA 1).** These include: the unification of the VAT rates of 9 percent and 15 percent to 15 percent while maintaining the zero VAT rate on essential items through the Value Added Tax (Budget Amendment) Act 2023. The CIT rate was also increased from 20 percent to 25 percent and the concessional rate for companies newly listed on the South Pacific Stock Exchange increased from 10 to 15 percent. These changes were implemented through the Income Tax (Rates of Tax and Levies) (Amendment) Regulations 2023. The airport departure tax has also been increased in two steps: (i) from FJD100 to FJD125 effective August 1, 2023; and (ii) to FJD140 effective January 1, 2024, through the Airport Departure Tax (Amendment) Regulations 2023. These reforms build on VAT and film rebate rate changes supported under the previous DPF (P175543).

47. **To counter inflationary pressures due to tax hikes, the GoF has implemented several mitigation measures.** First, the FY24 Budget raised the benefit amount for the social protection (SP) programs by 15 percent, cushioning the impact on vulnerable households. Second, the Ministry of Women, Children and Social Protection (MWCSP) approved a workplan for the update of the Proxy Means Test (PMT) for Family Assistance Scheme (FAS) in March 2024 and plans to recertify FAS beneficiaries over 2025–26. This will increase the targeting accuracy of FAS and would lead to more efficient use of government resources, given FAS is the main targeted SP program. The Bank has provided TA to revise the PMT formula based on HIES.

48. **The GoF is committed to further fiscal consolidation in its MTFS through revenue reforms in the FY25 Budget (Indicative Trigger 1).** In the next FY, tax exemptions and incentives, as the second driver eroding CIT collections, are expected to be streamlined. The GoF plans to reintroduce the dividend withholding tax and roll-out phase 3 of the VMS covering tourism sector.[18] These measures are expected to be articulated in the FY25

[18] VMS is a monitoring tool applicable to group of businesses with annual gross sales exceeding FJD100,000. Phase 1 and 2 covered supermarkets, pharmacies, hardware companies, accounting firms, medical centers, travel agencies, and law firms.

Budget which will be tabled to the Parliament in late June 2024.

Expected Results

49. **These reforms will increase revenues.** The GoF introduced revenue measures in four of the six areas recommended in the PER and by the IMF. Tax reforms under PA 1 are expected to fetch gross fiscal gains of about 2.6 percent of GDP, which is close to one-fourth of the envisaged ambitious fiscal consolidation.[19] The results indicator is an increase in tax revenue from 18 percent of GDP over FY22–23 to 23.1 percent over FY26–27.

Strengthening Disaster Preparedness

Prior Action #2 for DPF1	Indicative Trigger #2 for DPF2
To strengthen disaster preparedness, Cabinet has endorsed for tabling to Parliament the National Disaster Risk Management (NDRM) Bill which clarifies roles and responsibilities for disaster risk reduction through improved emergency planning.	To strengthen disaster preparedness, Cabinet has endorsed the Disaster Risk Financing Policy to minimize financial risk from emergency events.

Background

50. **Further to recent legislative reforms on disaster and climate resilience, the emergency management legislation needs to be updated.** Recent reforms have built on the GoF-led review of the existing legislation in 2018. The review was wide reaching, to ensure emerging issues such as climate change, security, gender equality, disability, and humanitarian coordination are encompassed within the reforms. Consequently, the National Climate Change Policy 2018–30 and the Climate Change Act 2021 were introduced. However, a gap remains for proactive DRM legislation, which implies the NDMA 1998 needs an update to align it with the SFDRR.

Prior Action

51. **Cabinet has approved the NDRM Bill for tabling to the Parliament (PA 2).** The Bill introduces the allocation of responsibilities at the national, divisional, provincial, district, and agency levels, supporting a whole-of-government approach to DRM, including the integration of disaster risk reduction and support of climate adaptation across different sectors and all levels of Government, through information-sharing, cooperation, and joint planning. The Bill also establishes DRM Committees at the divisional, provisional, and district levels who will be responsible for preparing DRM Plans. In addition, all government agencies responsible for the management of a risk or hazard must prepare detailed Agency DRM Plans for managing and reducing risk. As such, the NDRM Bill will enable a shift from post-disaster response to an ex-ante preparedness approach for climate and DRM, with clearer stakeholders' roles and responsibilities.

52. **The GoF is committed to designing a Disaster Risk Financing Policy (Indicative Trigger 2).** The Policy will consolidate various ongoing and planned efforts from different sectors to quantify, reduce, and mitigate disaster-related financial risks and provide a coherent framework for disaster risk financing (DRF) to stem the past practice of ad hoc utilization of contingent financing tools. Accordingly, the DRF Policy will set out a pathway for a consolidated and cost-effective combination of financial instruments using a risk layering approach to invest in disaster risk reduction and preparedness. It will be endorsed by Cabinet and implemented by the MoF and will instill a framework for coordination between key stakeholders when implementing activities with a common objective: to strengthen the financial resilience of the GoF, households, and businesses to disasters.

[19] World Bank staff estimates without excise and import duty measures which are not supported under PA 1. When these measures are included, the total is 3.0 percent of GDP. The GoF estimates 4–5 percent of GDP in the FY24 Budget Supplement.

Expected Results

53. **These reforms will support stronger institutional and regulatory systems for DRM and climate resilience.** The results indicator targets the delivery of division-level DRM Plans, as provisioned under the NDRM bill, which will cover 20 percent of the population by FY27.

Securing Energy Supply and Supporting Energy Transition

Indicative Trigger #3 for DPF2
To reduce dependence on imported fuel and increase resilience of its energy sector to disasters, Cabinet has endorsed for tabling to Parliament the Electricity (Amendment) Bill which *inter alia* improves the enabling environment for private investments in renewable energy.

Background

54. **Fiji's energy services sector relies heavily on fossil fuel imports**. About 73 percent of energy consumption depends on imported fossil fuels. In the power sector, Energy Fiji Limited (EFL) produced about 93 percent of electricity and the remaining was supplied by independent power producers (IPPs). Total installed capacity amounted to 329MW, including 147MW thermal and 182MW renewables; approximately 65 percent of the electricity generated in Fiji is from renewable energy sources, around 35 percent of power generation is derived from oil-based resources. Due to rising national energy demand, volatile oil prices, aging energy infrastructure, and the intensifying impacts of climate change and disaster events on infrastructure, the resilient development and diversification of energy sector is a long-term priority for the GoF.

55. **The GoF is committed to safe, secure, and sustainable energy supply to boost economic development.** Energy transition is critical to develop indigenous renewables to replace the remaining fossil fuel generation especially considering the GoF's commitment to achieving close to 100 percent renewable energy generation by 2030. Reducing exposure to oil price fluctuations and dependency on complex and changing global supply chains is closely intertwined with Fiji's climate-resilient development objectives.

56. **Achieving this target will require a massive scale-up of investments in hydropower, solar and wind power, and other renewables.** This will in turn necessitate a policy, legal, and regulatory environment conducive to investment in renewable energy and engagement of private sector—these investments will secure energy supplies and promote the energy transition. The Electricity Act 2017 was intended to make the sector more attractive to private investors through the partial divestiture of Fiji Electricity Authority to Energy Fiji Limited (EFL) and the establishment of Fiji Competition and Consumer Commission (FCCC) as an independent regulatory body. However, private investment in renewable energy has been slow, with three IPPs producing a small share of the electricity supply.

Prior Action

57. **The GoF has approved the National Energy Policy (NEP) 2023–30 which aims at developing an energy sector that is highly sustainable, inclusive, reliable, and can provide affordable energy services.** The Policy serves as the framework to achieve Fiji's 2030 and 2050 NDC targets. Prior to NEP, the energy sector was governed by subsidiary regulations under the Ministry of Public Enterprises, given that the Energy Act 1966 was dated and limited in scope. The GoF recognized the need to mainstream a policy to promote reforms and strengthen the enabling environment for public and private investments in sustainable energy. As a result, the NEP was developed as an umbrella act that sets a new direction for the development of the sector to help Fiji achieve its NDC targets: (i) close to 100 percent renewables sources for grid-connected electricity production by 2030; and (ii) net zero emissions by 2050. The NEP provides the intent, direction, and objectives to support national energy security,

achieve universal and equitable access to energy services, harness sustainable sources of energy, maximize energy efficiency, and improve the institutional arrangements to facilitate transition. The NEP is a vehicle for supporting Fiji's broader renewable energy and sustainability objectives from both an economic and environmental standpoint and seeks to scale up renewable energy in direct support of NDC and National Climate Change Policy. The NEP envisages, among others, the Department of Energy overseeing potential options to reduce fossil fuel consumption and reliance. It also envisages the FCCC producing relevant analysis, templates, processes, and support mechanisms to attract IPPs and put in place effective and transparent power purchase agreements.

58. **The GoF will review the Electricity Act to further promote private participation in electricity and favor the development of renewable energy sources (Indicative Trigger 3).** The current regulatory environment provides limited incentives for the development of renewable energy IPPs. Proposed amendments could focus on, but not limited to further clarifying a transparent competitive procurement process and licensing parameters for IPPs; further developing the legal framework for power purchase agreements; the inclusion of an obligation for EFL to dispatch renewable electricity from IPPs; and establishing fair and transparent pricing policy and regulatory framework. The revisions will ensure that agreements are designed to minimize fiscal risks amid high public debt and contingent liabilities.

Expected Results

59. **The implementation of this reform will support achieving Fiji's NDC targets.** The results indicator, therefore, tracks the increase in renewable energy capacity from 182 MW in FY21 to 220 MW by FY27 sourced from EFL annual reports and line ministries' reports and statistics.[20]

Pillar 2: Building the Foundations for Private Sector Development

60. **Pillar 2 aims to promote private sector led economic growth** by focusing on (i) facilitating MSME access to finance; (ii) streamlining the business environment; (iii) promoting utilization of digital financial services; and (iv) unlocking productive potential of working-age population. The reforms reflect GoF's priorities of building a strong private sector that attracts investment, increases productivity, and diversifies the export base. These reforms also reflect feedback from private sector on constraints to growth with several recommendations from the 2022 Country Private Sector Diagnostic (CPSD) and the forthcoming Country Economic Memorandum. These reforms are supported by ongoing TA from the World Bank Group and other development partners.

61. **The reforms are expected to support private sector growth, particularly MSMEs.** They support the entire lifecycle of business operations from improving access to finance for MSMEs to enter the market and grow, to cutting red tape in certification and inspections, to streamlining insolvency so that unsuccessful businesses can exit the market with greater efficiency and predictability. The Pillar also improves market transparency and uptake of financial services, particularly digital payments, and invests in the health of children, ensuring a healthy workforce for the private and public sector. In a nutshell, Pillar 2 supports reforms to factor markets and the business environment, building stronger foundations for private sector development.

[20] There are allegations of forced labor in the production of solar panels and components. This operation focuses on policies and institutional reforms in Fiji. DPF proceeds are not earmarked to any specific purpose, including the manufacture or procurement of solar panels or components.

Facilitating MSME Access to Finance

Prior Action #3 for DPF1	Indicative Trigger #4 for DPF2
To facilitate Micro, Small and Medium Enterprises (MSME) access to finance, Cabinet has endorsed for tabling to Parliament the Access to Business Funding Bill which expands the instruments for MSMEs to raise debt and equity finance.	To facilitate MSME access to finance, Cabinet has endorsed for tabling to Parliament the Bankruptcy (Amendment) Bill which introduces restructuring as a process to resolve insolvency and return assets to productive use more quickly.

Background

62. **Access to finance is a constraint for business growth in Fiji—particularly MSMEs and women-headed businesses (Annex 6).** While domestic credit to the private sector is relatively strong at 119.2 percent of GDP (relative to 145 percent for UMICs), MSMEs account for less than 12 percent of total bank lending, leaving Fiji with an MSME financing gap of more than 400 percent of its supply of credit (IFC 2017). In 2020, just 7 percent of women-headed MSMEs borrowed formally. Many MSMEs in Fiji are unable to access traditional forms of finance without a proven revenue stream, monetization strategy, credit history, or collateral. These constraints are particularly detrimental for new businesses that do not have the access to startup finance needed to develop a credit history and business track record. This hinders new MSMEs from entering the market and established MSMEs from expanding.

