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Report No. 106175-FJ

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A PROPOSED LOAN

IN THE AMOUNT OF US\$50 MILLION

TO THE

REPUBLIC OF FIJI

FOR THE

POST-CYCLONE WINSTON EMERGENCY DEVELOPMENT POLICY OPERATION

June 17, 2016

Macroeconomics and Fiscal Management Global Practice  
Country Management Unit for Timor Leste, Papua New Guinea and Pacific Islands  
East Asia and Pacific Region

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## **REPUBLIC OF FIJI – GOVERNMENT FISCAL YEAR**

January 1 – December 30 (pre-2016)

August 1 – July 31 (post-2016)

### **CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of April 18, 2016)

FJD2.07 = US\$1.00

### **ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CPS	Care and Protection Scheme
DFAT	Department of Foreign Affairs and Trade in Australia
DPO	Development Policy Operation
DRF	Disaster Recovery Framework
DRM	Disaster Risk Management
EIA	Environmental Impact Assessment
EU	European Union
FJD	Fijian Dollar
FNPF	Fiji National Provident Fund
GDP	Gross Domestic Product
GNP	Gross National Product
GoF	Government of Fiji
GP	Global Practice
GRS	Grievance Redress Service
HIES	Household Income and Expenditure Survey
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results Report
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
LDP	Letter of Development Policy
MDGs	Millennium Development Goals
MTEF	Medium-Term Expenditure Framework
NPL	Non-Performing Loan
PBS	Poverty Benefit Scheme
PDNA	Post Disaster Needs Assessment
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PPP	Purchasing Power Parity
RBF	Reserve Bank of Fiji
ROSC	Report on the Observance of Standards and Codes
SDR	Special Drawing Rights
SPL	Social Protection and Labor
SPS	Social Pension Scheme
UNDP	United Nations Development Program
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
USD	United States Dollar
VAT	Value Added Tax
WBG	World Bank Group
WDI	World Development Indicators

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**REPUBLIC OF FIJI**  
**POST-CYCLONE WINSTON EMERGENCY DEVELOPMENT POLICY OPERATION**

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The Post-Cyclone Winston Emergency Development Policy Operation was prepared by an IBRD team consisting of: Mizuho Kida (co-TTL, GMF02), Virginia Horscroft (co-TTL, GMF02), Robert Utz (EACNF), Saia Faletau (EACNF), Oleksiy Ivaschenko (GSP02), Jesse Doyle (GSP02), Imogen Halstead (GPV02), Michael Bonte-Grapentin (GSU08), Manush Hristov (LEGES), Marjorie Mpundu (LEGES), Loren Atkins (LEGES), Ross Butler (GSU02), David Whitehead (GG020), Jane Sansbury (EACNF), Lasse Melgaard (EACNF), Samantha Evans (EACNF), Nathan Hale (EACNF) and Tony Chen (WFALN). Overall guidance was provided by Franz Drees-Gross (EACNF) and Mathew Verghis (GMF02). Peer reviewers were Sona Varma (GMF01) and Tobias Haque (GMF13).

**SUMMARY OF PROPOSED LOAN AND PROGRAM**  
**REPUBLIC OF FIJI**  
**POST-CYCLONE WINSTON EMERGENCY DEVELOPMENT POLICY OPERATION**

Borrower	Republic of Fiji
Implementation Agency	Ministry of Finance
Financing Data	Amount: US\$50 million Terms: IBRD Flexible Loan with a Variable Spread, with 23 years total maturity, including 6 years of grace, and level repayment of principal. Front-End Fee: 0.25 percent; Commitment Fee: 0.25 percent
Operation Type	The proposed operation is a stand-alone, single tranche development policy loan.
Pillars of the Operation And Program Development Objective(s)	The Program Development Objective is to: (i) support Fiji's recovery from the immediate impact of Cyclone Winston through a prioritized and sequenced recovery plan; and (ii) cushion the immediate impact of Cyclone Winston on the most vulnerable through the provision of disaster-responsive social protection. These correspond to the two pillars of the operation.
Result Indicators	<p><i>Under development objective (i):</i></p> <p>1. <u>Use of the Disaster Recovery Framework (DRF) as a strategic planning and resource allocation tool</u> as indicated by the proportion of funds allocated in the FY2017 budget to recovery activities included in the DRF that are expended in FY2017.  <u>Baseline</u> – 0 percent (July 31, 2016); <u>Target</u> – 75 percent (July 31, 2017)</p> <p>2. <u>Implementation of the DRF to enhance disaster resilience</u> as indicated by whether the building code has been revised to strengthen it, in accordance with the DRF.  <u>Baseline</u> – No (February 20, 2016); <u>Target</u> – Yes (June 30, 2018)</p> <p><i>Under development objective (ii):</i></p> <p>3. <u>The timeliness of the delivery of disaster-responsive social protection</u> as indicated by the proportion of households under the Poverty Benefits Scheme (PBS) and Care and Protection Scheme (CPS) and individuals under the Social Pension Scheme (SPS) who were provided with the additional assistance within four weeks of the policy announcement.  <u>Baseline</u> – 0 percent (February 20, 2016); <u>Target</u> – 75 percent (April 5, 2016)  <i>Note: This indicator will be disaggregated by gender</i></p> <p>4. <u>The utility of the disaster-responsive social protection</u> as indicated by cyclone-affected PBS, SPS and CPS beneficiaries' expenditure on essential items as a proportion of the total expenditure made from the additional assistance provided.  <u>Baseline</u> – 0 percent (February 20, 2016); <u>Target</u> – 60 percent (May 31, 2016)  <i>Note: This indicator will be disaggregated by gender</i></p> <p>5. <u>Use of the social protection evaluation to support efforts to mainstream social protection within future disaster response</u> as indicated by whether the Department of Social Welfare has prepared recommendations for the design of a disaster-responsive social protection framework based, among other things, on the findings of the evaluation, and submitted them to the Minister for Social Welfare, Women and Poverty Alleviation.  <u>Baseline</u> – No (April 30, 2016); <u>Target</u> – Yes (June 30, 2018)</p>
Overall risk rating	Moderate
Climate and disaster risks (required for IDA countries)	<p><i>Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)?</i></p> <p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p>
Operation ID	P159774

**IBRD PROGRAM DOCUMENT FOR A  
PROPOSED LOAN  
TO THE REPUBLIC OF FIJI**

**1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY  
DEVELOPMENTS)**

1. **The proposed operation is to support Fiji's recovery from the devastating effects of Cyclone Winston, and cushion the impact of the cyclone on the most vulnerable.** The proposed operation is a stand-alone development policy loan, in the amount of US\$50 million. At the request of the Government of Fiji (GoF), the World Bank has worked closely with the Asian Development Bank (ADB) on the preparation of this operation. The ADB is expected to provide the same level of financing through an Emergency Assistance Loan, using criteria that are consistent with the Bank's proposed operation. The proposed operation is consistent with the World Bank's overall engagement with Fiji, as laid out in the Country Engagement Note discussed by the Board on February 4, 2015.

2. **Cyclone Winston, the most powerful storm on record in the Southern Hemisphere, made landfall on February 20, 2016, killing 44 people and leaving a trail of destruction across large parts of Fiji.** The damage to the housing and agriculture sectors was severe, with significant damage also to public buildings (particularly schools – with 495 schools destroyed or damaged) and to transport, electricity and communications infrastructure. Some of the worst hit areas were outlying islands. The Post-Disaster Needs Assessment (PDNA) that the GoF prepared with assistance from a Bank-led team of development partners, estimates total damage and losses to the productive, social and infrastructure sectors at US\$959 million (22 percent of GDP). Including damages to the environment and losses in eco-system services, the estimated damage and losses rise to US\$1.38 billion (31 percent of GDP). Of the damage and losses to the productive, social and infrastructure sectors, damages represented 65 percent of the total, with losses representing the remaining 35 percent. Among the damages, the housing sector was by far the worst hit, accounting for 59 percent of total damages with more than 30,000 homes destroyed or damaged, followed by transport infrastructure at 10 percent of total damages. Among the losses, the agriculture and fisheries sectors – which provide employment to an estimated 70 percent of the population – were the biggest contributors, at 61 percent of total losses. Whereas agriculture flows are expected to recover in three years, fisheries flows are expected to take ten years, because of the damage to coastal mangrove and coral reef habitats.

3. **In the wake of Cyclone Winston, and with the support of development partners and civil society organizations, the GoF has mounted a major relief effort, which is now moving into the recovery phase.** The immediate priority has been humanitarian aid, providing food, water and shelter to those affected. An estimated 485,000 people (55 percent of the population) have been affected through an interruption to the livelihood of a household breadwinner, while the housing of some 130,000 people (15 percent of the population) has been damaged or destroyed. Agricultural assistance for the replanting of food crops began very soon after the cyclone hit, a process that then had to be repeated in some areas due to heavy flooding caused by a subsequent weaker cyclone. Electricity supplies have been restored as quickly as possible, but

the extent of the damage means this process is unlikely to be completed until July. Immediate repairs of schools, to enable them to reopen, have also proceeded apace, but the full reconstruction process is likely to take until the beginning of 2017. The GoF has financed its initial relief and rehabilitation expenditures by reallocating budgeted resources from lower-priority expenditures, but as it moves into its new fiscal year on August 1, additional resources will be required to fund recovery and reconstruction activities. The PDNA estimates total recovery, reconstruction and resilience costs at US\$940 million (21 percent of GDP).

4. **Prior to the arrival of Cyclone Winston, Fiji had been experiencing a period of above-trend economic growth.** Growth averaged 4.6 percent over 2013–2015, driven by strong growth in visitor arrivals, significant public infrastructure investment, buoyant remittance inflows, and strong credit growth, all in a context of improving consumer and investor sentiment surrounding Fiji’s successful return to democracy in 2014. Growth had anyway been expected to moderate slightly to 3.8 percent in 2016, with the completion of some public infrastructure projects and the moderation of the credit cycle. In the wake of the cyclone, the growth forecast has been revised down to 2.4 percent, with cyclone-induced production losses taking 2.5 percent off the pre-disaster baseline, and recovery and reconstruction programs adding 1.1 percent back on. That cyclone-induced production losses are only expected to take 2.5 percentage points off growth in 2016 is due to the particular nature of the impact of the cyclone. Damages (14 percent of GDP) were far greater than losses (8 percent of GDP), and those losses will be incurred over 10 years (albeit with greater losses in the early years). Fiji’s core tourism, industrial and large commercial centers escaped the cyclone relatively unscathed, enabling them to continue to support growth over the medium term, as the agriculture and fisheries sectors recover.

5. **Prior to the arrival of Cyclone Winston, Fiji had been making progress with its fiscal and economic reform agenda, including public financial management (PFM) reform.** On revenue, the GoF had broadened the base of its value-added tax (VAT) by eliminating the existing exemptions. On debt, the GoF had begun to strengthen its capacity for medium-term debt management, including with technical assistance from the Bank. On public enterprise reform, the GoF had been making some progress on privatization processes. The GoF had also been proceeding with its civil service reform agenda, to improve efficiency and service delivery, including with technical assistance from the Bank. On PFM, the GoF had begun to implement a comprehensive reform program, including areas of procurement, internal audit and expenditure control in the context of devolved human resource management. A number of reform challenges remained ahead, but despite the setback imposed by Cyclone Winston and the need to focus in the near term on economic recovery and social protection, the GoF remains committed to implementing its broader fiscal and economic reform agenda over the medium term.

6. **The Program Development Objective is to: (i) support Fiji’s recovery from the immediate impact of Cyclone Winston through a prioritized and sequenced recovery plan; and (ii) cushion the immediate impact of Cyclone Winston on the most vulnerable through the provision of disaster-responsive social protection.** Under the first pillar of the operation, the GoF has completed a comprehensive PDNA, as the basis for preparing a prioritized and sequenced recovery plan. To finance critical recovery expenditures in the current fiscal year, the GoF has reprioritized its current budget, reallocating funds away from low-priority expenditures and projects it no longer has the capacity to implement in parallel with the recovery effort. Under

the second pillar of the operation, the GoF has provided disaster-responsive social protection to cushion the immediate impact of the cyclone on the most vulnerable, and begun an evaluation of this initiative with a view to informing the design of a disaster-responsive social protection framework for future natural disasters. A development policy operation (DPO) was selected to assist Fiji, because of the need for quick-disbursing funds to help Fiji implement its recovery program in the coming fiscal year without crowding out other essential expenditure, because Fiji has the capacity to manage key aspects of its recovery program itself, and because it facilitates the close coordination of financing with the ADB that Fiji specifically requested.

