



The World Bank

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

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 19-Oct-2020 | Report No: PIDC30507

BASIC INFORMATION

A. Basic Project Data

Country Fiji	Project ID P173558	Project Name Fiji First Recovery and Resilience Development Policy Operation with a Cat-DDO (P173558)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Mar 30, 2021	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Fiji	Implementing Agency Ministry of Economy		

Proposed Development Objective(s)

The development objective is to: i) promote private sector-led economic recovery; ii) enhance climate, disaster and social resilience; and iii) strengthen debt and public financial management.

Financing (in US\$, Millions)

SUMMARY

Total Financing	145.00
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DETAILS

Total World Bank Group Financing	145.00
World Bank Lending	145.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed operation supports Fiji's recovery from the impact of the COVID-19 pandemic and Tropical Cyclone (TC) Harold through economic, social and climate resilience reforms. The proposed operation is the first in a programmatic series of two development policy operations (DPOs) which supports Government to address short-term and long-term challenges associated with the dual shocks. The Cat-DDO supports Government's policy efforts to increase its resilience



to risks from climate change and other natural hazards, and allows for the provision of quick-disbursing financing after a natural disaster. While suffering the severe consequences of the COVID-19 crisis, Fiji was hit by a category 4 TC Harold in April 2020 with estimated damage of 3.3 percent of GDP. The impact of these dual shocks on livelihoods has been devastating. Prior to the onset of COVID-19, Fiji had one of the lowest rates of extreme poverty in the Pacific, at 0.5 percent in 2013. However, Fiji’s vulnerability to the economic shock of COVID-19 is likely to result in substantial increases in poverty. An estimated 115,000 Fijians are unemployed or on reduced hours due to the COVID-19 pandemic. This represents 13 percent of the country’s total population or almost a third of the total labor force, with the majority of the affected concentrated in tourism. The agricultural sector would likely have been a shock absorber for workers displaced from the tourism sector, however, the impact of TC Harold has caused ongoing disruption to the sector.

The dual shocks of COVID-19 pandemic and TC Harold present Fiji with an economic crisis of unprecedented scale with an expected contraction of 21.7 percent in 2020 in , one of the sharpest economic contractions in the world and the steepest in Fiji’s history. To mitigate the impact of the pandemic, the authorities announced a stimulus package of FJ\$1 billion, 10.4 percent of GDP, in the FY2020 COVID Response Budget. A combination of falling revenues, increased spending needs, and lower GDP is expected to push the fiscal deficit to 21.1 percent of GDP in FY2021 compared to the pre-dual shock projection of 2 percent of GDP. This resulted in unanticipated public financing needs of nearly \$800 million, which is expected to be covered by external as well as domestic financing. As a result, the public debt-to-GDP ratio is expected to rise sharply to 79.4 percent of GDP by the end of this year. The current account deficit widened to 12.9 percent of GDP on account of sharp declines in tourism receipts and remittances. Monetary policy was further eased to counter the impact of COVID-19. Despite recent shocks, the banking sector remained sound, underpinned by the operation of foreign banks with access to parent banks for capital and liquidity. Fiji National Provident Fund (FNPF) continues to be a key player in the financial sector and Fijian economy in general. Fiji is participating in the Debt Service Suspension Initiative (DSSI). Strong debt sustainability and transparency measures are two proposed Performance and Policy Actions (PPAs) under the SDFP and supported by the proposed operation. Fiji’s macroeconomic policy framework is adequate for the purposes of this operation.

Relationship to CPF

The proposed DPO is fully aligned with the objectives and proposed outcomes of the upcoming Country Partnership Framework (CPF) covering FY21-24. The new CPF, to be published in December 2020, builds on the findings of the Systematic Country Diagnostic (SCD) (Report #120106) submitted to the Board in June 2017. The SCD was structured around strategic priorities to accelerate Fiji’s growth toward the dual goal of ending extreme poverty and prompting shared prosperity in a sustainable manner; specifically strengthening fiscal sustainability; improving the investment climate; and building resilience to climate change. These core priorities, which underpin the NDP 2017, remain central to the new CPF under preparation. The proposed DPO builds on the reforms supported through the previous DPO series and complements the ongoing policy engagement and development partner operations. The proposed operation also builds on the considerable policy engagements and investments by the International Finance Corporation (IFC).

C. Proposed Development Objective(s)

The objective is to: i) promote private sector-led economic recovery; ii) enhance climate, disaster and social resilience and iii) strengthen debt and public financial management.

Key Results

Under program development objective (i):

1. Value of real time gross settlements
2. Outstanding corporate bond issuances
3. Trusted Trader arrangements adopted in the automated system for health and/or biosecurity

Under program development objective (ii):

4. Areas Within National Jurisdiction legally designated as Marine Protected Areas (MPAs)
5. Contractors provide certification of material reinforcement being manufactured in accordance with the revised regulatory standard
6. Near-poor included in the Social Registry

Under program development objective (iii):

7. Debt Information reporting against the MTDS-set debt management targets related to refinancing, interest rate, and foreign exchange risks made public annually
8. Actual aggregate revenue outturn as share of originally budgeted revenue
9. Programs across all budget agencies comply with the review process established by the Gender Responsive Budgeting guidelines

D. Concept Description

As well as being responsive to current Government priorities, the reforms proposed in this operation are closely aligned with the Government's priorities as identified in National Development Plan 2017. Specifically, the first development objective supports Government's efforts to promote private sector-led economic recovery through measures aimed at modernization of payment systems and development of a wholesale corporate bond market. The second development objective supports Government's efforts to improve sustainability and management of its oceans, strengthen building assets and social protection programs aligned with the inclusive socio-economic development goals and transformation strategic priorities. The third objective supports Government's efforts to strengthen fiscal sustainability in the medium-term with measures to strengthen public debt management and public financial management, including gender responsive budgeting.

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

Poverty and Social Impacts

The policy reform supported in PA1 could potentially negatively affect the poor and vulnerable. Though the transition to digital and non-cash payments supported in PA1 could improve the efficiency of payment systems overall, poor and vulnerable households may not be able to adapt as quickly as other segment of the population. Poor households are more likely to be unbanked and have low financial and digital literacy. Mitigation measures, such as mass awareness campaigns, will be instigated to ensure that the poor and vulnerable are not excluded from the transition to digital payments. The National Oceans Policy supported in PA3 will likely have positive long-term impacts to the livelihoods of fishers in coastal communities and remote islands. The new targeting policy supported in PA5 will contribute to an improved social protection system that channels appropriate levels of benefits to those who need it most. The policies supported in Pillar 3 of this operation are expected to positively impact the poor and the vulnerable primarily through maintaining the quality of public service provision.

Environmental, Forests, and Other Natural Resource Aspects

The policy actions supported under the proposed operation are not expected to have negative impacts on Fiji's environment, natural resources or forests. Fiji's systems for reducing adverse environmental impacts and enhancing positive impacts is reasonably strong at the policy level, but implementation weaknesses continue. Department of Environment within the Ministry of Agriculture, Environment, Rural and Maritime Development, derives its legal mandate from the Environment Management Act 2005—Part 2 Administration. It promotes the sustainable use and development of environment and implements the Environmental Impact Assessment (EIA) process. The EIA unit is one of four units in the department and its role is to examine and process every development proposal, which is referred to it by an approving authority, or which may come to the attention of the unit as having a significant environmental impact.

CONTACT POINT

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APPROVAL

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Approved By

Country Director:	Michel Kerf	20-Oct-2020
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