63. **Fiji's insolvency framework, being 70 years old, is also ill suited to the emerging needs of MSMEs.** Many of these smaller businesses are still suffering financial distress in the aftermath of COVID-19 and will be further affected by the increased frequency of natural disasters. This is due to losses of capital assets without adequate and affordable insurance (increasing solvency risk) and limited access to finance. These constraints lead to reduced risk appetite among small businesses and to productive assets being tied up in protracted resolution processes rather than being returned to the market for utilization by viable businesses.

Prior Action

64. **The GoF has strengthened access to finance for MSME entry through the Access to Business Funding Bill (PA 3).** The reform—supporting both business entry and growth—will help narrow the funding gap by enabling access to alternative sources of financing including small-scale offers and debt and equity crowdfunding. These alternative funding sources generated US$113 billion globally in 2020 (excluding China), of which US$17 billion was through instruments being introduced in Fiji.[21] Of the total funding, 47 percent went to MSMEs. The reform in Fiji introduces two channels that will allow companies to raise funds with simplified disclosure obligations: (i) a small offering regime whereby companies will be able to raise funding directly from a limited number of investors; and (ii) a regime for offers through platform intermediaries to connect borrowers directly with potential individual lenders. These two channels can be utilized to raise a maximum of FJD2 million and FJD5 million respectively, making them suitable for financing the entry or growth of small businesses across most sectors of the economy. The Bill limits the number of individual investors in any offering to 40 people, who would likely include domestic investors and the Fijian diaspora. Regulations have been developed covering license issuance, disclosure requirements, fair dealing practices, and other issues relevant to the implementation of the bill.

65. **The GoF is undertaking a comprehensive revision to the Bankruptcy Act 1944 (Indicative Trigger 4).** The aim is to encourage entrepreneurship and provide a fresh start for unfortunate debtors, balanced by a robust framework to enhance legal certainty, improve efficiency, and ensure fairness for creditors. The reforms will improve the efficiency of bankruptcy processes and as a result resolve distressed assets more quickly, allowing

[21] P2P/Marketplace business lending and equity-based crowdfunding from 2020 Global Data.

them to be put back to productive use by viable businesses. The reform includes processes for sole traders and partnerships[22] to continue operating their business and repaying creditors through a debt restructuring or repayment plan, or alternatively to obtain a fresh start from an unsustainable debt burden through the discharge process. Following the enactment of the law, regulations will be developed and supported by capacity building to ensure effective implementation.

Expected Results

66. **MSMEs are expected to have greater access to finance primarily through the specific instruments introduced in the reforms, but also indirectly through expanded entrepreneurship incentivized by the reforms.** The results indicator is aligned with Fiji's National Financial Inclusion Strategy (NFIS), 2022–30 and will measure the share of MSMEs accessing financial services[23] from a regulated financial institution. The baseline uses data from NFIS on the total number of MSME loans and size of the MSME segment to reach a figure of 39 percent. The target is set at 45 percent for FY27.

Streamlining the Business Environment

Prior Action #4 for DPF1	Indicative Trigger #5 for DPF2
To streamline the business environment, the Acting Minister for Employment, Productivity and Industrial Relations, has made the Health and Safety at Work (General Workplace Conditions) (Amendment) Regulations 2024 to apply a risk-based approach to inspections and certification.	To streamline the business environment, Cabinet has endorsed for tabling to Parliament an amended Hotel and Guest Houses Bill.

Background

67. **Businesses in Fiji, particularly MSMEs, are constrained by a burdensome regulatory compliance framework.** The need for multiple certificates, obtained annually and administered by different agencies, has meant that entrepreneurs and business managers spend an inordinate amount of time preparing documents for, and dealing with, license approvals and renewals. The first of these sequential certificates are the National Fire Authority (NFA) and Occupational Health and Safety (OHS) which require inspection before being issued. However, inspection resources within the agencies are extremely limited leading to significant delays (with a knock-on effect on downstream licenses) or businesses simply not complying. Common complaints around these inspections include the need to follow-up repeatedly with inspectors; lack of clarity on inspection schedules; and the need to often bear the cost of transport and other logistics in bringing the inspectors to the place of businesses.

Prior Action

68. **The GoF is committed to cutting red tape and improving the business environment (PA 4).** It has introduced risk-based practices in supervision, whereby inspection resources are focused on high risk businesses and low risk businesses are inspected less frequently. This not only optimizes the use of limited inspector resources, but also ensures that overall compliance improves as riskier businesses are afforded more scrutiny. The Health And Safety At Work (General Workplace Conditions) Regulations of 2003 have been revised to (i) differentiate between high risk and low risk businesses; (ii) replace universal annual inspections with an inspection frequency determined by the risk rating; and (iii) align the duration of certifications with the risk rating.[24] To protect public health and safety, the revision also allows for businesses categorized as low risk to be moved to high risk if they become non-compliant with the Regulations.

[22] The reform is not applicable to incorporated businesses—these are governed by the Companies Act 2015.
[23] The NFIS definition includes deposit accounts and loans. This definition is expected to be broadened as part of the monitoring and evaluation framework for NFIS being set up by RBF.
[24] The classification is defined as either high or low risk based primarily on the sector of activity. Schedule 2 of the Regulations lists high and low risk sectors.

69. **The tourism sector will benefit from these reforms and from additional steps specifically targeting the needs of hotels and related businesses (Indicative Trigger 5).** The GoF will amend the Hotel and Guest Houses Act 1973 to better facilitate investment into accommodations by *inter alia* (i) addressing uncertainty in the regulation of accommodation models like Airbnb, homestays, cruise ships, etc.; (ii) revising the tourism licensing process; and (iii) enabling downstream regulation and the establishment of standards for sustainability practices.[25]

Expected Results

70. **The reforms will reduce compliance costs for businesses, particularly MSMEs.** The results indicator captures this impact by tracking the share of low risk businesses benefitting from reduced frequency of inspections and certificate renewal. High risk businesses will continue to have annual supervision, so the indicator measures the impact on low risk businesses, with a target of 100 percent of these businesses benefiting by FY27.

Promoting Utilization of Digital Financial Services

Prior Action #5 for DPF1	Indicative Trigger #6 for DPF2
To promote utilization of digital financial services, the Reserve Bank of Fiji has approved a Policy for the Protection and Fair Treatment of Financial Consumers to improve transparency, disclosure, and consumer data protection.	To promote utilization of digital financial services, Cabinet has endorsed: (a) the regulations which has standardized QR codes to facilitate payment system interoperability; and (b) the National Data Protection and Privacy Policy.

Background

71. **Financial inclusion in Fiji has recorded significant growth in recent years, yet uptake of financial instruments beyond bank accounts remains low.** As of 2020, 81 percent of adult Fijians (of which half were women) had access to formal financial services, compared to 64 percent in 2014 (of which 44 percent were women). This is roughly in line with the UMIC average of 84 percent. However, usage of other financial instruments remains low. Just 27 percent of Fijians use mobile money and 30 percent use some form of digital financial services other than mobile money in 2020. Only 10 percent of Fijians borrow from formal sources—less than half the UMIC average—compared to 12 percent using informal borrowing. Traditional credit unions, financial cooperatives, moneylenders, and microfinance institutions mainly cater for the financial requirements of the underserved population—including MSMEs—but operate outside the supervision of the RBF with uneven transparency and protection for their members. The NFIS identifies several reasons for the low uptake of financial services including lack of trust in the financial sector as well as regulatory gaps.

Prior Action

72. **The GoF has taken steps to expand utilization of other financial instruments.** The NFIS includes a range of actions intended to respond to findings that lack of trust in the financial system is one of the barriers to greater utilization of financial services, particularly digital financial services (DFS). PA 5 supports one of these reforms: the Policy for the Protection and Fair Treatment of Financial Consumers. The policy is aimed at increasing consumer confidence in financial products and ensuring that the expansion of financial inclusion, including digital financial services (DFS), does not create undue risk for these consumers (households and MSMEs).

73. **Payments system and other financial sector infrastructure will help crowd in consumers and businesses into the financial sector (Indicative Trigger 6 (a)).** The proposed reform follows up on the RBF's recent launch of a new payments system (Central Securities Depository and upgrade of the Real Time Gross Settlement system), by improving interoperability within the payments system through the standardization of QR codes. This

[25] Such regulations would define and set standards for industry sustainability practices and as such, would incentivize investment into climate and resilient infrastructure by hospitality providers.

interoperability will promote competition in payments, simplify DFS for consumers, and increase the overall usage of DFS when complemented by the measures to strengthen consumer protection already put in place (PA 5). The reform builds on the National Payment System Bill and Regulations supported in the previous DPF series.

74. **Beyond the payments system, there are fundamental regulatory constraints to expanding DFS and eCommerce such as the lack of legislation governing data privacy and security (Indicative Trigger 6 (b)).** This has been highlighted as a particular constraint both to adoption of DFS as well as to new growth sectors such as outsourcing. To address this gap, a National Data Protection and Privacy Policy will be developed to establish the institutional responsibilities, priorities, and principles, and to prepare the groundwork for the law. The Policy will also have broader implications for the use of data across the whole of government, particularly for national statistical system as it moves towards greater use of administrative and open data.

Expected Results

75. **These reforms are expected to instill greater confidence in, and utilization of, financial products leading to growing use of digital payments, among other benefits.** These will broadly include better oversight of credit unions and other non-bank financial institutions, improved protections for financial consumers, and enhanced data protection. All these benefits will in turn facilitate greater adoption of digital payments. The results indicator tracks the growth in volume of digital payments with a targeted increase of 35 percent by FY27.

Unlocking Productive Potential of Working-age Population

Prior Action #6 for DPF1	Indicative Trigger #7 for DPF2
To build a healthy working-age population, Cabinet has endorsed the Fiji Health Promoting Schools and School Health Policy 2024 - 2029 for children and youth in Early Childhood Education (ECE), Primary and Secondary Schools, with population-level screening and early intervention to promote healthy behavior and curb the development of NCD risk factors.	To build a healthy working-age population, Cabinet has endorsed a Healthy Canteens Policy to restrict the sale of unhealthy food in ECE, Primary and Secondary school establishments.

Background

76. **Fiji has one of the highest rates of mortality due to NCDs, constraining human capital formation and productivity.** In 2019, 85 percent of deaths were linked to NCDs, and 64 percent of these deaths occurred prematurely, under the age of 70 years. The probability of premature mortality in Fiji is 38 percent. NCDs impact productivity, causing absenteeism and presenteeism—when employees miss workdays or underperform in the workplace because of illness, early retirement, and disability. The Ministry of Health and Medical Services (MHMS) estimated that lost hours of productivity, due to medical procedures, loss of mobility due to injury or amputation, and loss of life due to NCDs, amount to an annual loss of 5 percent of 2019 GDP (MHMS and United Nations Development Programme forthcoming). Women are particularly hard hit, owing both to their higher prevalence of NCD risk factors and their household caregiving responsibilities. Moreover, higher out-of-pocket payments drain household budgets and move resources away from other activities (such as investing in education).

77. **Overweight and obesity are Fiji's key risk factors for chronic NCDs.** Unhealthy diets, inadequate physical activity, and sedentary behavior are major risk factors for childhood overweight and obesity in Fiji. The prevalence of obesity is significantly higher for women (35.3 percent) than for men (25.1 percent). Moreover, a larger share of women (18.3 percent) performs insufficient physical activity compared to men (11.3 percent). Gender disparities are already observed in adolescence, as physical activity for adolescents aged 13 to 17 is lower for females (18.5 percent) when compared to males (22.5 percent). The combination of risk factors is linked with higher risks of diabetes and raised blood pressure for women, and significantly increases their risks of developing chronic NCDs such as gestational diabetes, with intergenerational effects. Childhood obesity can adversely affect almost every organ system and often has serious consequences. 10 percent of children under 5 in Fiji are reported

to be moderately or severely overweight. The prevalence rises to over 25 percent among 13–17-year-olds.

Prior Action

78. **The MHMS and Ministry of Education (MOE) have jointly revised the School Health Policy (PA 6).** Early detection and intervention to tackle NCD risk factors among children and youth will avoid the development and/or complications of NCDs, narrowing the gap between life expectancy and healthy life expectancy, or the years when people are living longer but in poor health. Moreover, primary school-based health programs addressing obesity and physical activity have proven to be net beneficial and cost effective (Brown et. al 2007). The Policy has also benefitted from collaboration with the Ministry of Agriculture and Waterways on introducing school vegetable gardens. It has expanded the scope and coverage beyond select primary schools, extending into early childhood education (ECE) centers; special, primary and secondary schools; and vocational centers registered with MOE, nationwide. The Policy will have outsized benefits for households at the bottom of the welfare distribution.