**7. The proposed operation carries a moderate level of risk, on account of the potential limits to the capacity of Fiji's public sector to manage the entirety of the recovery effort, the macroeconomic risks to the operation, and the Bank's still relatively recent reengagement in Fiji.** While the capacity of Fiji's public sector is strong by Pacific small island standards, the magnitude of this natural disaster is somewhat beyond what Fiji has experienced before, and there is a risk that the public sector's capacity to plan and manage the implementation of the entirety of the recovery effort may be stretched too thinly. This risk is being mitigated by the considerable support development partners are providing to the GoF with the planning and implementation of the recovery program. With respect to macroeconomic risks, the cyclone has intensified the challenge Fiji faces with fiscal consolidation. Any delays to the planned fiscal consolidation, or additional economic shocks that intensify the challenge still further, will undermine Fiji's ability to implement its recovery program effectively. This risk is being mitigated by the World Bank and ADB through the provision of budget support, strengthening Fiji's fiscal position to support the implementation of its recovery program, in turn supporting economic growth over the medium term and thus helping to bring forward the point at which fiscal buffers can be rebuilt. Fiji has little recent experience with Bank operations, and the Bank's program is in the early stages of development, posing a further important risk to the operation that is being mitigated by an increased in-country presence to strengthen the country relationship.

**8. Prior to Cyclone Winston, there was evidence that poverty rates in Fiji were falling.** Extreme poverty is rare in Fiji, but many people still live below the national basic-needs poverty line.<sup>1</sup> Preliminary estimates from the 2013/14 Household Income and Expenditure Survey (HIES), show a decline in the proportion of the population living below the basic-needs poverty line to 28.1 percent, from 31 percent in the 2008/09 HIES.<sup>2</sup> Within that overall trend, rural poverty – which is much higher than urban poverty – fell from 43 percent to 36.7 percent, and urban poverty rose from 18 percent to 19.8 percent. Poverty rates are highest in the Northern and Eastern Divisions – areas that were hit hard by the cyclone – at 47.9 percent and 40.0 percent respectively. The Central Division, with its large informal settlements around the capital Suva, has the highest number of people living in poverty. Gender disaggregated poverty data is not yet available from the 2013/14 HIES, but World Bank analysis of the 2008/09 HIES did not find evidence of female-headed households being more likely to be in poverty than male-headed households. Inequality appears to have decreased between the 2008/09 and 2013/14 HIES, with the income share of the

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<sup>1</sup> Estimates based on the 2008/09 HIES suggest that 4 percent of Fiji's population are below the internationally comparable 2011 PPP US\$1.90 poverty line, with 17 percent below the 2011 PPP US\$3.10 line.

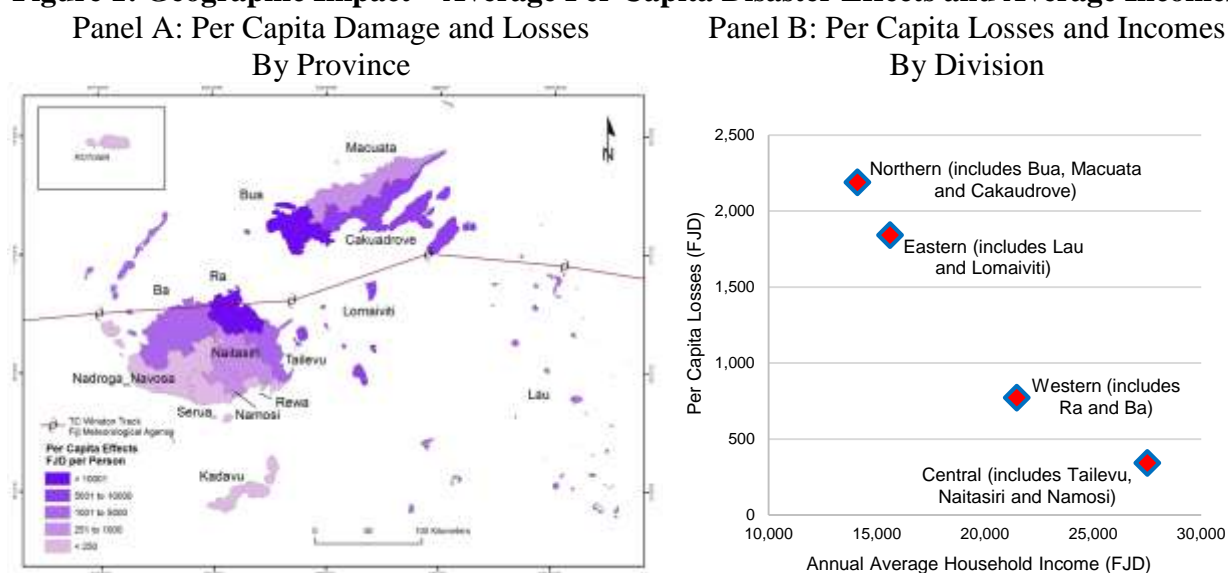
<sup>2</sup> The figures reported here are income-based estimates produced by the Fiji Bureau of Statistics.



top three deciles falling and that of the bottom seven deciles rising between the surveys. Inequality is significantly higher in urban areas, than in rural areas.

9. **Fiji's poverty and inequality dynamics may worsen as a result of the cyclone, but the GoF is taking active measures to mitigate this detrimental impact.** The PDNA shows that the highest per capita damage and losses have been incurred in the areas where average household incomes are lower (see Figure 1). This is because the path the cyclone took was primarily across rural areas of Fiji, where average household incomes are lower, housing is less robust and agriculture is of overwhelming importance to livelihoods. The GoF is therefore expecting some deepening of poverty for people already below the basic needs threshold, and for some of the near-poor to fall below the basic needs threshold. Fiji's inequality dynamics may also change as a result of the cyclone, given that production losses to public servants and other salaried employees in urban areas were minimal, whereas production losses to those engaged in agriculture and fisheries in rural areas were substantial.

**Figure 1: Geographic Impact – Average Per Capita Disaster Effects and Average Incomes**



Source: PDNA

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1 RECENT ECONOMIC DEVELOPMENTS

10. **Prior to the cyclone, Fiji's growth momentum was strong.** GDP growth reached an estimated 4 percent in 2015 following 5.3 percent growth in 2014 – well-above the historical average of 2 percent. Strong credit growth, buoyant remittances, and improved labor market conditions boosted consumer demand. Strong visitor arrivals (up 11 percent year-on-year in the three months to January 2016) and government spending on infrastructure also supported the above-trend growth. When the cyclone hit in February 2016, it left Fiji's core tourism, industrial, and large commercial centers relatively unscathed, but the agricultural sector – including sugarcane, Fiji's main export commodity – sustained significant damage. In addition, transport,

electricity and communications infrastructure were damaged in the affected areas, with consequent direct and indirect losses to productive activity.

**Table 1: Selected Macroeconomic Indicators**

	2013	2014	2015	Pre-Cyclone			Post-Cyclone		
			est.	2016 proj.	2017 proj.	2018 proj.	2016 proj.	2017 proj.	2018 proj.
Real Economy	Annual percentage change, unless otherwise indicated								
GDP (USD million)	4,196	4,532	4,782	4,995	5,183	5,381	4,853	5,093	5,348
Real GDP growth	4.6	5.3	4.0	3.8	3.2	3.1	2.4	3.9	3.7
Consumer prices (period average)	2.9	0.5	1.4	2.0	2.5	2.8	2.1	3.0	2.6
Fiscal Accounts	Percent of GDP, unless otherwise indicated								
Revenue	27.0	27.6	28.2	29.3	29.1	29.2	29.0	29.1	29.2
Expenditure	27.6	31.8	32.8	34.4	33.5	32.5	36.0	34.5	32.2
Current	19.5	20.3	21.1	20.8	19.2	17.7	21.6	19.9	18.1
Capital	8.1	11.5	11.7	13.6	14.3	14.8	14.4	14.6	14.1
Overall balance	-0.6	-4.3	-4.6	-5.1	-4.4	-3.3	-6.4	-5.0	-2.9
Balance of payments	Percent of GDP, unless otherwise indicated								
Current account balance	-9.8	-7.2	-5.4	-7.9	-6.5	-6.2	-7.8	-8.2	-8.5
Imports	74.2	62.8	54.6	68.5	74.6	61.6	71.8	79.0	65.7
Exports	56.6	54.8	49.8	55.7	56.9	52.8	57.3 <sup>a/</sup>	58.9	53.1
Gross Reserves (USD million)	990	1,010	1,062	1,136	1,183	1,242	942	959	988
In months of imports	5.3	5.2	5.1	4.8	4.5	4.9	3.8	3.5	4.3
External debt	21.1	22.1	20.9	21.0	20.2	19.5	22.8	22.0	21.1
External debt (USD million)	885	1,000	999	1,056	1,064	1,073	1,156	1,164	1,173
Memorandum items:									
Exchange rate (FJD/USD, period average)	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.1
GDP (FJD million)	7,727	8,553	9,129	9,712	10,279	10,885	9,622	10,401	11,139

Note: a/ The higher post-cyclone export projection is driven by two factors: (i) a relatively strong recovery in services exports (especially tourism and transport); and (ii) lower GDP forecasts in the denominator. As explained in the text, goods exports are the main casualty of the cyclone, and the underlying projections for post-cyclone goods exports are correspondingly lower.

Sources: Fiji Bureau of Statistics, IMF, RBF and WDI. Projections are Bank staff estimates.

**11. Headline inflation has risen but remains low.** Year-on-year inflation rose to 1.2 percent in February 2016 from 0.2 in January 2016, with demand pressures offsetting the reduction in VAT from 15 to 9 percent and lower prices for imported food and fuels. Moderate exchange rate depreciation – by 5.5 percent against the US dollar in the year to January 2016 – also contributed to the uptick. Despite some pressures from localized crop losses and food shortages (with reports of sharp increases in the prices of local produce in markets in some areas), the latest figure for inflation was 0.8 percent in the year to March 2016, reflecting continued softness in global food and fuel prices.

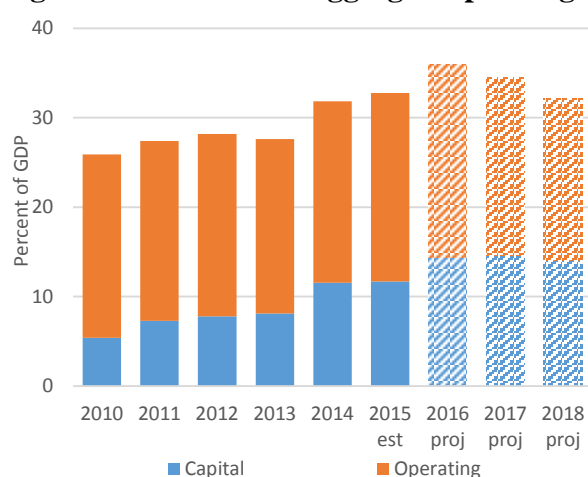
**12. The current account deficit is relatively high, at around 8 percent of GDP.** Fiji has a large structural deficit on the merchandise trade account, which is offset to a large degree by a large services surplus (linked to tourism and Fiji's position as a transport hub) and high levels of remittances. Fiji's international airports were reopened within days of the cyclone, minimizing the disruption to the tourism industry. However, the damage done to sugar and other export crops

by the cyclone, together with an increase in recovery and reconstruction-related imports, will worsen the merchandise trade deficit. Foreign reserves remain comfortable, at around 5.7 months of imports in February 2016 and 5.6 months of imports in March 2016.

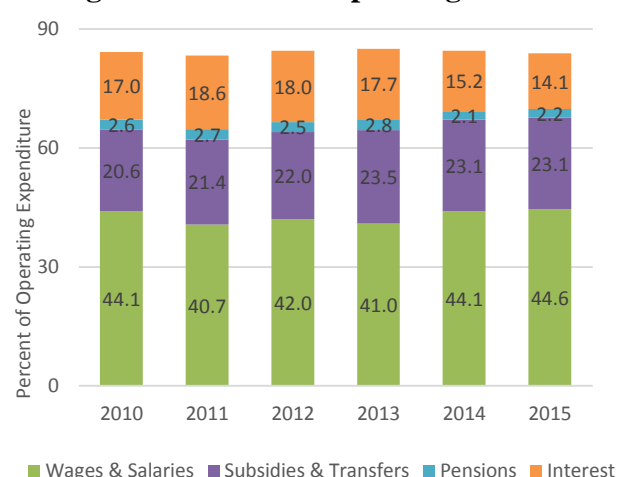
13. **The exchange rate remains stable.** The Fiji dollar, which is pegged to a basket of five currencies (the US dollar, Australian dollar, New Zealand dollar, Japanese yen, and euro), depreciated by about 6 percent in 2015 against the US dollar, averaging \$0.475 in 2015 compared with \$0.503 in 2014. The nominal effective exchange rate, however, rose marginally by 0.2 percent, and the real effective exchange rate rose by 1.2 percent. In the first two months of this year, the Fiji dollar remained stable against the basket of currencies, with continued depreciation against the US dollar (-4.7 percent on the year), the yen (-9.2 percent), and the euro (-2.3 percent), while it appreciated against the Australian dollar (3.9 percent) and the New Zealand dollar (7.9 percent). The nominal effective exchange rate has remained largely unchanged while the real effective exchange rate fell by 2.2 percent.

