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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 17-May-2024 | Report No: PIDDA00106



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Fiji	P500609	Fiji Growth and Resilience First Development Policy Financing with a Catastrophe Deferred Down Option	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	21-Jun-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Government of Fiji	Ministry of Finance, Strategic Planning, National Development and Statistics		

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.

Financing (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
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DETAILS

Total World Bank Group Financing	125.00
World Bank Lending	125.00

Decision



The review did authorize the preparation to continue

Explanation

B. Introduction and Context

Country Context

Fiji is a small island nation in the South Pacific Ocean with the second largest economy among the Pacific Island Countries (PICs). One of the most remote countries in the world and with an area of 18,000 square kilometers spread over 330 islands, Fiji's population of 900,000 people mostly live on two large islands, Viti Levu and Vanua Levu. Located on the tropical cyclone (TC) belt, Fiji has experienced natural disaster episodes causing annual losses of 1.3 percent of GDP on average in the last 30 years. The Global Adaptation Index (ND-GAIN) ranks Fiji as 114 out of 185 countries for vulnerability, but also stresses it has good capacity to adapt. Climate change will likely worsen disasters wrought by TCs, storm surges, and heat waves and such risks will be further exacerbated with expected rise in sea level of 100cm by 2100, significantly impacting 75 percent of the population who live in coastal areas and low-lying islands. Low-intensity, high-frequency floods will increase and contribute to the damages to agriculture and housing.

Fiji faces development challenges of remoteness and economic concentration, including remoteness from international markets, lack of scale due to small land areas and populations, and fragmentation through the dispersion of population. Extreme poverty is low, but the country trails behind in delivering higher living standards to its population. Basic needs poverty in 2019-20 was highest in the outer islands, but rural areas in the main islands of Viti Levu and Vanua Levu also experienced much higher poverty than urban centers. 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. 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. The macroeconomic policy framework is adequate for the purposes of the proposed series. The economy is expected to return to below trend growth over 2024-27 driven by tourism and robust economic activity.

The Government of Fiji (GoF) is committed to pro-growth reforms and, in the lead up to its first Budget, carried out extensive consultations including holding the first National Economic Summit in 15 years. It also established a Fiscal Review Committee that produced a blueprint of new Government's socio-economic priorities. It passed an ambitious budget to address infrastructure gaps while launching a bold revenue-based fiscal consolidation path to reduce high debt. The GoF is finalizing a new National Development Plan focusing on deepening fiscal consolidation; economic diversification and private sector-led growth; infrastructure, health, and education improvements; and climate adaptation.

Relationship to CPF

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 achievement of 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 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. 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. It aligns with the Evolution Roadmap, new Corporate Scorecard, and the Global Challenges.

C. 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.

Key Results

Results indicators under Pillar 1 will measure increases in tax revenue as a percent of GDP (RI#1), the share of population covered by divisional DRM plans (RI#2), and renewable energy capacity enabled in megawatts (RI#3). Results indicators under Pillar 2 measure increases in the share of Micro, Small and Medium Enterprises (MSMEs) accessing financial services from a regulated financial institution (RI#4), as well as the share of low-risk businesses with reduced frequency of inspections and certificate renewal (RI#5), increase in the volume of digital payments (RI#6), the share of students from early childhood to secondary school who are malnourished identified and referred for treatment (RI#7i), and the share of students meeting recommended physical activity guidelines differentiated by gender (RI#7ii).

D. Project Description

The proposed operation is the first in a programmatic series of two. The proposed program forms part of the Government's Joint Policy Matrix (JPM) supported by Fiji's development partners: Asian Development Bank (ADB), Australia, European Union (EU), New Zealand, and World Bank. These partners are providing technical assistance (TA) to support reform design, implementation, and monitoring. The World Bank consults regularly with the IMF and PFTAC to coordinate policy advice and TA. The Prior Actions for the first operation are:

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.

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.

Indicative Triggers for the second operation in the series are:

Indicative Trigger #1: To enhance revenue mobilization and build fiscal buffers to respond to shocks, the Recipient has implemented additional tax reforms.

Indicative Trigger #2: To strengthen disaster preparedness, Cabinet has endorsed the Disaster Risk Financing Policy to minimize financial risk from emergency events.

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.

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 use more quickly.

Indicative Trigger #6: 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.

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.

E. Implementation

Institutional and Implementation Arrangements

Program implementation will be MoF's responsibility. Fiji's reform efforts and progress will be reviewed by GoF in close coordination with the Bank and during monthly reviews of the JPM between GoF and development partners. The MoF, through its Treasury Division, will coordinate and monitor the program and indicators. 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.

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

Poverty and Social Impacts

The increase in VAT rates under Prior Action 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. 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. 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. The risk-based approach to inspections under Prior Action 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. The School Health Policy supported under Prior Action 6 will have outsized benefits to households at the bottom of the welfare distribution.

Environmental, Forests, and Other Natural Resource Aspects

The reforms supported under this operation, including those related to climate and disaster resilience, are expected to have significant positive impacts on Fiji's 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 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.

G. Risks and Mitigation

The overall risk for the program is rated as substantial. Political and governance risks are rated as substantial. However, the proposed series focuses on areas where GoF has already established a strong track record, aided by close coordination with other development partners, and extensive consultation with a broad group of stakeholders should partly mitigate risks. Macroeconomic risks are also rated as substantial due to Fiji's vulnerability to shocks typical of PICs' economies: commodity price shocks, weaker-than-expected global growth and monetary tightening, and natural disasters. 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, community, climate and disaster resilience and the foundations for private sector development supported by this series are expected to bolster economic prospects. Institutional capacity for implementation and sustainability risks are also related as substantial due to a thin administrative capacity, increasingly complex institutional arrangements and skill shortages/gaps hampering reform implementation. This risk is mitigated by close and ongoing dialogue through which GoF and the Bank have carefully selected a limited number of and prioritized prior actions. Limited capacity is also being mitigated through the provision of TA from development partners to support the achievement of those actions.

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