79. **The Policy has strong implications for gender inequalities in health outcomes, such as addressing obesity.** Preventing obesity has direct benefits for children's and women's health and wellbeing. The Healthy School Policy creates a platform for structured interaction between health promotion and school, at a time when children's health habits and lifestyles are being determined, to address the gender gap through early intervention promoting healthy levels of activity and healthy eating behaviors among school girls and boys (Annex 6). Evidence suggests a strong link between obesity in childhood and adulthood (Simmonds et al. 2016).

80. **The GoF will develop a Healthy Canteens Policy to restrict the sale of unhealthy food in ECE, primary and secondary school establishments (Indicative Trigger 7),** ensuring that the canteen mirrors and enables the health promotion set forth in School Health Policy, promoting local, climate resilient crops and reducing reliance on imports and consumption of highly processed food and drinks. The initiative lays the foundation in childhood for improved nutrition and nurtures healthy eating habits from the onset.

Expected Results

81. **The reforms will introduce the first national-level framework for systematic promotion of resilient and healthy children, youth, and future adults.** The Policy will measure a holistic set of indicators, including the prevalence of all forms of malnourishment among learners. In addition to measuring prevalence and considering Fiji's high cultural tolerance of overweight and obesity, the Policy has been designed to incentivize intervention when a child is identified as malnourished. The result, therefore, aims to enroll 60 percent of students who have been identified as malnourished for treatment by FY27. School health check-ups are conducted by an outreach team from the MHMS, including a pediatric nutritionist. Depending on the type of malnutrition, the outreach team will not only document malnutrition but enroll the student to be treated according to medical protocols. The School Health Outreach team must abide by the Medical Practitioner Code of Professional Conduct which has a specific clause for children and youth below the age of 18 years. In addition to malnutrition, the Policy has set an ambitious target for physical activity that enables integration of physical activity into the curriculum. The Policy, therefore, also aims for 70 percent of students to meet recommended physical activity guidelines by FY27.

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

82. **The proposed series aligns with the priorities identified in the Country Partnership Framework (CPF) FY21–26.** Pillar 1 is aligned with Focus Area 2 of the CPF: Building Resilience—Objective 2.1 on strengthening fiscal resilience, including through improved macroeconomic governance, and Objective 2.2 on increasing climate resilience and strengthening management of disaster risks and health emergencies. Pillar 2 is aligned with Focus

Area 1: Fostering Private Sector-led Growth and Inclusive Economic Opportunities, through its contribution to achieving Objective 1.1 on improving competitiveness and strengthening financial infrastructure. The series builds on and complements ongoing Bank engagements in Fiji in achieving the objectives of the CPF. The series also builds on the considerable policy engagements and advisory operations by the IFC. IFC's Country Strategy for Fiji (FY19–24), aligned with the CPF, focuses on sustainable tourism as a key pillar for attracting private investment, and establishing a favorable business environment for SMEs, given the dominant role they play in the sector.

83. **The series aligns with IDA20 priorities and Evolution Roadmap.** Special themes are Human Capital, Climate Change, and Gender and Development; and cross-cutting issues are Crisis Preparedness, and Governance and Institutions.[26] It aligns with the Evolution Roadmap, new Corporate Scorecard, and the Global Challenges.[27]

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

84. **This series has been developed through an extensive consultation process.** The GoF developed the proposed policies, regulations, and legislations with inputs from all relevant sectors. In addition, formal consultations, endorsed by Cabinet, were held with government agencies, professional groups, business leaders and civil society representatives on the private sector and human capital reforms for Pillar 2; and the disaster preparedness reform for Pillar 1. Tax measures (of Pillar 1) were widely consulted by FRC, during the NES, and through pre-budget sessions on FY24 Budget. These consultations highlighted the need for a robust, multi-pronged, comprehensive approach to reviewing the legal and regulatory framework and phased implementation approach to new policies. Consultations are integral to the GoF's reforms but are not disclosed publicly.

85. **The Bank is working with the development partners to provide budget support under the JPM**. The GoF has requested that development partners provide coordinated budget support. Consistent with established practice across PICs, the proposed series uses a multi-year JPM, agreed with the GoF. In addition to World Bank, the JPM is being supported by ADB, Australia's Department of Foreign Affairs and Trade (DFAT), the EU, and New Zealand's Ministry of Foreign Affairs and Trade (MFAT) through varying combinations of budget support and TA, and development partners conduct joint missions.[28] The World Bank consults regularly with the IMF and PFTAC to coordinate policy advice and TA.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

86. **The increase in VAT rates under PA 1 will affect all households but the impact on poverty is expected to be limited due to home production and informal purchases among poorer households, and the proposed mitigation measures including increased social assistance benefits and improved targeting.** Simulations of the impact of VAT reforms[29] on the poverty rate before mitigation suggest an increase of 3.2 percentage points (ppts), from 24.1 percent to 27.3 percent. The GoF is undertaking two social assistance mitigation actions, having raised existing social protection benefit amount by 15 percent in the FY24 budget and approving a PMT update workplan

[26] PAs 1 and 3-5 contribute to Governance and Institutions, PA 2 Crisis Preparedness, and PA 6 Human Capital and Gender.
[27] PA 1 is consistent with mobilizing domestic public resources, PA 2 with crisis preparedness and response as well as with climate adaptation, and PA 3-4 enabling and mobilizing private capital. RI 1 and 3 align with the Scorecard.
[28] Indicative 2024 disbursements from development partners are ADB (USD70 million), Australia (AUD58 million), EU (EU3 million), and New Zealand (NZD4 million).
[29] The PA 1 reform changes the official VAT rate, which covers most consumer goods and services, from 9 to 15 percent. The three categories of unaffected items are 1) items already at 15 percent, which are mostly large household appliances, electronics, and other durable goods that are not frequently purchased, 2) zero-rated and exempt items, and 3) home-produced food items, which are much more prevalent among the poor and in rural areas. The unaffected goods amount to 21.7 percent of household consumption, though the shares are higher in rural areas and among the poor.

to improve targeting for FAS. The benefit increase immediately reduces the impact to 2.6 ppts. The improved targeting would further reduce the impact to 1.0 ppt.[30] This net impact does not account for the high degree of informal consumption amongst poorer households; VAT is not collected on purchases made at informal locations and this makes up a much larger share of consumption for poorer households, to the extent that VAT becomes progressive in many countries (Bachas et al. 2023). Forthcoming estimates for Indonesia and the Philippines show informality reduces the effective VAT tax rate by over two-thirds for households in the bottom 40 percent, and in Thailand and Viet Nam by around one-third. Even at the lower end of this range (one-third of the VAT increases not being passed through), the remaining 1 ppt of impact would be negligible. The distribution of the VAT reform is progressive; simulations show a greater effective tax rate increase in the richer half of the distribution even before accounting for higher informality of consumption amongst the poor.

87. **The reforms under PA 2 benefit the poor substantially by making them more resilient to the economic shocks of natural disasters.** The NDRM bill is targeted at mitigating the impacts of natural disasters and climate change. Although these policies are broadly targeted nationwide, they disproportionately benefit the bottom of the welfare distribution who are typically more vulnerable to economic shocks due to lower incomes, fewer and lower quality assets, and lower access to coping mechanisms.

88. **The risk-based approach to inspections under PA 4 should lead to better outcomes for workers.** There are not sufficient government resources to inspect every business so safety outcomes will be maximized by prioritizing higher risk businesses rather than the current system of prioritizing all inspections based on the order of request. Random inspections for low risk businesses serve as mitigation if these are well-funded and thorough.

89. **The School Health Policy supported under PA 6 will have outsized benefits to households at the bottom of the welfare distribution.** While there are no recent data in Fiji on the incidence of NCDs across welfare distributions, evidence from PICs suggests that NCD incidence is not correlated with wealth. However, the welfare impact of NCDs in terms of cost of medical treatment and lost productivity are more severe for poorer households with fewer coping mechanisms such as savings, assets, and insurance. Data from the Fiji Multiple Indicator Cluster Survey 2021 show that health insurance coverage is extremely low at the bottom of the distribution, though it is also low for households at the top. As such, if the Policy is applied equally to all schoolchildren nationwide and had similar impacts on behaviors and outcomes for all groups, economic benefits relative to household welfare levels would be progressive, because similar sized benefits represent a much larger share of poorer incomes.

5.2. ENVIRONMENTAL ASPECTS

90. **The reforms supported under this operation, including those related to climate and disaster resilience, are expected to have significant positive impacts on environment**, natural resources, and forests when compared to the status quo. Specifically, PA 1 and 3 to 6 are not anticipated to generate significant environmental effects. PA 2 is expected to bring positive changes for the environment, bolstering efforts in climate change adaptation and mitigation. These positive impacts can be attributed to the encouragement of sustainable risk reduction investments, especially in areas like disaster risk reduction and will contribute positively to the local environment.

5.3. PUBLIC FINANCIAL MANAGEMENT (PFM), DISBURSEMENT, AND AUDITING ASPECTS

91. **PFM**: The 2019 PEFA reports that the PFM system is on track in terms of budget execution. The budget process provides in-year budget execution reports and the budget calendar reflects some features of a multi-year

[30] Assumes no increase in the existing FAS budget of 0.5 percent of GDP but targets it on the bottom 30 percent of the population. Targeting is assumed to be imperfect and 30 percent of the poorest three deciles are excluded from benefits in this simulation.

approach. However, a program classification system and key performance indicators are lacking. PFM reforms are ongoing with the PFM Improvement Plan 2020–25 whose priority areas include: (i) budget preparation; (ii) budget execution and internal control; (iii) revenue management; (iv) management of assets and liabilities; (v) accounting and reporting; and (vi) cross-cutting issues. The GoF budget is publicly available, and the most recent budget is for FY24 published on the MoF and Parliament websites.

92. **Foreign exchange control environment**: The RBF last underwent an IMF Safeguards Assessment in 2011, with a review of the foreign exchange control environment based on its publicly available audited financial statements. In the absence of an updated Safeguards Assessment, alternative due diligence procedures were carried out to confirm reliance on the foreign exchange control environment at the RBF. A review of the 2023 IMF Staff Report and the RBF's audited financial statements for the year ended July 31, 2023, did not reveal any risks. Based on the above, adequate arrangements are in place to ensure that the credit proceeds reach the country's official foreign reserves, before being credited to a GoF account to finance budgeted expenditures.

93. **Public procurement**: Fiji's legal framework for public procurement is comprehensive. It is comprised of the Procurement Regulations 2010, which were issued under the Financial Management Act 2004. Procurement by competitive tendering over FJD50,000 is administered by the Fiji Procurement Office (FPO). The Fiji Roads Authority (FRA), which has a significant capital expenditure budget, manages its own procurement, which is regulated by the FRA Act 2012. Both the FPO and FRA have e-tendering portals and potential suppliers can register for free. The electronic public procurement (portal.tenderlink.com/financefiji/), was launched in 2018. According to the 2019 PEFA, procurement procedures were found to be effective because: (i) information on competitive tendering is maintained electronically by both the FPO and FRA, which allows for effectual monitoring; and (ii) over 90 percent of the tenders (in value) were awarded using competitive methods. Weaknesses relate to the country's systems not providing independent complaints systems and limited public access to procurement information. Following the amendments to the Financial Management Act 2004 in 2021, the GoF is amending the Procurement Regulations that include provisions on value-for-money and sustainable procurement.

94. **Fiduciary risk:** These weaknesses in PFM and procurement are expected to pose a moderate risk to the achievement of the PDO. Fiji's legal, regulatory, and institutional procurement framework is considered suitable for use under donor financed projects, subject to clarifications of application of donor Procurement Regulations.