14. **The fiscal deficit (excluding privatization receipts) widened to an estimated 4.6 percent of GDP in 2015 from 4.3 percent in 2014,<sup>3</sup> driven by continued expansion in government spending.** The increase in expenditure in recent years has been driven by capital spending on infrastructure and recurrent spending on education and health, consistent with national priorities (Figure 2). Within the context of an overall increase in spending, the rigid part of public expenditure (wages, salaries, pensions, and interest payments) has gradually declined from 64 to 61 percent of current spending since 2010. On the other hand, subsidies and transfers have increased both in nominal terms as a share of current expenditure, from around 21 percent to 23 percent since 2010 (Figure 3). The main sources of the increase have been subsidies to primary schools and subsidies to transport providers to enable school children to receive free bus fares for their travel to and from school.

**Figure 2: Evolution of aggregate spending**



**Figure 3: Recurrent spending breakdown**



Source: Fiji Ministry of Finance, World Bank staff calculations.

<sup>3</sup> Based on the national convention which includes privatization receipts as revenue, the estimated budget deficit in 2015 was 2.5 percent of GDP compared to 4.1 percent in 2014. (In 2015, the GoF sold part of its stakes in Fiji Ports Corporation Limited and Amalgamated Telecom Holdings Ltd, yielding FJD 188.2 million in privatization receipts.)

**15. Fiji has relatively high tax revenue by Pacific standards, representing around 24 percent of GDP and financing around 90 percent of the budget.** The main sources are personal and corporate income taxes, VAT, and customs and excise duties, which together make up 80 percent of total domestic revenue. In January this year, the government removed VAT exemptions from a number of basic items to broaden the tax base and reduce compliance costs. At the same time, the VAT rate was reduced from 15 to 9 percent. Additional revenue-raising measures were introduced to supplement tax revenue (including an increase in services turnover tax and an environmental levy on tourism activities).

**16. The fiscal deficit is likely to remain elevated this year as the GoF responds to Cyclone Winston.** Before the cyclone, the estimated budget deficit for the 2016 fiscal year was 5.1 percent of GDP, as the government's planned infrastructure projects continued.<sup>4</sup> The post-cyclone deficit for 2016 is expected to rise to 6.4 percent of GDP. Underlying this is a slight weakening of expected revenue, offset by an increase in grants. On the expenditure side, capital expenditure is expected to increase relative to the pre-cyclone projections, but the increase is relatively modest when compared with the extent of the damages caused by the cyclone. This due mainly to the fact that the capital spending plans stipulated in the original budget were ambitious, and in light of the large post-cyclone reconstruction requirements the government has worked to redirect its resources and implementation capacity towards key priorities for the recovery, thus mitigating the overall increase in expenditure.

**17. The banking sector remains well-capitalized and has low non-performing loans (NPLs).** The capital adequacy ratio was 14.4 percent in the final quarter of 2015, above the minimum prudential requirement of 12 percent, and the NPL ratio had fallen to less than 2 percent. However, the record low official interest rates (0.5 percent since 2011), increased competition in the banking sector, and increased confidence has stimulated double-digit credit growth for almost three years, both in the household and corporate sectors. Many loans carry variable rates, making borrowers vulnerable to the risk of an interest rate hike. If inflation moves closer to the Reserve Bank of Fiji's informal target of 3 percent, managing the tightening of domestic interest rates could prove difficult without wider disruptions in domestic demand. In the near term, however, credit growth is expected to moderate in the wake of the cyclone.

**18. Fiji's public debt is sustainable.** Public debt has been falling as a share of GDP over recent years, as Fiji's strong economic growth has outpaced the nominal increase in its public debt. Public debt stood at about 46 percent of GDP at the beginning of 2016. Fiji's external debt, at about 21 percent of GDP at the beginning of 2016, is low by regional standards. It has risen relatively quickly over the last decade, however, with the issue of a \$250 million US dollar-denominated sovereign bond and increases in bilateral loans for infrastructure financing. With improved access to external finance since the election in 2014, the government's external borrowing may rise further. In September 2015, the GoF refinanced the \$250 million US dollar bond issued in 2011 (which carried a 9 percent coupon rate), with a new five-year US dollar bond of \$200 million at 6.6 percent, reducing debt servicing costs. (The GoF had accumulated a sinking fund for the bond, accounting for the US\$50 million reduction in its value.)

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<sup>4</sup> The GoF is implementing these major infrastructure projects as privatization-funded initiatives. When privatization receipts are accounted for as revenue, the pre-cyclone estimate for the 2016 fiscal year deficit is 3 percent of GDP.

**Table 2: Selected Fiscal Indicators**

	2013	2014	2015	Pre-Cyclone			Post-Cyclone		
			est.	2016 proj.	2017 proj.	2018 proj.	2016 proj.	2017 proj.	2018 proj.
Percent of GDP, unless otherwise indicated									
Revenue and grants							29.6	29.5	29.3
Revenue	27.0	27.6	28.2	29.3	29.1	29.2	29.0	29.1	29.2
Tax revenue	24.3	24.8	25.5	26.3	26.4	26.6	26.0	26.4	26.6
Direct taxes	5.7	6.1	6.0	6.3	6.4	6.4	6.3	6.4	6.5
Indirect taxes	18.6	18.7	19.4	20.0	20.1	20.1	19.8	20.1	20.1
Non-tax revenue & grants	2.7	2.8	2.7	3.0	2.7	2.6	3.6	3.2	2.7
Expenditure	27.6	31.8	32.8	34.4	33.5	32.5	36.0	34.5	32.2
Current	19.5	20.3	21.1	20.8	19.2	17.7	21.6	19.9	18.1
Wages and salaries	8.0	8.9	9.4	9.0	8.4	7.8	9.2	8.7	7.9
Goods and services	1.0	1.0	1.1	1.0	0.9	0.9	1.3	1.2	0.9
Interest payments	3.5	3.1	3.0	3.3	2.9	2.6	3.3	2.9	2.7
Current transfers	5.2	5.2	5.4	5.4	4.9	4.5	5.5	5.1	4.6
Pension	0.5	0.4	0.5	0.5	0.4	0.4	0.5	0.4	0.4
Subsidies, grants, & other commitments	4.6	4.7	4.9	4.8	4.4	4.1	5.0	4.6	4.2
Capital	8.1	11.5	11.7	13.6	14.3	14.8	14.4	14.6	14.1
Overall balance	-0.6	-4.3	-4.6	-5.1	-4.4	-3.3	-6.4	-5.0	-2.9
Financing	0.6	4.3	4.6	5.1	4.4	3.3	6.4	5.0	2.9
External	0.2	1.5	1.6	1.8	1.6	1.2	3.3	2.1	0.8
Domestic	0.4	2.7	3.0	3.3	2.8	2.1	3.1	2.9	2.1
Memorandum items:									
Exchange rate (FJD/USD, period average)	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.1
Nominal GDP (FJD million)	7,727	8,553	9,129	9,712	10,279	10,885	9,622	10,401	11,139

Note: Budget support expected from the World Bank and ADB is included in the post-cyclone financing figures in this table.

Sources: Fiji Bureau of Statistics, IMF, RBF and WDI. Projections are Bank staff estimates.

## 2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

19. **The growth projection for 2016 has been revised downwards, to account for the impact of Cyclone Winston.** The pre-cyclone projection of 3.8 percent has been revised down to 2.4 percent, with cyclone-induced production losses taking 2.5 percent off the pre-disaster baseline, and recovery and reconstruction programs adding 1.1 percent back on. The moderate extent of cyclone-induced losses reflects the nature of the impact of Cyclone Winston, with only 35 percent of total damages and losses being losses (equivalent to about 8 percent of GDP), and those being spread over ten years (albeit with greater losses in the early years). The boost from recovery and reconstruction programs includes the significant economic stimulus represented by the post-cyclone measures allowing provident fund members to withdraw up to FJD 1,000 of their savings, plus a further FJD 5,000 if they have a property in a cyclone-affected area, which is estimated to have injected some FJD 250 million into the economy. The forecast for 2016 is subject to considerable uncertainty, particularly regarding the timing of reconstruction activity. Over the medium term, growth is expected to remain reasonably strong by historical standards, supported by the continued strength of Fiji's tourism industry (which escaped the cyclone relatively unscathed), significant public spending on recovery and reconstruction, strong remittances and continued consumer and investor confidence. Inflation is expected to rise to 2–3 percent, as shortages in some foods, strong domestic demand, and capacity constraints in the

context of reconstruction activity put some upward pressure on prices. The extent of price pressures is expected to be mitigated by government price controls on basic items.

### **Box 1: Macroeconomic Impact of Cyclone Winston**

**Output losses and slower GDP growth.** Fiji's core tourism, industrial, and large commercial centers were relatively unscathed but agriculture and fisheries sustained significant damage and losses. The estimated cost of lost production from the cyclone is US\$336 million. The disaster-induced losses in production are expected to reduce GDP growth by 2.5 percentage points in the first year relative to the pre-disaster baseline (with recovery and reconstruction activities adding 1.1 percent back on), and 0.7 and 0.3 percentage points in the following two years (excluding reconstruction activities).

**Increase in inflation.** The annual rate of inflation in March was subdued at 0.8 percent despite some pressures from localized crop losses and food shortages (with reports of sharp increases in the prices of local produce in markets in some areas). Widespread price controls and continued softness in global food and fuel prices are expected to keep price pressures under control in the short run, but inflation is expected to rise to 2–3 percent in the medium term as stronger domestic demand and capacity constraints from reconstruction activities add to pressures from recovering global oil prices.

**Widening trade deficit.** Sugar and other export crops have been hurt by the cyclone, while gold mining sustained losses from disruptions to production. The country's two international airports, however, were reopened within days of the cyclone, protecting tourism and transportation exports. The merchandise trade deficit will worsen from weaker exports and stronger import demand for reconstruction, but buoyant services exports (primarily tourism and transport), strong remittances and – to a lesser extent – grants from donors, are expected to provide relief on the current account and balance of payments.

**Widening fiscal deficits.** Prior to the cyclone, the estimated budget deficit for 2016 was 5.1 percent of GDP. Following the cyclone, the deficit is expected to rise to 6.4 percent of GDP. Tax revenue is expected to weaken slightly relative to the pre-cyclone baseline, given slightly lower domestic demand, but should be offset by higher grants. Capital expenditure is expected to increase relative to the pre-cyclone baseline, but the increase is relatively modest given strong efforts by the GoF to reprioritize its existing capital works program in order to support the recovery program.

**Depreciation.** The Fiji dollar is expected to depreciate slightly in 2016–18, as a result of higher imports for the recovery and reconstruction effort, higher inflation, and a stronger US dollar.

**Higher public and external debt.** Before the cyclone, public debt stood at about 46 percent of GDP and external debt remained low at about 21 percent of GDP. With post-cyclone reconstruction needs, public and external debt are expected to rise in nominal terms, but remain on a downward trajectory as a share of GDP, as economic growth remains above the historical average.

20. **The Fiji dollar is expected to continue to depreciate relative to the US dollar in 2016–18, both as a result of a stronger US dollar and higher domestic inflation.** Current account deficits will likely remain elevated, as recovering oil prices and stronger import demand for reconstruction raise imports, while weak gold prices, crop losses, and lower EU preferential prices for sugar depress exports. The sugar industry is expected to come under further pressure when preferential access to the European market ends in 2017. Foreign reserves are forecast to decline over the medium term but to remain adequate.

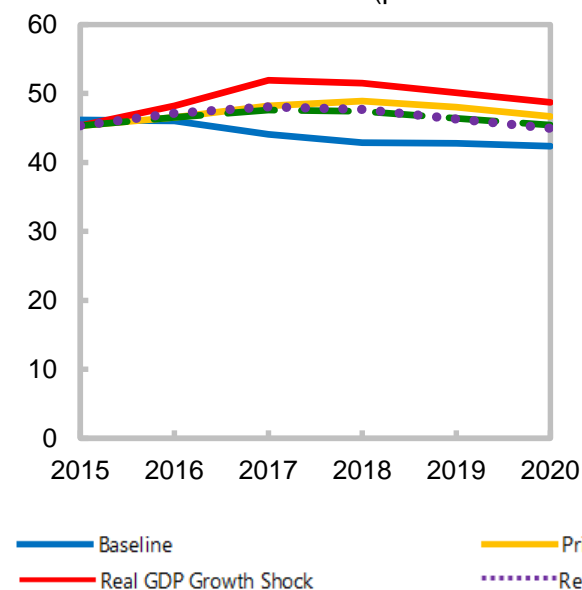
21. **Public finances will remain in deficit over the medium term, with achieving fiscal consolidation a key challenge going forward.** Prior to the cyclone, the deficit was estimated to decline from 5.1 percent of GDP in 2016 to 4.4 percent in 2017 and 3.3 percent in 2018, fiscal

consolidation that depended on significant restraint on current expenditure. Given the pressing need to support the recovery of the economy and assist possibly increased numbers of poor and vulnerable households in the aftermath of the cyclone, fiscal consolidation will necessarily be delayed. This will make it more of a challenge, but at the same time underscores the importance of undertaking it in order to bring forward the point at which the GoF can begin to rebuild its fiscal buffers to respond to future shocks. The GoF has articulated a clear commitment to medium-term fiscal consolidation, including to maintain consumer and investor confidence in the lead up to the 2018 election. A credible plan for fiscal consolidation will involve a combination of strengthened revenue mobilization, recurrent expenditure control, the timely completion of post-cyclone reconstruction, and prudent borrowing. The technical assistance that will be provided by the Bank for a public expenditure review, together with ongoing assistance for civil service reforms, should support Fiji's fiscal consolidation efforts.