95. **Disbursement**: IDA financing for the operation (except for Cat DDO) will be disbursed according to IDA disbursement procedures for DPFs. The full amount of the IDA credit will be disbursed against satisfactory completion of the specified prior actions and the GoF agreement as summarized in the Letter of Development Policy, and adequacy of the macroeconomic policy framework, and is not tied to any specific purchases. Upon approval of the operation and effectiveness of the Legal Agreement, the proceeds of the credit will be disbursed into an account at the RBF which will form part of the country's Foreign Exchange Reserves. For the Cat DDO component, proceeds may be drawn down when the Association is satisfied, based on evidence satisfactory to it, that a Declaration of Natural Disaster has been made (see para 39). Once the credit is received at the RBF, an equivalent amount will be accounted for in the budget management system of Fiji. The financing provided under this operation is not intended to finance goods or services on the list of excluded expenditures as described in the General Conditions for IDA Financing, Development Policy Financing, dated December 14, 2018 (last revised on July 15, 2023). If the DPF proceeds are used for ineligible purposes as defined in the Legal Agreement, the IDA will require the Recipient, promptly upon notice from the IDA, to refund an amount equal to the ineligible expenditure. Amounts refunded to IDA upon such request shall be cancelled.

96. **Reporting and Auditing:** As due diligence, within 30 days of receipt, the GoF will provide a written

confirmation to IDA of the amount deposited into Fiji's foreign currency account at the RBF and the equivalent local currency amount accounted for in Fiji's budget management system used to finance budgeted expenditures.

97. **The closing date for the operation is July 15, 2027.**

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

98. **The implementation of the proposed program will be the responsibility of the MoF.** Fiji's reform efforts and progress will be reviewed by the GoF in close coordination with the Bank and during monthly reviews of the JPM between the GoF and development partners. The MoF, through its Treasury Division, will coordinate and monitor the program and indicators, as described in Annex 1. The MoF has demonstrated adequate capacity to coordinate, monitor and evaluate program related indicators to date. Monitoring and evaluation will be supported by data provided by MoF, relevant ministries and agencies, and from publicly available sources.

99. ***Grievance Redress.*** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

6. SUMMARY OF RISKS AND MITIGATION

100. **The overall risk for the program is rated as substantial.** Three risk categories (political and governance; macroeconomic; and institutional capacity for implementation and sustainability) are rated substantial.

101. **Political and governance risks**. Following the December 2022 election and a new administration taking office, the establishment of the FRC, holding of the NES, and a pro-reform first Budget of the coalition government suggest that reform momentum will be maintained, and policies will be aligned to the priorities set out in the NDP 2017, until the new NDP is launched by mid-2024. However, a fragile coalition coupled with layered approval processes may complicate the GoF's ability to undertake reforms in a timely manner. The proposed series focuses on areas where the GoF has already established a strong track record. This, aided by close coordination with other development partners and extensive consultation with a broad group of stakeholders should partly mitigate risks.

102. **Macroeconomic risks.** Fiji is vulnerable to shocks typical of PIC economies: commodity price shocks, weaker-than-expected global growth and monetary tightening, including in Australia and New Zealand, and natural disasters. These risks, if materialized, could divert the GoF's attention from implementing the program and pose a threat to the achievement of the PDO. These risks are mitigated by financing from the proposed series and other development partners that will alleviate fiscal pressure from such shocks in the short run. In the medium term, reforms to build fiscal, climate, and disaster resilience and the foundations for private sector development supported by this series are expected to bolster economic prospects.

103. **Institutional capacity for implementation and sustainability risks.** Fiji has thin administrative capacity. Furthermore, increasingly complex institutional arrangements together with skill shortages could hamper reform implementation, notably for legislations that are to be submitted to the Parliament. This risk is mitigated by close and ongoing dialogue through which the GoF and the Bank have carefully selected a limited number of but strong prior actions. Limited capacity is also mitigated through the provision of TA support.

104. **Environment and social risks.** The screening for potential short- and long-term climate and disaster risks suggests a moderate risk rating. Therefore, achievement of the PDO is unlikely to be affected by those risks. Moreover, the proposed series is likely to enhance the overarching policy and institutional framework of the GoF to manage climate and disaster risks, while the contingent financing available through the Cat DDO would support provision of swift liquidity to respond to immediate post-disaster needs.

Table 5: Summary Risk Ratings

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

ANNEX 1: POLICY AND RESULTS MATRIX

DETAILED RESULTS FRAMEWORK

Prior Actions and Triggers		Results		
Prior Actions under DPF 1	**Triggers for DPF 2**	**Indicator Name**	**Baseline (FY2022)**	**Target (FY2027)**
Pillar 1: Building Fiscal, Climate and Disaster Resilience				
Prior Action #1. To enhance revenue mobilization and build fiscal buffers to respond to shocks, the Recipient, in line with its Supplement to the 2023-2024 Budget Address, has increased rates for the value added tax, the income tax, and the airport departure tax.	Indicative Trigger #1. To enhance revenue mobilization and build fiscal buffers to respond to shocks, the Recipient has implemented additional tax reforms.	Results Indicator #1: Tax revenue (percent of GDP)	18.0 (FY22-23)	23.1 (FY26-27)
Prior Action #2. To strengthen disaster preparedness, Cabinet has endorsed for tabling to Parliament the National Disaster Risk Management (NDRM) Bill which clarifies roles and responsibilities for disaster risk reduction through improved emergency planning.	Indicative Trigger #2. To strengthen disaster preparedness, Cabinet has endorsed the Disaster Risk Financing Policy to minimize financial risk from emergency events.	Results Indicator #2: Share of population covered by divisional DRM Plans (percent)	Nil	20
	Indicative Trigger #3. To reduce dependence on imported fuel and increase resilience of its energy sector to disasters, Cabinet has endorsed for tabling to Parliament the Electricity (Amendment) Bill which *inter alia* improves the enabling environment for private investments in renewable energy.	Results Indicator #3: Renewable energy capacity enabled (MW)	182 (FY21)	220
Pillar 2: Building the Foundations for Private Sector Development				
Prior Action #3. To facilitate Micro, Small and Medium Enterprises (MSME) access to finance, Cabinet has endorsed for tabling to Parliament the Access to Business Funding Bill which expands the instruments for MSMEs to raise debt and equity finance.	Indicative Trigger #4. To facilitate MSME access to finance, Cabinet has endorsed for tabling to Parliament the Bankruptcy (Amendment) Bill which introduces restructuring as a process to resolve insolvency and return assets to productive	Results Indicator #4: Share of MSMEs accessing financial services from a regulated financial institution (percent)	39	45

Prior Actions and Triggers		Results		
	use more quickly.			
Prior Action #4. To streamline the business environment, the Acting Minister for Employment, Productivity and Industrial Relations, has made the Health and Safety at Work (General Workplace Conditions) (Amendment) Regulations 2024 to apply a risk-based approach to inspections and certification.	Indicative Trigger #5. To streamline the business environment, Cabinet has endorsed for tabling to Parliament an amended Hotel and Guest Houses Bill.	Results Indicator #5: Share of low risk businesses with reduced frequency of inspections and certificate renewal (percent)	Nil	100
Prior Action #5. To promote utilization of digital financial services, the Reserve Bank of Fiji has approved a Policy for the Protection and Fair Treatment of Financial Consumers to improve transparency, disclosure, and consumer data protection.	Indicative Trigger #6. To promote utilization of digital financial services, Cabinet has endorsed: (i) the regulations which has standardized QR codes to facilitate payment system interoperability; and (ii) the National Data Protection and Privacy Policy.	Results Indicator #6: Increase in volume of digital payments (percent)	Nil	35
Prior Action #6. To build a healthy working-age population, Cabinet has endorsed the Fiji Health Promoting Schools and School Health Policy 2024–2029 for children and youth in Early Childhood Education (ECE), Primary, and Secondary Schools, with population-level screening and early intervention to promote healthy behavior and curb the development of NCD risk factors.	Indicative Trigger #7. To build a healthy working-age population, Cabinet has endorsed a Healthy Canteens Policy to restrict the sale of unhealthy food in ECE, Primary, and Secondary school establishments.	Results Indicator #7: (i) Share of students from early childhood to secondary school who are malnourished identified and referred for treatment (percent) (ii) Share of students meeting recommended physical activity guidelines Girls Boys (percent)	(i) Nil (ii) 18.5 22.5	(i) 60 (ii) 70 70

RESULTS INDICATORS BY PILLAR

Baseline	Closing Period
Pillar 1: Building Fiscal, Climate and Disaster Resilience	

1. Tax revenue (percent of GDP) (Percentage)	
Jul/2022	Jul/2027
18.0 (FY22-FY23)	23.1 (FY26-FY27)
2. Share of population covered by divisional DRM Plans (Percentage)	
Jul/2022	Jul/2027
Nil	20
3. Renewable energy capacity enabled (Megawatt)	
Jul/2022	Jul/2027
182	220
Pillar 2: Building the Foundations for Private Sector Development	
4. Share of Micro, Small and Medium Enterprises (MSMEs) accessing financial services from a regulated financial institution (Percentage)	
Jul/2022	Jul/2027
39	45
5. Share of low-risk businesses with reduced frequency of inspections and certificate renewal (Percentage)	
Jul/2022	Jul/2027
Nil	100
6. Increase in volume of digital payments (Percentage)	
Jul/2022	Jul/2027
Nil	35
7i. Share of students from early childhood to secondary school who are malnourished identified and referred for treatment and management (Percentage)	
Jul/2022	Jul/2027
Nil	60
7ii.a. Share of students meeting recommended physical activity guidelines: Girls (Percentage)	
Jul/2022	Jul/2027
18.5	70
7ii.b. Share of students meeting recommended physical activity guidelines: Boys (Percentage)	
Jul/2022	Jul/2027
22.5	70

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes 2024 Article IV Consultation with Fiji

May 28, 2024

Washington, DC: On May 22, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation.[1]

Fiji's economy has recovered strongly from the pandemic. Tourist arrivals surpassed pre-pandemic levels in 2023, yielding GDP growth of an estimated 8.0 percent and erasing pandemic-related output losses. Inflation ticked up in mid-2023, reaching 4.6 percent year-on-year in March 2024. The current account deficit narrowed to 7.6 percent of GDP in 2023 aided by the strong rebound in tourism earnings, and FX reserves remained adequate. Supported by the strong economic recovery, the fiscal deficit narrowed to 7.1 percent of GDP, and the public debt-to-GDP ratio declined to 82.7 percent in FY2023 (August-July). Significant revenue-enhancing measures in the FY2024 budget are expected to further reduce the fiscal deficit and public debt ratios, although both are projected to remain elevated over the medium-term without further measures. Monetary conditions remain accommodative, although the authorities have begun tightening liquidity. The ratio of bank non-performing loans to total loans has improved but continues to be higher than pre-pandemic levels.

GDP growth is projected to moderate to 3.0 percent in 2024, owing in part to supply-side constraints in the tourism sector. Supported by a gradual rise in tourism sector capacity and policies to address immigration and investment bottlenecks, the economy is expected to grow around the pre-pandemic trend (which is estimated at around 3¼ percent) over the medium-term. Downside risks to the economic outlook include a slowdown in tourist arrivals, high emigration and worsening skilled labor shortages, higher global commodity prices and shipping costs, and limited fiscal space. On the upside, stronger reform momentum, including to improve the business climate, could stimulate private investment and boost growth.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. Directors welcomed the strong economic rebound driven by the recovery in tourism. They noted, however, downside risks to the outlook given Fiji's vulnerability to a slowdown in tourism, commodity price shocks, and climate change. Directors emphasized the importance of pursuing sound macroeconomic management, while advancing efforts to address structural challenges related to fiscal buffers, resilience and inclusive growth.

Directors commended the authorities for implementing significant revenue-enhancing measures in the FY2024 budget to reduce the fiscal deficit, reverse the debt trajectory, and finance increased social spending. They stressed that continued gradual fiscal consolidation is critical to rebuild fiscal buffers to respond to future shocks and to place debt firmly on a downward path. Directors emphasized the need to further increase revenue mobilization and expenditure efficiency, including by better targeting social spending and improving public investment capacity. They concurred that strengthening oversight of state-owned enterprises and reinforcing the fiscal institutional framework can help protect fiscal sustainability.

Noting excess liquidity and the closing negative output gap, Directors encouraged the authorities to gradually shift monetary policy to a neutral stance to create policy space, supported by a proactive communication strategy.

Developing a more effective monetary transmission mechanism would also be important. Directors encouraged reversing the remaining pandemic-related current account exchange restrictions and capital flow management measures, and phasing out the pre-pandemic exchange restrictions.

While noting that the financial sector remains sound, Directors stressed the importance of further enhancing financial sector oversight, particularly for banks with high non-performing loans. Improving the financial supervision framework, implementing the remaining recommendations of the 2018 Financial Sector Stability Review, addressing deficiencies in the AML-CFT framework, and strengthening financial inclusion are also key.

Directors welcomed the authorities' plans to undertake growth-enhancing reforms, including under the National Development Plan. They encouraged pursuing a prioritized growth strategy to foster diversification, enhance governance, and address labor shortages, including by promoting female labor force participation. Directors underscored the need to advance climate plans to enhance climate resilience and diversify energy sources. Noting the financing and capacity constraints, they stressed the importance of prioritizing projects and welcomed the planned C-PIMA in this regard. Enhancing data quality to better inform policymaking remains key.

It is expected that the next Article IV consultation with the Republic of Fiji will be held on the standard 12-month cycle.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

IMF Communications Department

MEDIA RELATIONS

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Fiji: Selected Economic Indicators, 2021-2029

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Est.	Proj.					
Output and prices (percent change)									
Real GDP	-4.9	20.0	8.0	3.0	3.4	3.4	3.3	3.3	3.1
GDP deflator	-2.5	2.5	4.4	4.2	3.2	3.1	3.0	2.9	2.8
Consumer prices (average)	0.2	4.3	2.3	4.0	3.2	3.1	3.0	2.9	2.8
Consumer prices (end of period)	3.0	3.1	5.1	3.0	3.1	3.0	2.9	2.8	2.7
Central government budget (percent of GDP)									
Revenue	22.6	21.8	24.7	27.4	27.3	27.0	26.9	26.8	26.8
Expenditure	36.5	31.5	30.6	31.8	31.7	31.3	31.2	31.0	31.0
Overall balance	-14.0	-9.7	-5.9	-4.4	-4.4	-4.3	-4.3	-4.2	-4.1
Primary balance	-9.8	-6.0	-1.9	-0.4	-0.6	-0.6	-0.6	-0.5	-0.5
Central government debt	91.5	86.3	80.4	80.4	80.1	79.7	79.4	79.1	78.7
Central government external debt	28.0	32.0	28.1	28.6	28.6	28.5	28.3	28.2	27.9
External sector (percent of GDP)									
Current account balance	-13.0	-17.3	-7.6	-7.7	-7.7	-7.8	-7.8	-7.9	-7.9
Trade balance	-19.1	-32.8	-32.4	-31.0	-30.1	-29.2	-29.0	-28.7	-28.6
Services balance	-5.2	11.7	20.1	19.8	19.4	18.7	18.7	18.4	18.5
Primary Income balance	-5.8	-5.3	-5.7	-6.9	-7.2	-7.2	-7.3	-7.4	-7.5
Secondary Income balance	17.1	9.1	10.3	10.3	10.2	10.0	9.9	9.8	9.8
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance (-= inflows)	-18.3	-14.0	-4.9	-5.7	-5.9	-6.6	-7.0	-7.6	-7.6
FDI	-8.7	-1.8	-1.1	-3.7	-4.9	-5.8	-6.4	-7.1	-7.2
Portfolio investment	0.6	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other investment	-10.1	-12.7	-4.7	-2.9	-2.0	-1.8	-1.6	-1.5	-1.4
Errors and omissions	6.0	5.1	4.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserve assets (- =increase)	-11.3	-2.1	0.6	2.0	1.8	1.1	0.7	0.3	0.2
Gross official reserves (in months of prospective imports)	5.8	5.5	5.2	4.6	4.1	3.7	3.4	3.2	...
Money and credit (percent change)									
Net domestic assets of depository corporations	2.8	5.8	12.8	11.3	11.2	...	...	...	...
Claims on private sector	-0.1	6.7	7.6	10.0	10.0	...	...	...	...
Broad money (M3)	11.1	3.6	10.7	7.8	7.4	...	...	...	...
Monetary base	48.8	15.9	-4.0	7.3	6.7	...	...	...	...
Central Bank Policy rate (end of period)	0.25	0.25	0.25	...	...	...	...	...	...
Commercial banks deposits rate (end of period)	0.5	0.4	0.4	...	...	...	...	...	...
Commercial banks lending rate (end of period)	6.1	5.2	4.8	...	...	...	...	...	...
Memorandum items									
Exchange rate, average (FJD/USD)	2.1	2.2	2.3	...	...	...	...	...	...
Real effective exchange rate, average	103.5	101.6	101.5	...	...	...	...	...	...
GDP at current market prices (in millions of Fiji dollars)	8.914	10,963	12,368	13,275	14,162	15,104	16,071	17,081	18,111
GDP at current market prices (in millions of U.S. dollars)	4,305	4,980	5,497	5,801	6,103	6,441	6,792	7,163	7,546
GDP per capita (in U.S. dollars)	4,750	5,462	5,993	6,287	6,575	6,898	7,230	7,579	7,937

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

ANNEX 3: LETTER OF DEVELOPMENT POLICY

MINISTRY OF FINANCE, STRATEGIC PLANNING, NATIONAL DEVELOPMENT AND STATISTICS

P.O Box 2212, Government Buildings, Suva, Fiji; Tele: (679) 3307011, Fax: (679) 3308654
Website: www.finance.gov.fj Email: FinanceInformation@finance.gov.fj
Ro Lalabalavu House, 370 Victoria Parade, Suva

14 May 2024

Mr. Ajay Banga
President
World Bank
Washington DC 20433 USA

Dear President Banga,

Fiji Growth and Resilience First Development Policy Financing with a Catastrophe Deferred Down Option (P500609)

1. **On behalf of the Government of Fiji, I would like to take this opportunity to thank the World Bank for the continuous engagement and support over the years.** I acknowledge the World Bank budget support series during 2021-22 (Fiji Recovery and Resilience First and Second Development Policy Operations). The two Development Policy Financing (DPF) operations not only helped our fiscal situation immensely, particularly when Fiji was confronted with a dire situation of COVID-19 pandemic, international border closures, and multiple tropical cyclones (TCs), those operations also enabled key structural reforms.

2. **This Letter of Development Policy (LDP)** describes: (i) the state of Fiji's economy; (ii) the Government of Fiji's policies and actions for growth and fiscal sustainability; (iii) the World Bank's policy reforms under this DPF series that support building fiscal, climate and disaster resilience, as well as building the foundations for private sector development. These reforms are aligned with the goals espoused in the current 5-Year and 20-Year National Development Plan and the new national development plan that will be presented in June this year. We value inclusive dialogue and collaboration with development partners, including the World Bank, in the context of our first Joint Policy Matrix. We look forward to working closely with you to strengthen the foundations for sustainable and resilient growth and macroeconomic stability.

STATE OF FIJI'S ECONOMY AND MEDIUM-TERM OUTLOOK

3. **Fiji's deepest contraction in history occurred during the pandemic with a 21.9 percent (cumulative) economic decline in 2020-21.** The impact of the COVID-19 restrictions was exacerbated by multiple TCs (TC Harold (2020), TC Yasa (2020) and TC Ana (2021)), which caused extensive damage to agriculture, public infrastructure, and tourism facilities.

4. **The resilience of the economy is marked by a full recovery from the pandemic in just two years and growth is projected to return close to trend over the medium term.** The quick return to full recovery is due to the reopening of international borders in December 2021, which rejuvenated and bolstered economic activity in the services sector with positive spillovers to the rest of the economy. The robust recovery in tourism, bold fiscal countermeasures, and pent-up demand led to an acceleration in growth equivalent to 28 percent (cumulative) in 2022-23. Over the medium term, GDP is expected to return close to historical trend as the impact of emigration from the labor mobility schemes in Australia and New Zealand, and capacity constraints in hotels evolves.

5. **Inflation began to rise in August 2023 following the unification of the VAT rate to 15 percent in the FY24 budget but is projected to slow and return to historical trend over the medium term.** Headline inflation gradually declined from 3.1 percent at the end of 2022 to 0.3 percent in July 2023 (y/y). Thereafter, it started to rise, reaching 5.1 percent (y/y) at end-2023, the highest in the last decade. This was due to the consolidation of the 9 percent and 15 percent VAT rates in August 2023. Inflation is projected to return to trend over the medium term as inflationary pressures from major trading partners diminish.

6. **The external position strengthened in 2023 despite a negative terms-of-trade shock and is expected to stabilize over the medium term, supported by tourism and remittances.** The current account deficit narrowed in 2023 owing to increased tourism earnings and remittance inflows, including from Fijians in various labor mobility schemes in Australia and New Zealand. Tourism earnings and remittances peaked in 2023, registering nearly a fifth and over a tenth of GDP, respectively. Inward remittances are projected to remain at this level given the continued participation in labor mobility schemes. Foreign reserves are expected to contract over the medium term as imports increase with domestic demand but are projected to remain comfortable.

7. **The fiscal deficit declined from double digit during 2022 to single digit in 2023 and is expected to narrow to around 3 percent by 2027.** Fiscal deficit shrunk from 10.3 percent of GDP in 2022 to 5.9 percent in 2023. Primary deficit declined considerably from 6.6 percent of GDP to 1.6 percent reflecting a substantial decrease in non-interest expenditure, particularly capital spending while tax revenues recovered well. Over the medium term, the fiscal deficit is expected to further decrease towards 3 percent. On average, one-third of the projected fiscal deficits are expected to be financed domestically and the remainder through external concessional loans.

8. **Debt increased substantially as revenues plummeted during the pandemic.** The substantial impact of the pandemic restrictions on fiscal revenue and stimulus measures led to increased Government debt from 52.1 percent of GDP in 2019 to 92.8 percent of GDP in 2021, more than 40 percentage points increase. The debt to GDP ratio is projected to decrease to 82 percent in 2023 and around 81 percent of GDP over the medium term.

RECENT GOVERNMENT POLICIES AND DEVELOPMENTS

9. **To safeguard our fiscal position, we introduced bold fiscal consolidation measures in the FY24 Budget, our first budget.** In my budget address, I mentioned that we are committed to fiscal consolidation to ensure that the public debt is reduced to a sustainable level, and I stressed to the public that '*we will have to swallow some bitter medicine now otherwise we could end up in a worst financial situation*'. The bold measures introduced in the FY24 Budget include raising all items under the 9 percent VAT rate to 15 percent while including medicine in the VAT zero-rated list; raising the corporate tax rate from 20 percent to 25 percent and reviewing company tax concessions, increasing the rates of departure tax, water resource tax and customs duties on various items, as well as overhauling the tax incentives regime. The revenue generated from these measures has helped to fund spending demands such as support to the vulnerable and disadvantaged through various social transfers, supporting our pensioners, increasing the Fiji National Provident Fund contribution rates to help members, financially empowering our community leaders, strengthening the education assistance,

providing back-to-school support to assist low-income parents, and targeting essential spending on health, infrastructure and climate mitigation.

10. **We have updated the Medium-Term Debt Strategy (MTDS) for FY24-26 to align with annual borrowing plans.** We have also sought support from the IMF Pacific Financial Technical Assistance Centre (PFTAC) to implement the Liability Management Operations Policy 2022. This policy will explore buybacks, switches, and callbacks, and expected to contribute to an efficient domestic debt market. We have successfully met the requirements of the Sustainable Development Finance Policy under IDA and have satisfactorily achieved Policy and Performance Actions (PPAs) in the past. We are grateful that the World Bank recognizes the significance of the revenue measures introduced in the FY24 Budget and has included two of those measures as the FY24 PPAs.

11. **The Medium-Term Fiscal Strategy FY25-27 focuses on protecting macroeconomic stability, primarily through strategic fiscal consolidation.** Following Cabinet's endorsement in February 2024, the Strategy was tabled to the Parliament in March 2024. It is geared towards protecting macroeconomic stability through sustainable and resilient growth, addressing socio-economic challenges, encouraging inclusive development and growth, and building fiscal buffers (through both revenue and expenditure measures) for future shocks. Five fiscal anchors have been included in the Strategy which are: 1) reduce the budget deficit to around 3 percent of GDP and move towards primary surplus, 2) maintain Government debt at around 75 percent of GDP over the next 3 years, 3) ensure operating spending is below operating revenue, 4) borrow only for investment spending, and 5) maintain an operating-capital mix target of 70:30. With an operating spending freeze from FY24 to FY27 and stable tax revenues increasing towards 24 percent of GDP, the fiscal deficit is targeted to reach 3 percent of GDP and debt to decline to 75.7 percent of GDP by FY27. We expect to finance the deficit through local borrowing and external concessional financing.