**22. Debt sustainability analysis using Fiji's post-cyclone macroeconomic projections indicates that public debt remains sustainable.** Under the baseline, economic growth above the historical average in the short term together with fiscal consolidation in the medium term helps to maintain public debt on a downward trajectory. This is despite higher borrowing in the short term to finance post-cyclone reconstruction, and the modest reduction in economic growth in the short term relative to pre-cyclone forecasts. Stress tests show public debt sustainability to be most vulnerable to the growth and combined macro-fiscal shocks, but even with these shocks debt remains well below 60 percent of GDP over the projection period. Stress tests indicate that external debt sustainability is most vulnerable to shocks to the exchange rate and to non-interest flows (for instance, declines in remittances and foreign direct investment), but relatively resilient to shocks to growth and market interest rates, given the relatively low level of external debt and the predominance of concessional and fixed interest rate debt.

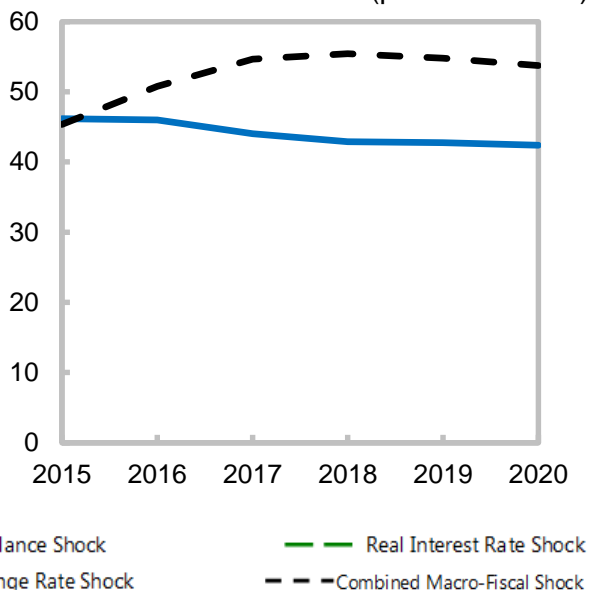
**Figure 4: Public Debt Stress Tests**

Gross Nominal Public Debt (percent of GDP)



**Figure 5: Combined Macro-Fiscal Shock**

Gross Nominal Public Debt (percent of GDP)



Source: World Bank staff estimates.

23. **Risks to the macroeconomic outlook are tilted to the downside.** A sharper-than-expected slowdown in China could have a significant knock-on effect on demand for Fiji's exports directly and indirectly through lower demand from Australia and New Zealand (particularly as Fiji's main sources of tourists). As the recent cyclone underscores, Fiji is vulnerable to extreme weather which could simultaneously disrupt several key export industries, including sugar and tourism. Domestically, low official interest rates have stimulated double-digit credit growth. While the banking sector remains well capitalized with a low ratio of NPLs, managing the eventual 'lift-off' as inflation nears the central bank's informal target of 3 percent could prove difficult without wider disruptions in domestic demand.

24. **The macroeconomic policy framework is adequate for the proposed operation.** While in the near term there is a pressing need to support economic recovery and assist poor and vulnerable households to rebuild their livelihoods in the aftermath of the cyclone, the GoF needs to formulate a credible plan for fiscal consolidation to be implemented over the medium term. The GoF has articulated its commitment to medium-term fiscal consolidation, and in general Fiji has a demonstrated capacity for prudent fiscal management. A credible plan for fiscal consolidation will involve a combination of strengthened revenue mobilization, recurrent expenditure control, the timely completion of post-cyclone reconstruction, and prudent borrowing. If implemented successfully, it will enable the GoF to begin to rebuild its fiscal and debt buffers to respond to future economic shocks.

### 3. THE GOVERNMENT'S PROGRAM

25. **Fiji's government was elected on a platform of promoting an 'inclusive and economically strong Fiji' for all Fijians, with a commitment to 'increase living standards, and lift the poor and marginalized'.** An overarching priority for the GoF is to provide income and employment opportunities for all Fijians. As both a foundation for strong and inclusive economic growth, and as a key aspect of the GoF's focus on 'A Fair Fiji', significant emphasis is placed on the delivery of basic services – particularly health and education services – and the provision of key infrastructure. The GoF also places a high priority on poverty reduction through the provision of social protection and housing assistance, scholarships, and other socioeconomic development grants. It has continued with the agenda it initiated prior to the election, of expanding the provision of social protection, improving its targeting, and increasing its administrative efficiency. Expenditure allocations for social protection programs have increased steadily over the last six years, to what is now the equivalent of 1 percent of GDP.

26. **In the 2016 budget address, the GoF confirmed its commitment to create an environment conducive to inclusive, private sector led growth.** While the election in 2014 helped to boost investor confidence, the GoF recognizes that sustained increases in private investment require structural reforms to improve the business climate. In this regard, the GoF has begun to focus on how it can create a more efficient regulatory environment and reduce the costs of starting a business. Even prior to the cyclone, increasing emphasis was being placed on strengthening the overall resilience of the economy – including in respect of disaster risk reduction – and on strengthening the capacity of the GoF to respond effectively to natural disasters – including through contingency fund arrangements.



27. **The GoF has started to tackle some difficult areas of reform to support fiscal sustainability.** Priorities include greater revenue mobilization, better monitoring of spending in the context of the decentralization of decision-making on personnel and remuneration, improved management of public debt, stronger accountability through strengthened procurement regulations, strengthened internal audit and more frequent and comprehensive public financial reporting, and a review of the legislative and incentive framework to strengthen compliance with PFM regulations. On revenue mobilization, the government is working to improve tax compliance (tackling, in particular, the relatively large level of arrears), and expand the tax base. In January 2016 the GoF removed VAT exemptions from a number of basic items (including rice, cooking oil, fish, flour, tea, powdered milk, kerosene, and prescription drugs), reduced the VAT rate from 15 to 9 percent, increased the services turnover tax, introduced an environmental levy on tourism activities, and placed additional taxes on alcohol, tobacco and other unhealthy food and drinks that contribute to non-communicable diseases.

28. **In the 2016 budget, the GoF reiterated its commitment to debt sustainability.** While Fiji is at low risk of debt distress, the severity of infrastructure backlogs – now exacerbated by the damage caused by Cyclone Winston – means the demand for capital over the coming years is likely to be substantial. The GoF has committed to reducing public debt to below 45 percent of GDP in the medium term and 40 percent in the longer term (from the current 47 percent of GDP), through prudent fiscal management and stronger debt management. The World Bank’s Debt Management Performance Assessment in 2014 highlighted several areas of weaknesses in Fiji’s public debt management, including procedures for external and domestic borrowing, medium-term planning, risk management, and reporting. The GoF has since begun work to address some of these weaknesses, including in the area of staff capacity.

## **4. THE PROPOSED OPERATION**

### **4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION**

29. **The proposed operation supports the overarching priority of GoF on enabling Fiji to recover from Cyclone Winston.** A key aspect of this priority is strengthening Fiji’s resilience to future natural disasters. The first pillar of the proposed operation supports Fiji’s recovery from the immediate impact of Cyclone Winston through a prioritized and sequenced recovery plan, based on a comprehensive PDNA, and through the reallocation of budget funds in the current fiscal year in order to be able to finance immediate relief and rehabilitation expenditures. It also supports the government’s efforts to strengthen Fiji’s resilience to natural disasters over the medium term, because resilience-building has been mainstreamed in the recovery plan. At a broader level, the first pillar of the proposed operation supports the objectives of the government program to achieve strong and inclusive economic growth, and to provide basic services and infrastructure to the people of Fiji. This is closely aligned with the broader World Bank Group (WBG) goal of boosting shared prosperity.

30. **The proposed operation also supports the high priority of the GoF on mitigating the impact of the cyclone on the poor and marginalized.** The second pillar of the proposed operation supports Fiji’s provision of disaster-responsive social protection in the wake of Cyclone

Winston, to cushion its impact on the most vulnerable. It also helps the GoF move towards the establishment of a disaster-responsive social protection framework in advance of future natural disasters, to strengthen the resilience of poor and vulnerable groups to these shocks over the medium term, through the initial step of comprehensively evaluating the impact of the post-Cyclone Winston initiative. At a broader level, this supports the objectives of the government program to reduce poverty and provide social protection to the poor and marginalized. This is closely aligned with the broader WBG goal of reducing poverty.

**31. By supporting these two critical government priorities in the aftermath of the cyclone, the proposed operation reinforces the GoF's focus on them and strengthens the prospects of their being achieved successfully.** Beyond the immediate aftermath of the cyclone, the focus of the Bank's economic policy dialogue will return to broader fiscal policy, debt policy and PFM reforms, with a continued focus on economic resilience to shocks and with continued support for the GoF's civil service reform agenda.

**32. The proposed operation reflects lessons learned from previous post-disaster development policy operations in the Pacific Islands.** The Implementation Completion and Results Reports (ICRs) from these operations have emphasized how critical coordinated international financial and technical support is in the aftermath of natural disasters in Pacific Islands. In the current case, the Bank has coordinated closely with the ADB on the policy areas being supported and the financial assistance being provided, has worked with the Fund on the macroeconomic assessment, and has led the coordination of the many development partners involved with the PDNA. The ICRs have also shown how project-level engagements by Bank teams can be helpful in identifying key priorities to be supported through DPOs, in this instance from the Bank's disaster-response team leading the donor side of the PDNA process, and the Bank's social protection team engaging with the GoF on disaster-responsive social protection.

## **4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS**

### **Program Development Objective (i) –**

**Support Fiji's recovery from the immediate impact of Cyclone Winston through a prioritized and sequenced recovery plan.**

***Prior Action 1: The Borrower, through its Minister for Finance, has: (a) completed a Post-Disaster Needs Assessment; and (b) submitted to the Borrower's Cabinet the Disaster Recovery Framework, as evidenced through the copies of the Post-Disaster Needs Assessment and Disaster Recovery Framework and the letter from the Minister for Finance, dated May 24, 2016.***

**34. A comprehensive assessment of the damage and losses caused by Cyclone Winston is a critical foundation for the GoF to be able to plan and manage an effective recovery operation and strengthen its disaster risk management (DRM) system for the future.** The PDNA that the GoF prepared with assistance from a Bank-led team of development partners identifies and quantifies the extensive damage and losses caused to each of the productive, social and infrastructure sectors, as well as assessing the macroeconomic impact of the cyclone together with its employment, livelihoods and social impact. In addition, the PDNA provides a detailed

assessment of the governance and performance of Fiji's DRM system, and makes recommendations for strengthening the DRM system for future natural disasters, and supporting economic and social resilience over the medium term. The GoF's ownership of the PDNA has been exceptionally strong. Fiji's National Disaster Management Office and National Planning Office, together with the ministries and agencies they coordinate, have extensive experience with managing both relief and recovery efforts. Although the magnitude of this disaster is beyond what Fiji has previously faced, they led a very effective immediate relief effort and carried out initial damage and loss assessments themselves to feed into the formal PDNA process. That process has been led by the GoF, with the exceptionally strong government ownership and commitment clearly evident to external assistance providers.

**35. The GoF has used the PDNA as a basis for formulating a Disaster Recovery Framework (DRF) which sets out a prioritized and sequenced recovery plan for the medium term.** The vision for the recovery is 'A stronger and more resilient Fiji', with the DRF guided by principals of 'building back better', being 'inclusive' and being 'pro-poor'. There are four recovery priorities under the DRF, with resilience mainstreamed in each one. The first is 'rebuilding homes'. The DRF includes a training and communication component in construction techniques that improve the robustness of housing, and policy work to strengthen the building code and its enforcement and enhance the regulation of the construction sector (with assistance from Standards Australia). The second recovery priority is 'restoring livelihoods', including the provision of additional social protection assistance to poor and vulnerable groups. There are also components on restoring agricultural and fisheries earnings through the provision of agricultural and fisheries inputs and equipment, and improving the resilience of earnings through such things as improved crop varieties, cyclone-resilient infrastructure and training on cultivation practices. The third recovery priority is 'repairing and strengthening critical infrastructure', with a focus on schools and educational materials, other public buildings like health facilities, and transport, water and sanitation, electricity and communications infrastructure. All GoF investments in public assets will be disaster resilient, making the assets more sustainable but also more cost-effective in the long run. The fourth recovery priority is a dedicated pillar on 'building resilience', including an institutional review of the current DRM structure, a monitoring and evaluation framework for the mainstreaming of DRM across government, a review of procurement policies to facilitate recovery activities, and a comprehensive review of the insurance sector.

**36. The DRF will serve as a strategic management tool for the GoF to plan and implement its recovery effort over the next two years.** Priority activities under the first year of the DRF will be included in the FY2017 budget, which is scheduled to be presented to Parliament on June 22, 2016. The DRF will also serve as a focal point for the mobilization of resources from development partners and the coordination of development partner assistance throughout the recovery effort. The draft DRF provides tentative information on the costs of planned recovery activities and the possible financing gap, which on the current estimates will be approximately one-third filled by planned budget support from the Bank and ADB. With the draft DRF now complete, the GoF has begun to present it at a series of donor meetings, with a view to mobilizing assistance to fill the remainder of the financing gap. Prior to the start of FY2017, the GoF will formulate a results-oriented monitoring framework for the implementation of the DRF. It will be operated by a dedicated implementation coordination team led by the Ministry of Finance, which will provide regular reports on implementation progress to the Minister for Finance.

***Prior Action 2: The Borrower has reprioritized budgeted funds in the current fiscal year to finance its immediate recovery expenditures in accordance with the Financial Management Act 2004 and Finance Instructions 2010, as evidenced through the letter from the Minister for Finance, dated May 24, 2016.***

37. **The GoF has reprioritized budgeted funds in the current fiscal year, to enable it to finance its immediate recovery expenditures in a timely manner, without crowding out other essential expenditure.** When Cyclone Winston hit Fiji in late February, the GoF was two months into its new fiscal year but was also already planning to institute a change to the fiscal year from January-to-December to August-to-July. (Part of the rationale for this change was to avoid having the fiscal year begin in the midst of Fiji's cyclone season, which meant the fiscal year often began with a cyclone-induced revision to the budget). That meant that the current fiscal year would need be truncated in July. The decision to finance the GoF's relief and recovery effort this fiscal year through a reallocation of budgeted funds, with new borrowing to fund additional recovery expenditure next fiscal year, was made in light of this concurrent change in the fiscal year. The Ministry of Finance and National Planning needed to work with line ministries anyway to revise their budgets for the transitional seven-month fiscal year, so could utilize that process to reassess expenditure priorities in light of post-cyclone recovery needs. Relying on reallocation, rather than arranging new borrowing, gave the GoF certainty that it could finance its immediate relief and recovery expenditures in a timely manner.

38. **The reprioritization of the budget has involved the reallocation of funds away from lower priority expenditures and projects the GoF lacks the capacity to implement in parallel with the recovery effort, in order to fund critical recovery expenditures.** These critical recovery expenditures have included extensive relief and reconstruction work to provide for the basic needs of those affected, including restoring water, sanitation, transport and other vital infrastructure, and providing agricultural inputs to enable people to replant their food crops and rebuild their livelihoods as quickly as possible. The priority expenditures have also included a FJD 70 million 'Help for Homes' initiative, which provides vouchers to lower-income households whose homes were damaged or destroyed by the cyclone to use for repairs and reconstruction, with the amount of the voucher scaled to the extent of the damage.<sup>5</sup> In addition, the GoF has implemented a FJD 20 million disaster-responsive social protection initiative (discussed below). To fund these expenditures, the GoF drew on its budgetary allocation for the contingency of disasters, but the bulk of the resources have come from the reprioritization of budgeted funds. In part, this has involved the Ministry of Finance consulting with key line ministries to reallocate funds, with the Ministry of Agriculture for instance funding the distribution of agricultural inputs by reallocating funds from non-urgent capital projects like laboratory upgrades and research programs, and the Ministry of Maritime and Rural Development and National Disaster Management funding the disaster-related operations by reallocating funds from non-urgent capital projects and land utilization schemes. In part also, this has involved the Ministry of Finance redirecting resources from expenditures that need to be made after August 2016, which can be replenished in the upcoming budget. This reprioritization process has funded some FJD 193 million (6 percent of total expenditure and 17.5 percent of the capital budget) in cyclone-related

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<sup>5</sup> The scheme is available to households with an annual income below FJD 50,000, which is considered by the GoF to be too low to afford significant housing repair or reconstruction work.

expenditures. These figures obviously understate the extent of the reallocation, because they do not capture the redirection of existing personnel and equipment from their ordinary activities to the relief and reconstruction effort.

39. **This pillar of the operation is expected to support the effective planning and management of the recovery effort, including enhancing Fiji's disaster resilience for the future.** The two prior actions under this pillar support the GoF to prepare a prioritized and sequenced recovery plan on the basis of a comprehensive PDNA, and to finance critical recovery activities in the DRF this fiscal year. The results indicators chosen for this pillar are the use of the DRF as a strategic planning and resource allocation tool, as indicated by the proportion of funds allocated in the FY2017 budget to recovery activities included in the DRF that are expended in FY2017, and the implementation of the DRF to enhance disaster resilience, as indicated by the strengthening of the building code in accordance with the DRF.

**Program Development Objective (ii) –**

**Cushion the immediate impact of Cyclone Winston on the most vulnerable through the provision of disaster-responsive social protection.**

*Prior Action 3: The Borrower has provided disaster-responsive social protection, by approving additional payments to the beneficiaries of the Poverty Benefit Scheme, Social Pension Scheme and Care and Protection Scheme, within four weeks of Cyclone Winston, as evidenced through the letter from the Minister for Finance, dated May 24, 2016.*

40. **Fiji has a relatively strong social protection system, which enabled it to provide disaster-responsive social protection fairly readily in the wake of the cyclone.** The core elements of the system are the Poverty Benefit Scheme (PBS), Social Pension Scheme (SPS) and Care and Protection Scheme (CPS). The PBS targets the poorest 10 percent of households and was established in 2012, in part as a result of World Bank technical assistance. It replaced an earlier scheme which had a number of weaknesses, including that it excluded a significant proportion of the poor. The SPS targets people over the age of 68 who fall outside the Fiji National Provident Fund (FNPF) and other social protection coverage, and was also established in 2012 in part as a result of the Bank's technical assistance. Since their establishment, the Bank has continued to provide technical assistance on the determination of eligibility criteria and the maintenance of beneficiary databases. The CPS targets vulnerable households with children, which belong to particular categories (single parents, abandoned spouses, death of breadwinner and prisoner's dependents). Since the establishment of the PBS, a significant number of beneficiary households of the CPS have been able to be transferred to the PBS.

41. **In the wake of Cyclone Winston, the GoF decided to use its existing social protection schemes to provide additional assistance to the most vulnerable, as a key component of its disaster response.** This decision was informed by a note from the Bank's social protection team, which set out options for how this could be done. In making this decision, the GoF recognized that natural disasters can hit the poor particularly hard, with the potential to reverse previous gains in poverty reduction. The poor and near-poor are generally more exposed to negative impacts from the disasters (by living in more vulnerable areas and more vulnerable housing, and holding

a higher proportion of their assets in material – and thus vulnerable – forms). In rural areas, they tend to depend on subsistence agriculture for a high proportion of their food consumption, so are extremely vulnerable if their food crops are damaged by natural disasters. They also tend to have low savings and poor access to credit or insurance, thus are more likely to have to rely on negative coping strategies in the face of shocks – such as reducing essential food consumption, health care or education investment, and selling productive assets – with adverse human development consequences and an adverse impact on their long-term income-earning potential. In the absence of assistance, both the poor and near-poor may be unable to recover from one shock before they encounter the next. The impact of natural disasters on the poor can be significantly different for men and women, including with respect to women’s security in temporary housing, the increased burden of work for women to provide basic household needs in emergency settings, and interruptions to the ability of women to earn income from home-based business activities while they are living in temporary shelters.

42. **In deciding on the shape of its disaster-responsive social protection immediately following the cyclone, the GoF had to balance a number of competing considerations.** The key decision was whether or not to target the additional payments to the geographic areas most affected by the cyclone. Although more complicated administratively, the beneficiary databases could have enabled this, so allowing the government to provide higher levels of assistance to the narrower range of beneficiaries (or alternatively lowering the cost of the initiative). The GoF decided against geographic targeting because of the close poverty targeting of the PBS, SPS and CBS schemes, and because poor people nationwide were adversely affected by the cyclone, not only the poor in the worst hit areas. This may prove to have been a particularly good decision, given that the extensive damage to the agriculture sector resulted in price spikes for local produce in the markets in the months following the cyclone, to which the very large numbers of poor people living in squatter settlements around Suva, Nadi and Labasa – with no access to land for own food production – would have been the most vulnerable. In addition, the universal payment to social protection beneficiaries will have served as a modest fiscal stimulus, helping to reduce the economic slowdown after the cyclone, with disproportionate benefits to the poor and vulnerable. Another important decision was whether to provide the additional payments to the near-poor who are recorded in the PBS database but are not beneficiaries of the PBS, to help prevent them from falling below the threshold as a result of the cyclone. The GoF decided against this. On the amount of assistance, the GoF decided to provide an additional amount roughly equivalent to three months of ordinary benefits, with a view to enabling households to meet their immediate food needs without resorting to negative coping strategies like selling productive assets. On the mechanisms for the assistance, the GoF used existing systems of electronic payments (for more than 80 percent of beneficiaries) and payments via post offices, replacing the latter in areas where post offices were destroyed with departmental officials travelling to provide cash in person. Table 3 provides a summary of the assistance provided.<sup>6</sup>

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<sup>6</sup> In early April, it was announced that the World Food Program would provide FJD150 food vouchers to PBS, SPS and CPS beneficiaries in twelve designated cyclone-affected areas, using the government’s beneficiary databases.

**Table 3: Social Protection Scheme Benefits and Post-Disaster Payments**

Scheme	Number of Beneficiaries	Ordinary Benefit (Monthly)	Post-Disaster Benefit
<b>PBS</b>	23,035 households	FJD30 per person (for up to four household members) + FJD50 food voucher	FJD200 x 3 months (paid as FJD600 lump sum)
<b>SPS</b>	17,232 people	FJD50 food voucher or cash equivalent	FJD100 x 3 months (paid as FJD300 lump sum)
<b>CPS</b>	3,257 households	FJD110 (maximum – actual amount depends on number and school grade of children) + FJD50 food voucher	FJD100 x 3 months (paid as FJD300 lump sum)

***Prior Action 4: The Borrower, through the Minister for Finance, has approved the undertaking of an evaluation of the disaster-responsive social protection provided in the wake of Cyclone Winston, with a view to informing the design of a disaster-responsive social protection framework, as evidenced through the letter from the Minister for Finance, dated May 24, 2016.***

43. **In the wake of Cyclone Winston, Fiji is taking steps towards the development of a disaster-responsive social protection framework.** When the cyclone hit, the GoF already had a set of clearly defined, well-targeted and efficiently-administered social protection schemes, but it did not have any specific operational guidelines in place on how these existing schemes could be activated and scaled-up in the case of a major shock. In the immediate aftermath of the cyclone, and following advice from the Bank’s social protection team, the GoF decided to use its existing social protection schemes to provide additional assistance to the least well-off. This assistance could be delivered quickly to previously-designated sets of beneficiaries, but it was necessarily done on the basis of very quick decisions about the amount of assistance, the extent of geographic targeting and the treatment of the near-poor, among other things. The adjustments made to delivery mechanisms to account for the impact of the disaster (for instance, delivering cash in person where post offices had been destroyed) were work-around solutions, whose efficacy relative to mechanisms that could be put in place in advance of disasters, could usefully be evaluated. Whether it would have been appropriate to adjust the assistance to account for the ability of beneficiaries to actually reach functioning markets could also be usefully evaluated.

44. **The GoF is undertaking a comprehensive evaluation of its disaster-responsive social protection in the wake of Cyclone Winston, with a view to informing the design of a framework for future disasters.** The evaluation will consist of a household survey of samples of PBS, SPS and CPS beneficiaries, with modules on housing, shocks suffered and coping strategies employed, access to and expenditure of post-disaster social assistance, and receipt and use of other cash and non-cash assistance. The survey will be supplemented by in-depth interviews and other qualitative techniques in selected communities. The evaluation will enable the GoF to assess the efficacy of the mechanisms used to provide the assistance in the post-disaster context, and the impact of the assistance on the PBS, SPS and CPS beneficiaries, relative to the magnitude of the shocks they faced. Because the survey will be administered to households in the regions directly affected by the cyclone as well as elsewhere in Fiji, it will help the GoF to consider the advantages and disadvantage of geographic targeting. And because it will cover near-poor households in the PBS database who did not qualify for the PBS and thus did not receive the post-disaster assistance, it will help the GoF to consider the advantages and disadvantages of providing assistance to the near-poor in the event of future shocks. The Fiji Bureau of Statistics will undertake the evaluation for the Department of Social Welfare, with technical assistance from the World Bank and funding assistance from Australia’s Department of Foreign Affairs and Trade

(DFAT).