12. **We are continuing with notable public financial management reforms to ensure value-for-money for our expenditures.** First, we are amending the Procurement Regulations following the amendments to the Financial Management Act 2004 in 2021. The amendments to the Procurement Regulations define value-for-money. Moreover, Ministries, Departments and Agencies (MDAs) are now legally required to pursue sustainable procurement attributes (economic, social, and environmental) at all stages of the procurement process. Second, following Cabinet's endorsement of the use of Guidelines for the preparation, appraisal, and approval of projects under the Public Sector Investment Programme (PSIP), 9 pilot ministries/agencies are submitting their FY25 budget for capital projects of FJD500,000 and above using the Guidelines. We plan to mainstream these Guidelines for all MDAs in the FY26 budget circular. Third, since the inception of Gender Responsive Budgeting (GRB) in 2020, the initiative has been introduced in 18 MDAs. For FY25, Government is rolling out GRB to the remaining 10 MDAs and they will be required to submit their GRB budget submissions for a minimum of two budget programs. Our intention is to mainstream gender in all government's programs and activities over FY26-27. Finally, we have approved the Budget Classification System and revised Chart of Accounts to support the implementation of a new financial management system (IFMS) and allow for tagging of gender, climate, and regional coding. The new IFMIS is scheduled to go live on August 1, 2024.

13. **We are at the tail end of designing the new National Development Plan**, which is expected

to be released by June this year. The new NDP is formulated through inclusive consultations that commenced since the re-introduction of the National Economic Summit in April 2023, and more recently, through comprehensive consultations across the country. A new Strategic Planning Office (SPO) has been re-established within Ministry of Finance (MOF) and I acknowledge the timely assistance from the World Bank, and other development partners, to strengthen the SPO staff and technical capacity.

14. **In the upcoming FY25 Budget, we will continue with fiscal consolidation** while mindful of the competing spending pressures between rebuilding fiscal buffers and supporting growth though adequate funding for essential sectors and infrastructure, providing support for the poor, and implementing structural reforms. We are committed to implementing the set of reforms that are aimed at building fiscal, climate and disaster resilience, and strong foundations for private sector development. These reforms are closely aligned with our priorities in the current and new NDPs and are discussed below.

I: BUILDING FISCAL, CLIMATE AND DISASTER RESILIENCE

15. **We have therefore strengthened fiscal resilience by enhancing revenue mobilization in the FY24 Budget and will continue to focus on reinforcing revenue mobilization over the medium term (Prior Action and Indicative Trigger 1).** The reform actions, such as the VAT, company tax and airport departure tax rate increases, are well aligned with our priorities to ensure fiscal sustainability. They build on the VAT rate change and film rebate reduction of 2022 that were supported under the previous DPF series. To counter inflationary pressures resulting from these revenue policies, we implemented mitigation measures to cushion the impact on vulnerable populations. These included increasing the benefit amount for the Social Protection programs by 15 percent. In addition, the Ministry of Women, Children and Social Protection (MWCSP) approved a workplan for the update of Proxy Means Test (PMT) for Family Assistance Scheme (FAS) with plans to recertify FAS beneficiaries over 2025-26. This will ensure the FAS are more well-targeted, leading to better use of public resources. In addition to the fiscal measures introduced in the FY24 Budget, we will continue to encourage domestic resource mobilization to support fiscal consolidation. We are fully aware that reinforcing revenue mobilization is critical for managing the existing high public debt, as well as building buffers and sustaining growth.

16. **In February, the Cabinet endorsed the National Disaster Risk Management (NDRM) Bill for tabling in Parliament (Prior Action 2).** The introduction of the National Climate Change Policy 2018-30 and the Climate Change Act 2021 require the alignment and amendment of the National Disaster Management Act 1998. The NDRM Bill introduces the allocation of responsibilities at the national, divisional, and provincial levels, supporting a whole-of-government approach to DRM. This includes integrating disaster risk reduction and support of climate adaptation across different sectors and all levels of government, through information-sharing, cooperation, and joint planning. The Bill also establishes DRM Committees at the divisional, provisional and district levels who will be responsible for preparing DRM Plans. In addition, all government agencies responsible for management of a risk or hazard must prepare detailed Agency DRM Plans for managing and reducing risk. As such, the Bill will enable a shift from post disaster response to an ex-ante preparedness approach for climate and DRM. The Bill will be submitted to the Parliament in its sitting during the week of May 20th. We are committed to enacting this Bill before the onset of the next cyclone season in

November 2024. The Cabinet has also endorsed a comprehensive, whole-of-government Adaptive Social Protection Strategy and 5-year Implementation Plan.

17. **We are committed to designing a Disaster Risk Financing (DRF) Policy (Indicative Trigger 2).** The DRF Policy will bring together various ongoing and planned efforts from different sectors to quantify, reduce, and mitigate disaster-related financial risk. It will be implemented by MOF and will provide a framework for coordination between key stakeholders to strengthen financial resilience of the government, households, and businesses in the face of disasters.

18. **We are aware of our reliance on fossil fuels and the need to accelerate the transition to renewable energy sources.** About 73 percent of energy consumption depends on imported fossil fuels. In the power sector, Energy Fiji Limited (EFL) produced about 93 percent of electricity and the remaining was supplied by independent power producers (IPPs). Total installed capacity amounted to 329MW, including 147MW thermal and 182MW renewables; approximately 65 percent of the electricity generated in Fiji is from renewable energy sources, around 35 percent of power generation is derived from oil-based resources. Due to rising national energy demand, volatile oil prices, aging energy infrastructure, and the intensifying impacts of climate change and disaster events on infrastructure, the resilient development and diversification of energy sector is a long-term priority for GoF. We are committed to securing safe, secure, and sustainable energy supply to boost economic development, which will require a massive scale-up of investments in solar and other renewable energy sources. This will in turn require a policy, legal, and regulatory environment conducive for private investments in renewable energy.

19. **The Cabinet endorsed the National Energy Policy (NEP) 2023-30 in May 2023 with the aim of developing a sustainable, inclusive, and reliable energy sector.** The NEP aims to support the technological transition of energy services to renewable energy sources, in direct alignment with our Nationally Determined Contributions (NDC) and National Climate Change Policy. The NEP has been informed by six principles: affordability; competitive neutrality; energy access for all; gender equity, equality, and empowerment; just transition; and renewable energy and sustainability. The NEP also defines five policy pillars (energy security and resilience; energy access and equity; energy sustainability; energy efficiency; and energy governance) that guide sector development and promote the scaling up of renewable energy to reduce dependence on imported oil while improving energy security and affordability. The NEP envisages, among others, the Department of Energy to identify options for revising the existing legislations and developing new regulations to attract Independent Power Producers (IPPs). The NEP Steering Committee (NEPSC) acts as an advisory board for the implementation of the policy and measures progress against the NEP's Strategic Action Plan which will be produced to help articulate the specific activities required under each objective. The NEPSC reports to Cabinet through the Minister for Public Works, Transport and Meteorological Services. An independent mid-term review of NEP is planned no later than 2025, and a final review of the NEP will be conducted in conjunction with Fiji's reporting on SDG progress in 2030. The NEP will then be reviewed, and a new NEP produced by no later than 2031.

20. **Following the NEP, we are reviewing the Electricity Act to further promote private participation in electricity and encourage the adoption of renewable energy sources**

(Indicative Trigger 3). The reform will focus on, but not limited to further clarifying a transparent competitive procurement process and licensing parameters for IPPs. It will also further develop the legal framework for power purchase agreements and obliging Energy Fiji Limited to accept renewable electricity from IPPs, at a reasonable price regulated by the Fiji Competition and Consumer Commission. Given already high public debt and contingent liabilities, we will ensure that agreements are designed to minimize fiscal risks.

II: BUILDING THE FOUNDATIONS FOR PRIVATE SECTOR DEVELOPMENT

21. **We note that while financial inclusion in Fiji has grown significantly in recent years, the uptake of credit lags, particularly for micro, small, and medium-sized enterprises (MSMEs).** Access to formal financial services and financial efficiency have also improved. Reforms to expand the payments system have significantly improved financial efficiency. While domestic credit to private sector is relatively strong at 119.2 percent of GDP, MSMEs account for less than 12only 20 percent of total bank lending. The limited access to finance for MSMEs, most of which are sole traders and natural person entrepreneurs, restricts their growth potential. This potential is a loss to Fiji in terms of growth and employment.

22. **Our focus on access to finance for MSME entry is resolute and we have introduced the Access to Business Funding Bill (Prior Action 3).** Like any business start-up, micro, small businesses and MSMEs require seed capital and access to finance to start, grow, and ensure their businesses are sustainable. Unfortunately, access to simple and affordable forms of finance remains a key challenge for these small businesses. Many MSMEs are unable to access traditional forms of finance without a proven revenue stream, monetization strategy, credit history, or collateral. This has created a significant financing gap. The Bill will help resolve these hindrances through two types of offers: (i) a small offering regime whereby companies will be able to raise funding directly from a limited number of investors, and (ii) a regime for offers through platform intermediaries to connect borrowers directly with potential individual lenders. Cabinet has already endorsed the tabling of this Bill to Parliament, and we are committed to enacting this Bill within FY25 and are also developing Regulations that will cover license issuance, disclosure requirements, fair dealing practices and other issues relevant to support the implementation of the Bill.

23. **The current personal insolvency framework is almost three-quarters of a century old, outdated, and has limited practical application.** Much of the language in the Act needs to be modernized as it is difficult to understand and largely excludes MSMEs, including sole traders or partnerships. These smaller businesses are still experiencing financial distress in the aftermath of the pandemic and are highly vulnerable to increased frequency of natural disasters due to losses of capital assets without adequate and affordable insurance (increasing solvency risk) and access to finance, post-recovery is dependent on limited cash flow, grant and aid.

24. **As such, a comprehensive review of the Bankruptcy Act 1944 is underway to align it to international good practices (Indicative Trigger 4).** The Bill is aimed at providing honest but unfortunate debt-ridden entrepreneurs with a fresh start and while also providing a means to deal with dishonest debtors. The review will enhance legal certainty, improve efficiency, and ensure fairness for creditors. Insolvency systems for natural persons are a form of social

insurance against over-indebtedness. The prospect of a discharge of debts is a core component of such systems. As such, strengthening the personal insolvency regime (which deals with the bankruptcy of both consumers and unincorporated business enterprises such as sole traders and partnerships) will ensure a modern legal framework for the private sector. After the enactment of the law, we will develop Regulations to cover an effective personal bankruptcy framework. This will reduce the cost and processing time of bankruptcy.

25. **We note that the current business regulatory environment is hindering business opportunities and expansions due to the burdensome compliance framework.** Multiple licenses obtained annually from different agencies creates unnecessary costs and time for private sector investors preparing documents for and dealing with license approvals and renewals. The first of these sequential licenses are the National Fire Authority (NFA) and Occupational Health and Safety (OHS) which require inspection before being issued. Due to extremely limited inspection resources within the agencies, there are significant delays that have proven to be costly to businesses. Common complaints around these inspections include the need to follow up repeatedly with inspectors, lack of clarity on inspection schedules, and the need to often bear the cost of transport and other logistics in bringing the inspectors to the place of businesses.

26. **We are therefore committed to scaling back these red tapes and improving the business environment (Prior Action 4).** Government is committed to reforms to move to towards a risk-based inspection system, where inspection resources are focused on high-risk businesses while lower-risk businesses are afforded more latitude. This in turn not only optimizes the use of limited inspector resources, but also ensures that overall compliance improves as riskier businesses are afforded more scrutiny. Accordingly, we have amended the Health and Safety At Work (General Workplace Conditions) Regulations of 2003 to differentiate between high-risk and low-risk businesses based on business activity, replace universal annual inspections with an inspection frequency determined by the risk rating; and align the duration of certifications with the risk rating. To protect public health and safety, we have ensured the revision also allow for businesses categorized as low risk to be moved to high-risk if they become non-compliant.

27. **As part of streamlining the business environment, we will be reviewing the Hotel and Guests Act 1973 (Indicative Trigger 5).** We will review the Hotel and Guests Houses Act 1973 to accommodate advancements in the tourism industry. These improvements include expanding the definition of hotels to include modern accommodation models such as Airbnb, homestays, cruise ships, etc., modernizing the tourism license with a focus on quality of accommodation services, and enabling downstream regulation of sustainability practices. These reforms are expected to partially absorb the current lack of hotel capacity.