45. **The findings of the evaluation will feed into the process of designing a disaster-responsive social protection framework in Fiji.** Once the evaluation has been concluded, the Department of Social Welfare will prepare a set of recommendations for the design of a disaster-responsive social protection framework, based on the findings of the evaluation and on the wider body of experience with disaster-responsive social protection. The recommendations will then be submitted to policy-makers for consideration. The Bank will provide technical assistance for this work over the next two years, under a regional program assisting countries to consider alternative instruments, design parameters, financing options and implementation measures for disaster-responsive social protection frameworks.

46. **This pillar of the operation is expected to help cushion the impact of Cyclone Winston on the most vulnerable.** Through the two prior actions under this pillar, the GoF is both assisting the least well-off in the wake of the cyclone and evaluating whether the assistance was effective in cushioning the impact of the cyclone, with a view to informing the design of a disaster-reduction social protection framework. The first results indicator for this pillar is the proportion of beneficiaries who were provided with the additional assistance within four weeks of the policy announcement, with a target of 75 percent. This indicator will be disaggregated by the gender of the household head (for PBS and CPS beneficiaries) or the gender of the recipient (for SPS beneficiaries). Administrative data will be used to measure this indicator, or where it does not exist survey data will be used to supplement it. The second results indicator for this pillar is the proportion of expenditure on essential items from the additional assistance provided to beneficiaries affected by the cyclone, with a target of 60 percent. This indicator will also be disaggregated by gender. Survey data will be used for this indicator.<sup>7</sup> The final results indicator is the use of the findings of the evaluation to inform recommendations for the design of a post-disaster social protection framework, which are submitted for ministerial consideration.

**Table 4: DPO Prior Actions and Analytical Underpinnings**

Prior Actions	Analytical Underpinnings
Operation Pillar 1: Support Fiji's recovery from the immediate impact of Cyclone Winston through a prioritized and sequenced recovery plan	
1. The Borrower, through its Minister for Finance, has: (a) completed a Post-Disaster Needs Assessment; and (b) submitted to the Borrower's Cabinet the Disaster Recovery Framework, as evidenced through the copies of the Post-Disaster Needs Assessment and Disaster Recovery Framework and the letter from the Minister for Finance, dated May 24, 2016.	<i>Post-Disaster Needs Assessment</i> , 2016, GoF; <i>Disaster Recovery Framework</i> , 2016, GoF.

<sup>7</sup> Both of these indicators work within the limits of the data that will be available, which will be household specific. The household survey will attempt to capture community-level transfers and assistance that may have affected people's wellbeing, but that attempt will be imperfect since the unit of analysis will still be the household.



Prior Actions	Analytical Underpinnings
2. The Borrower has reprioritized budgeted funds in the current fiscal year to finance its immediate recovery expenditures in accordance with the Financial Management Act 2004 and Finance Instructions 2010, as evidenced through the letter from the Minister for Finance, dated May 24, 2016.	<i>Post-Disaster Needs Assessment</i> , 2016, GoF; <i>Disaster Recovery Framework</i> , 2016, GoF.
Operation Pillar 2: Cushion the immediate impact of Cyclone Winston on the most vulnerable through the provision of disaster-responsive social protection	
3. The Borrower has provided disaster-responsive social protection, by approving additional payments to the beneficiaries of the Poverty Benefit Scheme, Social Pension Scheme and Care and Protection Scheme, within four weeks of Cyclone Winston, as evidenced through the letter from the Minister for Finance, dated May 24, 2016.	<i>Fiji: Making Social Protection More Responsive to Natural Disasters and Climate Change</i> , 2015, World Bank; <i>SPL GP Proposal for TC Winston Response</i> , 2016, World Bank.
4. The Borrower, through the Minister for Finance, has approved the undertaking of an evaluation of the disaster-responsive social protection provided in the wake of Cyclone Winston, with a view to informing the design of a disaster-responsive social protection framework, as evidenced through the letter from the Minister for Finance, dated May 24, 2016.	<i>Fiji: Making Social Protection More Responsive to Natural Disasters and Climate Change</i> , 2015, World Bank; <i>Concept Note: Disaster Responsive Social Protection in the Pacific: Fiji, Tonga &amp; Vanuatu</i> , 2016, World Bank.

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

47. **The Program Development Objective (PDO) of the proposed operation supports the two broad themes of the Bank’s engagement strategy for Fiji.** The first part of the PDO, supporting Fiji’s recovery from the impact of Cyclone Winston, supports the first broad theme of the engagement strategy, on strengthening the foundations for economic growth – both by helping to restore those foundations through the implementation of the recovery plan, and by helping to strengthen economic resilience over the medium-term. The second part of the PDO, on cushioning the impact of the cyclone on the most vulnerable, supports the second broad theme of the engagement strategy, on protecting vulnerable populations. Similarly, the two parts of the PDO correspond with the WBG’s shared prosperity and poverty reduction goals.

48. **In supporting the two broad themes of the Bank’s engagement strategy in Fiji, the proposed operation is complemented by a small but growing set of Bank engagements.** First, the Bank has lead the preparation of the PDNA on the donor side, supporting the GoF to assess the damage and losses caused by the cyclone and to plan the recovery effort. Secondly, the Bank has a well-established and very effective social protection engagement with Fiji, which supports the GoF to design and implement programs to assist vulnerable groups. Thirdly, the Bank has a Transport Infrastructure Investment Project (with the ADB), providing much-needed infrastructure to underpin future growth, which the GoF can reorient to assist with transport-related reconstruction and resilience-building. Fourthly, the Bank will be commencing a technical assistance engagement with Fiji for a public expenditure review, with a focus on education and health spending, which will help to inform Fiji’s fiscal consolidation efforts over the medium-term. Finally, the Bank is providing technical assistance to support the government’s civil service reform agenda focused on efficiency and service delivery.

## 4.4 CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

49. **The GoF is in the process of preparing a new national development plan, involving extensive community consultation.** The development plan will have a 20-year time horizon, within which there will be a comprehensive 5-year medium term development plan. Consultations on the new development plan began in mid-2015. To date, some 730 community consultations have been held around the country, which have been open to all members of the public, with submissions also received in writing. In addition, dedicated consultations have occurred in major centers with private sector organizations and civil society groups, with submissions also received in writing. The consultations have highlighted the importance of economic growth, democracy, security and opportunities for all to improve their standard of living. With specific respect to this operation, the preparation of the PDNA and DRF has involved consultations between the public sector and stakeholders in all social and economic sectors in Fiji.

50. **In the preparation of this operation, and at the request of the GoF, the Bank has worked closely with the ADB.** The Bank and the ADB have been coordinating their engagement on budget support with the GoF to the greatest extent possible, to minimize the transaction costs on the GoF at the present juncture. The ADB is expected to provide its budget support using criteria that are consistent with the Bank's proposed operation. A large set of other development partners have also been involved in the PDNA process, under the Bank's leadership, and an even larger group of donors and civil society organizations are involved in supporting the GoF with the recovery effort. The major bilateral donors providing support to the relief and recovery effort to date have been Australia (US\$27 million), New Zealand (US\$10.3 million), the EU (US\$4.8 million) and Japan (US\$2.8 million). Approximately 75 percent of the support provided to date has been in kind. With respect to social protection, the Bank is the main development partner assisting the GoF, including with support from Australia's DFAT.

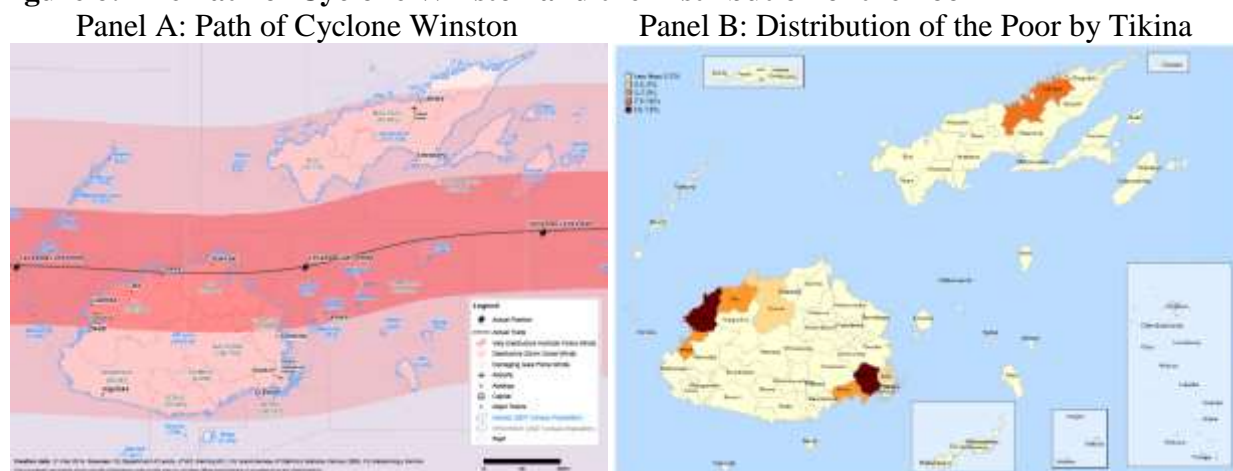
## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1 POVERTY AND SOCIAL IMPACT

51. **The policy actions supported under the proposed operation are expected to have a significant positive impact on poor people and vulnerable groups.** Under the first pillar of the operation, the preparation of the PDNA and DRF together with the reprioritization of expenditure to disaster recovery programs this fiscal year are expected to benefit the poor and vulnerable. In general, their wellbeing is disproportionately dependent on government services anyway, but that effect will be exaggerated in the context of post-cyclone relief and recovery efforts. This is in part because the recovery program is being guided by a 'pro-poor' principle, reflected for instance in the means-tested 'Help for Homes' initiative and the disaster-responsive social protection program. But it is also due to the fact that the poor and vulnerable have been disproportionately harmed by Cyclone Winston. Some of the areas hardest hit by the disaster – including Vuda, Ba and Tavua – are those where relatively large proportions of the poor live (see Figure 6). The 2008/09 HIES showed that people in the poorest deciles were more likely to have non-robust housing materials, making them more vulnerable to having their houses damaged or destroyed by the cyclone. And the PDNA shows that per capita production losses caused by the cyclone are

highest in the regions with the lowest average income levels. As the GoF focuses on helping those affected by the cyclone restore their livelihoods, those efforts encompass the poor and vulnerable because they have borne the brunt of the disaster.

**Figure 6: The Path of Cyclone Winston and the Distribution of the Poor**



Sources: Panel A: UNOCHA, 2016, available at [http://reliefweb.int/sites/reliefweb.int/files/resources/tc\\_winston\\_track\\_final\\_track\\_reduced.pdf](http://reliefweb.int/sites/reliefweb.int/files/resources/tc_winston_track_final_track_reduced.pdf); Panel B: World Bank and Fiji Bureau of Statistics, 2011, *Poverty Trends, Profiles and Small Area Estimation Report*, using population data from the 2007 census and consumption-based basic-needs poverty estimates from the 2008/09 HIES.

52. **The disaster-responsive social protection provided under the second pillar of the operation will directly assist poor people and vulnerable groups to meet their basic needs in the wake of Cyclone Winston.** The additional assistance provided to PBS beneficiaries (roughly the poorest 10 percent of households in Fiji), would cover about half of the cost of basic food needs for an average household for three months.<sup>8</sup> For the specific vulnerable groups assisted through the CPS (single parents, abandoned spouses, death of breadwinner and prisoner's dependents), the additional assistance would cover about one quarter of the food needs for the average household. Payments to individual beneficiaries of the SPS would completely cover their basic food needs for three months. In terms of basic needs (rather than only basic food needs), the additional assistance provided to PBS beneficiaries would cover 23 percent of the total cost of basic needs for households in rural areas for a three month period, and 21 percent of total basic needs costs in urban areas (using the income-based poverty lines estimated by the Fiji Bureau of Statistics for the 2013/14 HIES). The assistance to CPS beneficiaries would cover about half this amount of total basic needs. For the individual beneficiaries of the SPS, the additional assistance would cover 47 percent of the total cost of their basic needs for a three-month period in rural areas, and 42 percent in urban areas.

53. **The evaluation of this additional assistance supported under the second pillar of this operation, is also likely to benefit the poor and vulnerable in the future, through informing better design of disaster-responsive social assistance programs.** The evaluation will enable an assessment of the efficacy of the means for distributing the additional assistance in the wake of the cyclone, the extent of the shocks experienced by the beneficiaries of the three different social protection schemes, and the uses to which those beneficiaries put the additional assistance. The

<sup>8</sup> This is based on the estimated monthly cost of basic food needs of about FJD 100 per adult equivalent.

evaluation will be particularly useful in enabling an assessment of the targeting parameters used for the additional assistance. For instance, it will be possible to compare the nature of the shocks experienced by beneficiaries in the areas hit by the cyclone (e.g. damage to housing) and those in other areas (e.g. spike in food prices), and any corresponding differences in the way they used the additional assistance. It will also be possible to compare the shocks experienced and coping strategies used by beneficiaries of the PBS, with those of the near-poor (who are in the PBS database but were just unable to qualify for the PBS scheme). In the cyclone-affected areas, the negative shocks experienced by the near-poor are likely to have been sufficient to push some of them below the threshold for qualifying for the PBS, yet because they were not beneficiaries prior to the cyclone they did not receive the additional assistance. If, for instance, the extent of production losses of both PBS beneficiaries and the near-poor was the equivalent of the additional assistance provided to PBS beneficiaries (so their losses were offset for three months), then in the absence of any other offsetting receipts, a further 5 percent of the population would have fallen below the benchmark level of welfare normally qualifying a household for the PBS, in the immediate aftermath of the cyclone.<sup>9</sup> (The GoF is now expecting an increase in the number of households qualifying for the PBS in cyclone-affected areas.)

## 5.2 ENVIRONMENTAL ASPECTS

54. **The policy actions supported under the proposed operation are not expected to create significant negative impacts on Fiji's environment, natural resources or forests.** The policy actions relating to the reprioritization of budgeted funds this fiscal year, implementation of disaster-responsive social protection and the social protection evaluation are expected to have only minor environmental impacts. Significant environmental impacts are not anticipated. The policy action involving the completion of a comprehensive PDNA and the submission of the draft DRF to Cabinet is not expected in itself to create significant negative environmental impacts either. In the main, the draft DRF operates at a fairly high level of aggregation, setting out the guiding principles for the recovery, establishing the four priority areas and listing a series of components under each priority area. Those components are listed in headline terms (for instance, 'sugarcane replanting program' and 'repair, maintenance and restoration of roads, airstrips, jetties and bridges' with a list of key affected assets needing restoration) rather than containing blueprints for specific works that need to be undertaken on each asset. Thus, the DRF is more a strategic management and resource allocation tool. It is not possible, merely on the basis of the draft DRF, to define the nature of any environmental impacts.

55. **Fiji's systems for reducing adverse environmental impacts and enhancing positive effects are reasonably strong at a policy level, but there are weaknesses in implementation capacity.** The Department of Environment under the Ministry of Local Government, Urban Development, Housing and Environment derives its legal mandate from the Environment Act 2005 – Part 2 Administration. The Department promotes the sustainable use and development of Fiji's 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 environment or resource management impact. The Department has a small staff resource, and there are only two technical officers and one technical

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<sup>9</sup> These are World Bank staff estimates, based on data from the 2008/09 HIES.

assistant available in the head office in Suva to review EIAs. Divisional offices in Labasa and Lautoka can provide some additional support (although this also is limited). Rural Local Authorities work with the Department of Environment in the implementation of the Environment Act 2005 and monitor the conditions of EIAs in consultation with the Department, such as the implementation of environmental management plans, within their area. The capacity of these rural authorities however is similarly relatively low.

**56. The Bank's engagement in Fiji in the area of environmental impacts is relatively new, and is at present limited to its specific projects.** The Bank's Transport Infrastructure Investment Project, which has just completed its inception workshop, will address some aspects of the GoF's implementation capacity in this area, and through that engagement the Bank will strengthen its knowledge base on the broader environmental protection regime. Another pipeline project may soon provide a similar opportunity in relation to the provision of basic infrastructure services (electricity, water and sewage) for low-income households in squatter areas. The transport project is a joint project with the ADB, which has had a much longer and deeper engagement in Fiji in the area of environmental impacts. Fiji's relatively well-educated population and the relatively high capacity of its public sector (in regional terms), offer good foundations for technical assistance to be effective in strengthening the EIA capacity, going forward.

### **5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS**

**57. Fiji's public financial management (PFM) system is reasonably strong.** It is centered on a set of relatively advanced budget and financial management policies and procedures around a clear legislative framework and set of finance manuals, the rules are well-documented, and compliance with these rules and processes in many areas is high. The 2012 Public Expenditure and Financial Accountability (PEFA) Report found that the budget is credible, fiscal information is generally comprehensive and transparent, and orderliness and participation in the annual budget process is strong. Some weaknesses were identified in the recording and monitoring of expenditure arrears, in the multi-year perspective for budgeting (including relatively weak links between investments and subsequent recurrent costs), and in the transparency and oversight of aggregate fiscal risk relating to sub-national governments. The 2012 PEFA found that key aspects of Fiji's tax policy and administration, together with its expenditure management, contribute to predictability and control in budget execution, but that some weaknesses remained in the areas of tax arrears and procurement (including insufficient transparency and competition in procurement processes). Annual financial statements are generally prepared in a timely fashion, but some weaknesses were found in the scope and timeliness of audits, and the follow-up of audit recommendations. Of note, budget documentation is made publicly available when it is submitted to Parliament.

**58. Fiji has put in place a comprehensive PFM improvement program, and has been successful in implementing PFM reforms in the past.** The five year reform plan, which commenced implementation in 2015, was informed by the findings of the 2012 PEFA. Its key priority areas are to: (i) improve compliance with PFM legislation and regulations; (ii) strengthen expenditure management in response to the decentralization of decisions on personnel and remuneration; (iii) review the legislative and incentive framework to strengthen compliance; (iv) strengthen procurement; (v) strengthen debt management; and (vi) strengthen internal audit. It

includes specific measures to strengthen the payment system to tackle the identified expenditure weaknesses, improve the multi-year perspective for budgeting to better account for cost pressures in the forward estimates, and over time expand fiscal reports to cover sub-national governments. It also includes measures to reduce tax arrears and improve recovery, and improve the transparency of procurement information and review procurement regulations to tighten conditions for waivers of competitive bids. The reform plan places significant emphasis on strengthening the audit process, particularly with respect to timeliness, transparency and follow-up (including introducing timeframes for the provision of management responses). Fiji's track record of implementing PFM reforms is solid, with notable successes in recent years in the areas of reforming legislation, revising financial instructions, implementing the financial management information system in all line ministries, improving cash-flow management, introducing internal audit and shifting to electronic payments.

59. **Fiji underwent an IMF Safeguards Assessment in 2011.** The summary in the Article IV Report stated that the assessment found key safeguards elements to be in place, but it also noted some weaknesses.<sup>10</sup> The Reserve Bank of Fiji (RBF) publishes annual audited financial statements that are both prepared and audited in accordance with internationally recognized standards. The 2011-2013 audits had minor qualifications and the 2014-2015 audits were unqualified but had an emphasis of matter. Both the qualifications and emphasis related to divergence from International Financial Reporting Standards IAS21, which requires reporting of exchange rate gains/losses in the profit and loss statement, whereas the Reserve Bank of Fiji Act of 1983 requires these to be reported to the Asset Revaluation Reserve. The difference and impact of these in each year ranged between FJD 0.2–2 million change to operating profit, each less than 1–10 percent of profit respectively. The safeguards assessment noted that the level of autonomy of the RBF is very low with the legislation supporting a wide scope of political interference. Proposed amendments to the legislation would address some but not all of the weaknesses identified in the safeguards assessment; alternative measures were recommended by the IMF for others. An action plan has been put in place where there is capacity to prepare financial statements in accordance with the IFRS, and commenced during 2011 with the financial statements for the year ended 2010. Apart from the qualifications and emphasis due to divergence from IFRS IAS21, the action plan appears to have been implemented successfully.

60. **The fiduciary risk rating for the operation is moderate.** The weaknesses noted above in Fiji's PFM and foreign exchange environment are not expected to pose more than a moderate risk to the achievement of the PDO of the proposed operation. The main weaknesses in the PFM environment, relating to expenditure arrears, the multi-year perspective for budgeting, fiscal risk relating to sub-national governments, tax arrears, transparency and competition in procurement and the timeliness and follow-up of audit recommendations are not expected to adversely affect the areas supported by this program – or in the case of procurement where the weaknesses may affect the implementation of the recovery program – there is a credible reform plan in place to address these. The main weaknesses in the foreign exchange environment are being mitigated by the additional measures described below.

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<sup>10</sup> The task team has not had access to the full text of the safeguards assessment, to review the weaknesses referred to in the summary in the Article IV Report or the adequacy of the action plan to address these.

61. **IBRD financing will be disbursed according to IBRD disbursement procedures for development policy operations.** The full amount of the loan will be disbursed against satisfactory completion of the specified policy actions and the Government agreement as summarized in the Letter of the Development Policy, and adequacy of the macroeconomic policy framework, and is not tied to any specific purchases. Once the loan is approved by the Board and becomes effective, the proceeds of the loan will be deposited by IBRD, at the request of the Borrower, into a dedicated Foreign Currency Deposit Account<sup>11</sup> at the RBF. As a due diligence measure, within 30 days of receipt the Borrower will provide a written confirmation to IBRD when an equivalent amount is accounted for in the government's budget management system. Disbursements would not be linked to specific purchases. The proceeds of the operation would not be used to finance expenditures excluded under the Agreement. If, after being deposited in a government deposit account, the proceeds of the operation are used for ineligible purposes as defined in the Loan Agreement, IBRD will require the Borrower to refund the amount directly to IBRD. Any such amounts refunded to IBRD shall be cancelled.

62. **As an additional mitigation measure, the Bank will require an audit of the receipt of the disbursement in the deposit account and into the budget management system of the Borrower.** The financial audit report should be furnished to the Bank within 6 months from the end of the Borrower's fiscal year. In that event the Borrower would report: (i) the exact sum received into the deposit account and its supporting details; and (ii) that an equivalent amount was accounted for in the Borrower's budget management system.

#### **5.4 MONITORING, EVALUATION AND ACCOUNTABILITY**

63. **The Ministry of Finance is responsible for coordinating the monitoring and evaluation of the results indicators for the proposed operation.** The Ministry of Finance will cover the results indicators relating to the first pillar of the operation through the DRF Steering Committee, established to manage and monitor the implementation of the DRF. It is expected to be chaired by the Permanent Secretary for Finance, and to report to the Minister for Finance on a quarterly basis. Through the DRF Steering Committee, the Ministry of Finance will collaborate closely with all of the relevant agencies involved in implementing the four recovery priorities in the DRF. To track and measure the results indicators relating to the second pillar of this operation, the Ministry of Finance will collaborate with the Ministry of Social Welfare, Women and Poverty Alleviation. The measurement of these results indicators will draw – in part – on the evaluation of the disaster-responsive social protection provided in the immediate aftermath of Cyclone Winston, for which the Bank is providing technical assistance. The Ministry of Finance has very strong convening power, which has been repeatedly demonstrated in previous disaster-response scenarios.

64. **The results indicators chosen for the operation have been selected with a view to the ready availability of data of reasonable timeliness and quality.** Capacity constraints in small public administrations inevitably affect the array, timeliness and quality of available data. The results indicators for this operation have been selected to be based on data that will be produced

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<sup>11</sup> Fiji uses a central treasury account for government funds at the RBF, so the dedicated account is not a separate bank account but a separate sub ledger account to identify this within this one central treasury account.

anyway, rather than requiring new data to be produced specifically for the monitoring and evaluation of this operation, diverting scarce capacity from core government functions.

65. **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 Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the 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 GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## 6. SUMMARY OF RISKS AND MITIGATION

66. **The overall risk rating of the proposed operation is moderate.**

67. **The operation is subject to a number of risks, including institutional capacity risks arising from limits to the capacity of Fiji's public sector to manage recovery from a natural disaster of this magnitude.** The capacity of Fiji's public sector is strong relative to its neighbors in the region, and Fiji's public servants have significant experience with managing disaster-recovery efforts. That said, the magnitude of this natural disaster is beyond what Fiji has experienced before, and there is a risk that the public sector's capacity to plan and manage the implementation of the entirety of the recovery effort may be stretched too thinly. In addition, the recovery effort involves the GoF working with numerous development partners and civil society organizations at once, potentially exacerbating the demands placed on public sector capacity. This risk is being mitigated by the considerable support that key development partners are providing to the GoF not only for the planning but also for the implementation of the recovery program, and by the potential for the PDNA and DRF to serve as focal points for development partners to coordinate around.

68. **Macroeconomic factors pose another important risk to the operation.** The cyclone has intensified the challenge Fiji faces with fiscal consolidation. Any delays to the planned fiscal consolidation, or additional economic shocks that intensify the challenge still further, will undermine Fiji's ability to implement its recovery program effectively. Such additional economic shocks might arise from a further major natural disaster, or a sharper-than-expected slowdown in growth in Fiji's major export markets or tourism source markets. This risk that delays in fiscal consolidation poses to the implementation of the recovery program is being mitigated by the World Bank and ADB through the provision of budget support, which will strengthen Fiji's fiscal position to support the implementation of its recovery program, in turn supporting economic



growth over the medium term and thus helping to bring forward the point at which fiscal buffers can be rebuilt.

69. **A further risk arises from the still relatively recent nature of the Bank's reengagement in Fiji.** Fiji has little recent experience with Bank operations, and the Bank's program is in the early stages of development. The risk this poses to the operation is being mitigated through an increased in-country presence to strengthen the country relationship, and a priority focus on ensuring that the other aspects of the Bank's small but growing set of engagements are delivering, to strengthen the GoF's confidence in the Bank.