28. **We have taken steps to improve the uptake of financial services.** The first reform is a Credit Union Bill meant to improve oversight and supervision of unregulated financial institutions (credit unions and cooperatives) under RBF (away from Registrar of Credit Unions). The Act will make RBF responsible for the regulation, registration, licensing, and supervision of credit unions with the higher supervisory standards expected to lead to greater consumer confidence in the financial sector. Cabinet has already endorsed the tabling of this Bill to

Parliament, and we are committed to enacting this Bill within FY25 and plan to develop Regulations for implementation of the Bill. The second reform, the Policy for the Protection and Fair Treatment of Financial Consumers, is aimed at increasing consumer confidence in financial products and ensuring that expanded financial inclusion, including digital financial services (DFS), does not create undue risk for these consumers (Prior Action 5).

29. **We recognize the potential benefits of the advancements in Fiji's payment systems and acknowledge that improving other financial sector infrastructure will help crowd in more consumers and businesses into the sector (Indicative Trigger 6 (a)).** DFS has experienced significant growth in Fiji, enhancing business processes, efficiency, and reducing transaction costs, and efforts are underway to expand digital payments and eCommerce infrastructure. The Reserve Bank of Fiji (RBF) has recently launched a new Central Securities Depository and upgraded the Real Time Gross Settlement (RTGS) System, with a plan to further improve interoperability within the payments system (such as standardization of QR codes). Interoperability will promote competition in payments and increase usage of DFS. The QR code standardization will build on a clearing and settlement mechanism, the business side agreements, and a robust dispute resolution system. The new Government Financial Management Information System (FMIS) system administered by MOF has the capability to consolidate the numerous government accounts which could be included and mainstreamed in the national payment system. We acknowledge that these reforms build on the National Payment System Act 2021 and its Regulations that were supported in the previous DPF series.

30. **The Government recognizes that with the implementation of payment system reforms and the expansion of DFS and eCommerce, there is a need for legislation governing data privacy and security (Indicative Trigger 6 (b)).** To address this, the Government plans to introduce the National Data Protection and Privacy Policy to establish the institutional responsibilities, priorities, and principles, and to prepare the groundwork for the law. The policy is expected to have broader implications for the use of data across the whole of government, particularly for the national statistical system as it moves towards greater use of administrative and open data.

31. **Government notes that the high rate of mortality in Fiji due to non-communicable diseases (NCDs), constraining human capital formation and productivity.** In 2019, 85 percent of deaths were linked to NCDs, and 64 percent of these deaths occurred under 70 years of age. NCDs negatively affect productivity, causing absenteeism and presenteeism, or underperformance in the workplace because of illness, early retirement, and disability. The Ministry of Health and Medical Services (MHMS) estimated that lost hours of productivity due to medical procedures, loss of mobility due to injury or amputation, and loss of life due to NCDs, amounted to FJD600 million (5 percent of GDP) in 2019. Women are particularly hard hit, owing both to higher prevalence of NCD risk factors and their household caregiving responsibilities. Moreover, higher out-of-pocket payments drain household budgets and move resources away from other activities (such as investing in education).

32. **We have revised the School Health Policy and will revise Healthy Canteens Policy to tackle NCD at the onset from early childhood (Prior Action 6 and Indicative Trigger 7).** The MHMS and Ministry of Education, (MOE) have jointly revised the School Health Policy. The Policy also benefitted from inputs form the Ministry of Agriculture and Waterways for the

introduction of school vegetable gardens. The coverage will also be expanded beyond select Primary schools, extending into Early Childhood Education (ECE) Centers, Special, Primary and Secondary Schools and Vocational Centers registered with MOE. We will also develop a Healthy Canteens Policy to restrict the sale of unhealthy food in ECE, Primary and Secondary School establishments. This is to ensure that canteen abide by health objectives and promotions in School Health Policy, promoting local fresh foods, and reducing consumption of highly processed food and drinks.

33. **We are committed to implementing these reforms and confident that under the leadership of Prime Minister Rabuka and with the financial and technical assistance of the World Bank, and other development partners, we will achieve our objectives.** To facilitate the communication and coordination necessary for building and sustaining support, we have assigned the Treasury Division of MOF to play a central role in the implementation and management of this DPF. As such, we seek the World Bank's favorable consideration of our request for a development policy credit of US$95 million and a catastrophe drawdown option of US$30 million. May I also take this opportunity to express our sincere appreciation for the close relationship and continued support of the World Bank in assisting us to meet our key development priorities to ensure strong reforms for macroeconomic stability and inclusive growth.

Thank you.

Professor Biman C. Prasad
Deputy Prime Minister and Minister for Finance, Strategic Planning, National Development and Statistics

cc: Permanent Secretary for Finance, Strategic Planning, National Development and Statistics

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant positive or negative poverty, social or distributional effects
Operation Pillar 1: Building Fiscal, Climate and Disaster Resilience		
Prior Action #1. To enhance revenue mobilization and build fiscal buffers to respond to shocks, the Recipient, in line with its Supplement to the 2023-2024 Budget Address, has increased rates for the value added tax, the income tax, and the airport departure tax.	No	Negative but mitigated
Prior Action #2. To strengthen disaster preparedness, Cabinet has endorsed for tabling to Parliament the National Disaster Risk Management (NDRM) Bill which clarifies roles and responsibilities for disaster risk reduction through improved emergency planning.	Positive	Positive
Operation Pillar 2: Building the Foundations for Private Sector Development		
Prior Action #3. To facilitate Micro, Small and Medium Enterprises (MSME) access to finance, Cabinet has endorsed for tabling to Parliament the Access to Business Funding Bill which expands the instruments for MSMEs to raise debt and equity finance.	No	No
Prior Action #4. To streamline the business environment, the Acting Minister for Employment, Productivity and Industrial Relations, has made the Health and Safety at Work (General Workplace Conditions) (Amendment) Regulations 2024 to apply a risk-based approach to inspections and certification.	No	No
Prior Action #5. To promote utilization of digital financial services, the Reserve Bank of Fiji has approved a Policy for the Protection and Fair Treatment of Financial Consumers to improve transparency, disclosure, and consumer data protection.	No	No
Prior Action #6. To build a healthy working-age population, Cabinet has endorsed the Fiji Health Promoting Schools and School Health Policy 2024 - 2029 for children and youth in Early Childhood Education (ECE), Primary and Secondary Schools, with population-level screening and early intervention to promote healthy behavior and curb the development of NCD risk factors.	No	Positive

ANNEX 5: PARIS ALIGNMENT ASSESSMENT

<table>
<tr><td colspan="2">Program Development Objectives: To support the Government of Fiji in its efforts to build fiscal, climate and disaster resilience, and the foundations for private sector development.</td></tr>
<tr><td>Step 1. Is this operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?</td><td>The DPF reform program is consistent with the implementation of Fiji’s climate strategies, such as the Nationally Determined Contribution (NDC), the Low Emission Development Strategy (LEDS), the National Adaptation Plan, the National Climate Finance Strategy, and the National Climate Change Policy. On mitigation, the Program does not hinder the achievement of Fiji’s climate goals. The Program supports Fiji’s efforts to build resilience to the impacts of climate change adaptation. PA 2 directly supports building resilience response capacity through a Disaster Risk Management (DRM) Bill.</td></tr>
<tr><td colspan="2">Mitigation goals: assessing and reducing the risks</td></tr>
<tr><td colspan="2">Pillar objective: Building Fiscal, Climate and Disaster Resilience</td></tr>
<tr><td colspan="2">Prior Action #1. To enhance revenue mobilization and build fiscal buffers to respond to shocks, the Recipient, in line with its Supplement to the 2023-2024 Budget Address, has increased rates for the value added tax, the income tax, and the airport departure tax.
Prior Action #2. To strengthen disaster preparedness, Cabinet has endorsed for tabling to Parliament the National Disaster Risk Management (NDRM) Bill which clarifies roles and responsibilities for disaster risk reduction through improved emergency planning.</td></tr>
<tr><td>Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?</td><td>Answer: No
Explanation: PA 1 establishes reforms to the tax system. PA 2 supports a NDRM which clarifies roles and responsibilities for stakeholders for DRM. These reforms are not expected to lead to a significant increase in GHG emissions.</td></tr>
<tr><td>Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country’s low-GHG emissions development pathways?</td><td>Answer: N/A</td></tr>
<tr><td>Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?</td><td>Answer: N/A</td></tr>
<tr><td colspan="2">Conclusion for PA1 and PA2: ALIGNED</td></tr>
<tr><td colspan="2">Pillar objective: Building the Foundations for Private Sector Development</td></tr>
<tr><td colspan="2">Prior Action #3. To facilitate Micro, Small and Medium Enterprises (MSME) access to finance, Cabinet has endorsed for tabling to Parliament the Access to Business Funding Bill which expands the instruments for MSMEs to raise debt and equity finance.
Prior Action #4. To streamline the business environment, the Acting Minister for Employment, Productivity and Industrial Relations, has made the Health and Safety at Work (General Workplace Conditions) (Amendment) Regulations 2024 to apply a risk-based approach to inspections and certification.
Prior Action #5. To promote utilization of digital financial services, the Reserve Bank of Fiji has approved a Policy for the Protection and Fair Treatment of Financial Consumers to improve transparency, disclosure, and consumer data protection.
Prior Action #6. To build a healthy working-age population, Cabinet has endorsed the Fiji Health Promoting Schools and School Health Policy 2024 - 2029 for children and youth in Early Childhood Education (ECE), Primary and Secondary Schools,</td></tr>
</table>

with population-level screening and early intervention to promote healthy behavior and curb the development of NCD risk factors.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation:** PA 3 supports a new bill which will strengthen access to finance for entrepreneurs within Fiji. PA 4 supports institutional reforms on certifications and inspections for businesses. PA 5 supports the approval of a Consumer Protection Policy, which is a financial governance reform. PA 6 aims to improve health outcomes for children and adults, through the provision of a revised School Health Policy. These reforms are not expected to lead to a significant increase in GHG emissions.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**Answer:** N/A
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	**Answer:** N/A
Conclusion for PA3, PA4, PA5 and PA6: ALIGNED	
Mitigation goals: All prior actions of the proposed DPF program are aligned with the mitigation goals of the Paris Agreement.	
Adaptation criteria: assessment of physical climate risks	
Pillar objective: Building Fiscal, Climate and Disaster Resilience	
Prior Action #1. To enhance revenue mobilization and build fiscal buffers to respond to shocks, the Recipient, in line with its Supplement to the 2023-2024 Budget Address, has increased rates for the value added tax, the income tax, and the airport departure tax. **Prior Action #2.** To strengthen disaster preparedness, Cabinet has endorsed for tabling to Parliament the National Disaster Risk Management (NDRM) Bill which clarifies roles and responsibilities for disaster risk reduction through improved emergency planning.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No **Explanation:** PA 1 establishes reforms to the tax system. PA 2 supports a NDRM Bill which clarifies roles and responsibilities for stakeholders for DRM. Risks from climate hazards are not likely to have an adverse effect on these PAs' contribution to building fiscal, climate and disaster resilience.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	**Answer:** N/A
Conclusion for PA1 and PA2: ALIGNED	
Pillar objective: Building the Foundations for Private Sector Development	

Prior Action #3. To facilitate Micro, Small and Medium Enterprises (MSME) access to finance, Cabinet has endorsed for tabling to Parliament the Access to Business Funding Bill which expands the instruments for MSMEs to raise debt and equity finance. **Prior Action #4.** To streamline the business environment, the Acting Minister for Employment, Productivity and Industrial Relations, has made the Health and Safety at Work (General Workplace Conditions) (Amendment) Regulations 2024 to apply a risk-based approach to inspections and certification. **Prior Action #5.** To promote utilization of digital financial services, the Reserve Bank of Fiji has approved a Policy for the Protection and Fair Treatment of Financial Consumers to improve transparency, disclosure, and consumer data protection. **Prior Action #6.** To build a healthy working-age population, Cabinet has endorsed the Fiji Health Promoting Schools and School Health Policy 2024 - 2029 for children and youth in Early Childhood Education (ECE), Primary and Secondary Schools, with population-level screening and early intervention to promote healthy behavior and curb the development of NCD risk factors.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No **Explanation:** PA 3 supports a new bill which will strengthen access to finance for entrepreneurs within Fiji. PA 4 supports institutional reforms on certifications and inspections for businesses. PA 5 supports the approval of a Consumer Protection Policy, which is a financial governance reform. PA 6 aims to improve health outcomes for children and adults, through the provision of a revised School Health Policy. Implementation of these reforms are not expected to have an adverse effect on the PAs' contribution to building the foundations for private sector development.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	**Answer:** N/A
Conclusion for PA3, PA4, PA5 and PA6: ALIGNED	
Adaptation and resilience: All prior actions of the proposed DPF program are aligned with the adaptation and resilience goals of the Paris Agreement.	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSMENT: The PDO and reform program is consistent with the implementation of the Fiji NDC 2020, LEDS 2018-2050 and NAP 2018. All Prior Actions are Paris-Aligned as per the assessment. Hence, the Fiji First Growth and Resilience DPF with a Cat DDO is deemed Paris-Aligned.	

ANNEX 6: CLOSING GENDER GAPS IN HEALTH AND ACCESS TO FINANCE

In Fiji, prevalence of obesity is a top NCD risk factor which is significantly higher for women than for men. The latest available data from the WHO Global Observatory show that the prevalence of obesity is higher for women, at 35.3 percent, than for men, at 25.1 percent. In addition, the data show that a larger share of women (18.3 percent) perform insufficient physical activity compared to men (11.3 percent). Inactivity may cause obesity and a low level of cardiovascular fitness and increase the risk of high blood pressure and cholesterol in children. This is linked to higher risks of diabetes and raised blood pressure for women, which significantly increases their NCD risks, including but not limited to, the risk of gestational diabetes and complications during pregnancy and delivery for both mother and child. Further, poor diversity in the mother's diet translates to poor dietary diversity and nutrient intake for their children, predisposing them to unhealthy food choices and dietary habits as they grow older. A heavy disease burden in Fiji is limiting workers' longevity and productivity. Adult survival rates are low: only 78 percent of 15-year-old Fijians are expected to reach age 60, reducing the size of the labor force. 64 percent of deaths from NCDs occurred in the working-age population.

As NCDs have reached catastrophic levels in Fiji, risk factors need to be prevented in childhood and youth before complications develop. Childhood obesity can adversely affect almost every organ system and often has serious consequences, including hypertension, dyslipidemia, insulin resistance or diabetes, fatty liver disease, and psychosocial complications. 10 percent of children under 5 in Fiji are reported to be moderately or severely overweight. The prevalence rises to above 25 percent among 13–17-year-olds. Preventing obesity has direct benefits for children's and women's health and wellbeing. Effects in childhood often continue into adulthood. The Healthy School Policy creates a platform for structured interaction between health promotion and school, at a time when children's health habits and lifestyles are determined. Population-scaled, school-based physical activity interventions have been proven effective in preventing and treating obesity (Jurić et al. 2023).

The revised School Health Policy for children and youth in ECE, Primary and Secondary schools, PA 7, under Pillar 2, aims to promote healthy habits and lifestyles among children with population-level screening and early intervention to curb the development of NCD risk factors, in particular malnourishment and physical inactivity. Progress will be measured by the share of students from early childhood to secondary school who are malnourished who are identified and referred for treatment and the share of students meeting recommended physical activity guidelines, with a target set to benefit the children who need support the most.

There are also gender gaps in access to financial services, partly due to low levels of literacy and a heavy reliance on informal financial services. The Fiji National Financial Inclusion Strategy (NFIS) 2022–30 provides that the gender gap in access to financial services was recorded at 13 percentage points in 2020. Measured through bank account ownership on the supply-side, this gap exists across all financial inclusion instruments and is primarily a result of a low level of literacy and reliance on informal financial sources/services. The NFIS also highlights that women lack opportunities to gain business skills, have more unpaid domestic responsibilities and less collateral to use when applying for finance. More recently, the 2023 ADB Assessment provides that for women-owned MSMEs, the unmet demand for credit in Fiji is estimated at US$111 million annually (roughly equivalent to FJD250 million). This is based on the IFC's MSME Finance Gap Database and consists of (i) the unmet demand for formal credit of USD75 million based on 950 formal women's MSMEs representing 9.5 percent of all formal MSMEs in Fiji; and (ii) the potential demand of an additional 48 percent (of formal credit) or US$36 million from the informal sector where most women operate.

The reforms under Pillar 2 aim to improve access to finance by providing simpler access to finance and providing fair treatment to all consumers regardless of race and ensuring that vulnerable consumers (such as women and MSMEs) are not exploited or excluded from the financial services.

ANNEX 7: DPF PRIOR ACTIONS AND ANALYTICAL UNDERPINNINGS

Prior Actions	Analytical Underpinnings
Operation Pillar 1: Building Fiscal, Climate and Disaster Resilience	
Prior Action #1. To enhance revenue mobilization and build fiscal buffers to respond to shocks, the Recipient, in line with its Supplement to the 2023-2024 Budget Address, has increased rates for the value added tax, the income tax, and the airport departure tax.	Fiji - Public Expenditure Review: Towards Fiscal Sustainability and Improved Spending Quality (2023, P177690) finds that the impacts of the COVID-19 pandemic, coinciding with multiple tropical cyclones, have led to one of the worst economic contractions in the world, increasing the urgency and scale of the fiscal adjustment needed. It highlights the need for revenue enhancement reforms to increase domestic resource mobilization and fiscal consolidation required for fiscal sustainability. The report also emphasizes the importance of continued revenue reforms over the medium term to enable higher, well-targeted spending in the long run. This would support higher growth, investments in service delivery, and improvements in resilience. IMF Staff Report 2023 (Country Report No. 23/238) also recommended revenue reforms such as unifying the VAT rate and subsequent increases over the medium term, as well as increases in corporate income tax rate, excise tax and departure tax (pp. 8).
Prior Action #2. To strengthen disaster preparedness, Cabinet has endorsed for tabling to Parliament the National Disaster Risk Management (NDRM) Bill which clarifies roles and responsibilities for disaster risk reduction through improved emergency planning.	Sendai Framework for Disaster Risk Reduction. In particular, Priority 2 calls for strengthening of disaster risk governance to manage disaster risk; and Priority 4 calls for enhancing disaster preparedness for effective response. Fiji Climate Vulnerability Assessment (2017). The report recommends interventions in five main areas to reduce vulnerability. One of which is building resilience through actions on early warning and preparedness. Key domains identified where progress is possible are disaster preparedness, and ability to respond to climate or other natural shocks, access to affordable health care, and gender equality (pp. 26).
Operation Pillar 2: Building the Foundations for Private Sector Development	
Prior Action #3. To facilitate Micro, Small and Medium Enterprises (MSME) access to finance, Cabinet has endorsed for tabling to Parliament the Access to Business Funding Bill which expands the instruments for MSMEs to raise debt and equity finance.	Fiji Country Private Sector Diagnostic: Creating Markets in Fiji (2022). The report notes that "Difficulties in access to credit by MSMEs and skilled labor remain widespread for most of Fiji's private sector firms in the country, constraining investment, innovation, and productivity. Despite several MSME financing schemes by the government, financing remains a constraint due to challenges in underlying small and medium enterprise (SME) infrastructures" (pp. 12).
Prior Action #4. To streamline the business environment, the Acting Minister for Employment, Productivity and Industrial Relations, has made the Health and Safety at Work (General Workplace Conditions) (Amendment) Regulations 2024 to apply a risk-based approach to inspections and certification.	Republic of Fiji Systematic Country Diagnostic (2017, P160757) and Fiji Country Private Sector Diagnostic: Creating Markets in Fiji (2022). Priority 1 of the SCD on improving the business regulatory environment and the CPSD 2022 recommendation of unlocking new sectoral sources of growth beyond tourism, as well as the IFC country strategy of developing sustainable tourism and infrastructure supports this reform. IFC has conducted in-depth process mapping and analytical work on the licensing and certification system in Fiji which informs the substance of the proposed reforms.
Prior Action #5. To promote utilization of digital financial services, the Reserve Bank of Fiji has approved a Policy for the Protection and Fair Treatment of Financial Consumers to improve	Fiji Country Private Sector Diagnostic: Creating Markets in Fiji (2022). The report identifies one of the cross-cutting constraints to private sector growth and investment as access to finance, which remains a challenge, particularly for MSMEs, despite abundant liquidity.

transparency, disclosure, and consumer data protection.	IMF Staff Report 2023 (Country Report No. 23/238) noted that Fiji has adopted the NFIS 2022–30, which aims to promote financial inclusion, DFS, MSME finance, and consumer protection. This also include the plan to review the Fair Reporting of Credit Act 2016 to improve ease of access to bank credit (pp. 13).
Prior Action #6. To build a healthy working-age population, Cabinet has endorsed the Fiji Health Promoting Schools and School Health Policy 2024 - 2029 for children and youth in Early Childhood Education (ECE), Primary and Secondary Schools, with population-level screening and early intervention to promote healthy behavior and curb the development of NCD risk factors.	Fiji Country Economic Memorandum (forthcoming, P179600). The report notes that a child born today in Fiji will only realize 51 percent of their productive potential as an adult and 78 percent of 15-year-olds are expected to reach the age of 60. Non-communicable diseases (NCDs) through malnutrition are contributing factors, including to the problem of 15 percent of children either stunted or overweight. NCDs impose significant economic costs estimated at 5 percent of GDP in 2019 through early retirement and disability, high out-of-pocket payments, and caregiving responsibilities forcing women out of the workforce. The report states that maximizing human capital by investing in the health and education of all Fijians will unlock growth. Based on certain variables that include adult survival and not stunted rates, the report finds an average contribution to growth from 2024-50 to be 0.81 percent and 1.4 percent under the moderate reforms scenario and ambitious reforms scenario respectively. Fiji Health Sector Review (forthcoming, P180307). The report finds that despite considerable progress in childhood vaccination rates, child health outcomes have stagnated and malnutrition among children will require close attention given its lifelong effect on health, educational outcomes, productivity, and mortality. The report notes that investments in health to improve child health outcomes and reduce the burden of NCDs will enhance Fiji's macroeconomic performance, contribute to increased human capital, and greater wellness of Fiji as a nation. The report recognizes the revision of the Healthy School Policy by the MHMS and Ministry of Education, Heritage, and Arts, which will introduce routine, systematic screening of children and youth in early childhood education, and primary and secondary schools nation-wide, promoting healthy behavior and enrolling students who are malnourished for treatment and management.

ANNEX 8: FISCAL FINANCING NEEDS AND SOURCES

	2021	2022	2023	2024	2025	2026	2027
			Est.		Proj.		
				percent of GDP			
Net Deficit	-11.7	-10.3	-5.9	-6.6	-5.9	-4.6	-3.5
Total Revenues	25.6	21.6	24.7	26.7	26.8	26.7	26.6
Tax Revenues	16.0	18.6	20.5	23.0	23.1	23.1	23.1
Non-tax Revenues	9.6	3.0	4.2	3.8	3.7	3.6	3.5
Grants	4.6	0.4	1.3	1.5	1.1	0.9	0.8
Of which:							
Australia	*2.8*	*0.1*	-	*0.7*	-	-	-
New Zealand	*1.3*	*0.0*	-	*0.0*	-	-	-
European Union	*0.1*	-	*0.1*	*0.1*	-	-	-
Others	*0.3*	*0.3*	*1.2*	*0.7*	*1.1*	*0.9*	*0.8*
Total Expenditure	37.3	31.9	30.6	33.3	32.7	31.3	30.1
Current Expenditures	24.1	22.1	21.7	23.3	22.7	21.6	20.6
Capital Expenditures	12.9	9.5	8.5	9.1	9.2	9.1	9.0
Government VAT (SEG 13 VAT)	0.3	0.3	0.4	0.8	0.8	0.7	0.5
Gross Deficit (including loan redemption)	-17.7	-13.3	-8.4	-8.9	-10.1	-9.8	-9.1
Financing							
External Financing	12.3	5.3	3.4	3.6	4.1	3.9	3.6
Of which budget support from:							
Asian Development Bank	-	*3.0*	-	*1.2*	-	*1.0*	-
World Bank	*3.2*	*2.0*	-	*1.6*	-	*1.0*	-
Domestic Financing (Domestic Bond and Loans)	5.4	8.0	5.0	5.3	6.1	5.9	5.5

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

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