**Table 5: Systematic Operations Risk-Rating Tool – Summary Matrix**

<b>Risk Categories</b>	<b>Rating (H, S, M or L)</b>
1. Political and governance	M
2. Macroeconomic	M
3. Sector strategies and policies	M
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	M
7. Environment and social	M
8. Stakeholders	L
9. Other	-
<b>Overall</b>	<b>M</b>

## ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions	Results
<b><i>Support Fiji's recovery from the immediate impact of Cyclone Winston through a prioritized and sequenced recovery plan</i></b>	
1. The Borrower, through its Minister for Finance, has: (a) completed a Post-Disaster Needs Assessment; and (b) submitted to the Borrower's Cabinet the Disaster Recovery Framework, as evidenced through the copies of the Post-Disaster Needs Assessment and Disaster Recovery Framework and the letter from the Minister for Finance, dated May 24, 2016.	1. <u>Use of the DRF as a strategic planning and resource allocation tool</u> as indicated by the proportion of funds allocated in the FY2017 budget to recovery activities included in the DRF that are expended in FY2017. <u>Baseline</u> – 0 percent (July 31, 2016); <u>Target</u> – 75 percent (July 31, 2017)
2. The Borrower has reprioritized budgeted funds in the current fiscal year to finance its immediate recovery expenditures in accordance with the Financial Management Act 2004 and Finance Instructions 2010, as evidenced through the letter from the Minister for Finance, dated May 24, 2016.	2. <u>Implementation of the DRF to enhance disaster resilience</u> as indicated by whether the building code has been revised to strengthen it, in accordance with the DRF. <u>Baseline</u> – No (February 20, 2016); <u>Target</u> – Yes (June 30, 2018)
<b><i>Cushion the immediate impact of Cyclone Winston on the most vulnerable through the provision of disaster-responsive social protection</i></b>	
3. The Borrower has provided disaster-responsive social protection, by approving additional payments to the beneficiaries of the Poverty Benefit Scheme, Social Pension Scheme and Care and Protection Scheme, within four weeks of Cyclone Winston, as evidenced through the letter from the Minister for Finance, dated May 24, 2016.	3. <u>The timeliness of the delivery of disaster-responsive social protection</u> as indicated by the proportion of households under the PBS and CPS and individuals under the SPS who were provided with the additional assistance within four weeks of the policy announcement. <u>Baseline</u> – 0 percent (February 20, 2016); <u>Target</u> – 75 percent (April 5, 2016) [Note: This indicator will be disaggregated by gender]
4. The Borrower, through the Minister for Finance, has approved the undertaking of an evaluation of the disaster-responsive social protection provided in the wake of Cyclone Winston, with a view to informing the design of a disaster-responsive social protection framework, as evidenced through the letter from the Minister for Finance, dated May 24, 2016.	4. <u>The utility of the disaster-responsive social protection</u> as indicated by cyclone-affected PBS, SPS and CPS beneficiaries' expenditure on essential items as a proportion of the total expenditure made from the additional assistance provided. <u>Baseline</u> – 0 percent (February 20, 2016); <u>Target</u> – 60 percent (May 31, 2016) [Note: This indicator will be disaggregated by gender]  5. <u>Use of the social protection evaluation to support efforts to mainstream social protection within future disaster response</u> as indicated by whether the Department of Social Welfare has prepared recommendations for the design of a disaster-responsive social protection framework based, among other things, on the findings of the evaluation, and submitted them to the Minister for Social Welfare, Women and Poverty Alleviation. <u>Baseline</u> – No (February 20, 2016); <u>Target</u> – Yes (June 30, 2018)

## ANNEX 2: LETTER OF DEVELOPMENT POLICY



**Attorney-General and Minister for Finance, Public Enterprises,  
Civil Service and Communications**

**Attorney-General's Chambers, Level 7, Suvavou House, 400 Victoria Parade  
P O Box 2213, Government Buildings, Suva, Republic of Fiji  
Telephone: (679) 330 9866 Fax: (679) 331 0807**

24 May 2016

**By Facsimile**

Dr Jim Yong Kim  
President  
World Bank  
Washington DC 20433  
USA

Dear President Kim

**Post-Cyclone Winston Emergency Development Policy Operation (P159774)**

1. On Saturday, 20 February 2016, Cyclone Winston hit Fiji with devastating effects. It was the first Category 5 cyclone to directly impact Fiji, and the most intense tropical cyclone on record to affect the country. Maximum average wind speeds reached 233km/hour, and wind gusts peaked at around 306km/hour, making Cyclone Winston one of the most powerful cyclones ever recorded in the Southern Hemisphere. In addition to the extreme wind speeds, many islands were flooded by storm surges, which, in some cases, inundated areas almost 200 metres inland.
2. The cyclone caused widespread damage and destruction impacting 540,414 people or 62 per cent of the total population. Approximately 80 per cent of the nation's population lost power, including the entire island of Vanua Levu. Cyclone Winston caused 44 fatalities and approximately 40,000 people required immediate assistance following the cyclone.
3. The damage and losses sustained as a result of Cyclone Winston amount to nearly FJ\$2 billion (22 per cent of GDP). By far the worst affected sector is housing, accounting for nearly 40 per cent of total damage and losses with 30,369 houses either damaged or destroyed. In this respect, the Government has already established a FJ\$70 million assistance scheme for low-income earners, providing funds for building materials to those whose homes have been damaged or destroyed, with the provision of funds scaled to the category of damage incurred. The agriculture and fisheries sector was also hit very hard, accounting for 25 per cent of total damage and losses and the destruction of crops has compromised the livelihoods of almost 60 per cent of Fiji's population. There was extensive damage to public buildings, with 495 primary and secondary schools damaged or destroyed, and 88 health clinics and medical facilities damaged.

Damage to infrastructure, particularly transport infrastructure, was significant, accounting for 16 per cent of total damage.

4. In the aftermath of the cyclone, the Government's priority has been to ensure that all Fijians who have been affected can meet their immediate needs for food, water and shelter, and to enable those affected to rebuild their livelihoods as soon as possible. The Government has moved quickly to provide seedlings to those whose food crops have been damaged or destroyed, so they can restore their food security as soon as possible. In the weeks following the cyclone, the Government also announced the provision of approximately FJ\$20 million in assistance for poor and vulnerable groups, through our three major social protection schemes.
5. As we make the transition from the emergency relief operation to an economic recovery operation, we are drawing on our assessment of Fiji's recovery needs as outlined in the Post-Disaster Needs Assessment ('PDNA'). The Government led the preparation of the PDNA, in the process drawing on the expertise of advisers from development partners, including the World Bank. With the completion of the PDNA, we have a comprehensive basis on which to proceed with our work to support economic recovery in Fiji. The Disaster Recovery Framework, which we are formulating based on the PDNA, will serve as our overarching plan for the prioritisation and sequencing of the key components of the recovery effort. The first phase of the Disaster Recovery Framework will be built into the Budget that we are currently preparing for the upcoming fiscal year.
6. The key theme for our recovery operation is 'build back better'. The Prime Minister has made it clear that Fiji will not compromise on building standards in the recovery process. Rather, our focus is on using the recovery operation as an opportunity to make Fiji more resilient to the natural disasters that we expect to become increasingly frequent and increasingly destructive in the future. The Government is currently reviewing, with a view to upgrading, building standards, in order to ensure that all construction work carried out in the recovery operation meets our future needs for disaster resilience. We are also looking at launching a training initiative for carpenters to enhance the quality of post-cyclone housing reconstruction. In addition, we are currently exploring the ways that we can work with a number of our partners to enhance the future resilience of Fiji's economy as a whole.
7. In order to finance our expenditure on relief and rehabilitation in the immediate aftermath of the cyclone in a fiscally responsible manner, we have carefully reprioritised our Budget for the current fiscal year. Government personnel, equipment and management capacity has been refocused on post-cyclone needs, and non-essential spending has been deferred in order to make fiscal space for critical post-cyclone expenditure. This has included our major housing assistance and social protection initiatives. We are also currently preparing the Budget for the fiscal year beginning 1 August 2016, which will look to expand public expenditure for the purposes of financing key components of the initial phase of the Disaster Recovery Framework.
8. Fairness and inclusion are central to the Government's program. In the 2016 Budget speech, the following statement was made: "We will ask everyone to do their fair share, to play by the rules, and to understand that by helping the neediest Fijians succeed, we



are helping ourselves". Given that the cyclone hit some of the poorest areas of Fiji hardest, and that many of those affected lost their homes, their food crops and their livelihoods, the Government has been extremely conscious of the need to act quickly to mitigate the impact of the disaster on the most vulnerable. We already place a significant emphasis on effective and well-targeted social protection schemes, and in the wake of the cyclone we used the opportunity presented by those schemes to provide immediate assistance to the most vulnerable. On 8 March 2016, we announced a FJ\$20 million package to provide the equivalent of three months of social assistance benefits to the beneficiaries of the Poverty Benefits Scheme, Care and Protection Scheme and Social Pension Scheme. These funds have provided a vital, and timely, boost to the poor and vulnerable, enabling them to obtain the basic necessities of life and to prevent them getting further behind as a result of the cyclone.


9. Our initiative in March was the first time Fiji has used its social protection schemes to offer additional assistance in the wake of a natural disaster – and indeed we believe it is the first time for such an initiative anywhere in the Pacific Islands. We are conscious that the natural disasters Fiji is encountering are becoming more frequent and more intense, so we expect that we will need to provide similar social protection to the most vulnerable in the coming years. We have therefore commenced an evaluation of the impact of the additional social protection we provided in the wake of Cyclone Winston, and will use the insights from this evaluation to inform the strategies we adopt in the future for disaster-responsive social protection. We welcome the World Bank's support, in this regard.
10. While our first priority at the current juncture is to ensure that Fiji recovers as quickly as possible from Cyclone Winston, we are at the same time moving ahead with our broader development agenda. Our Government was elected on a platform of building an inclusive and economically strong Fiji, including through creating an environment conducive to inclusive, private sector-led growth. We are currently taking steps to increase the efficiency of our regulatory environment and to reduce the costs of starting a business. On the fiscal side, we are strengthening revenue mobilisation by improving tax compliance and expanding the tax base, we are improving the monitoring of expenditure, and we are continuing to take steps to strengthen public debt management.
11. To provide a comprehensive blueprint for building the type of country Fijians want to live in by 2035, we are currently in the process of preparing a 20-year national development plan. The plan will set out broad national outcomes, goals and strategies, and identify and address key challenges, opportunities and resources for realising this vision. Within the 20-year national development plan will be a comprehensive medium term 5-year development plan, setting out detailed strategies and programmes for the allocation of resources for all sectors including education, health, water, electricity, roads, bridges and ports. It will provide a comprehensive framework for infrastructure development, enhancing social services, safety and security, gender equality, youth empowerment, job creation and reducing the impact of climate change and natural disasters. To ensure the views and aspirations of ordinary Fijians are captured in the new development plan, we have undertaken extensive community consultations across Fiji that have involved around 16,600 people in 730 community forums. We have also consulted with private sector organisations and civil society groups in Fiji's major centres. What has come through in these consultations to date is that Fijians want to live in a Fiji where

democracy is well respected, their families are safe and secure, and opportunities are available to them to improve their standard of living. Our development plan will chart a course for Fiji to ensure these aspirations are realised.

12. We are committed to ensuring that Fiji recovers as quickly as possible from the devastating impact of Cyclone Winston, and seek the World Bank's favourable consideration of our request for an emergency development policy operation for Fiji of US\$50 million.

Thank you.

Yours sincerely



**Aiyaz Sayed-Khaiyum**  
**Attorney-General and Minister for Finance**

*cc: Permanent Secretary for Finance*

### **ANNEX 3: INTERNATIONAL MONETARY FUND ASSESSMENT LETTER**

## REPUBLIC OF FIJI—ASSESSMENT LETTER FOR THE WORLD BANK

May 17, 2016

### *Developments and Outlook*

1. **In recent years Fiji has experienced strong economic growth, underpinned by business confidence and political stability following the landmark 2014 election.** In 2015 the economy entered its third year of above-4 percent growth, supported by high public and private investment. Tourism inflows reached new peaks in 2014 and 2015, while foreign direct investment and remittance inflows also remained high. While moderating in 2015, credit growth has also been rapid, which has helped underpin consumption. Meanwhile, inflation remained low, benefiting from low global commodity prices. The improved economic performance, relatively favorable global market conditions, and a credit rating upgrade (to B+ by Standard and Poor's) contributed to Fiji's successful issuance of a new global bond in 2015.

2. **On February 20-21, 2016, Cyclone Winston hit Fiji with unprecedented force.** The cyclone claimed 44 lives and destruction of infrastructure led tens of thousands to shelter in evacuation centers. The authorities' preliminary damage estimate is approximately \$470 million (10 percent of GDP), and they expect the Post Disaster Needs Assessment estimate (which includes both damage and loss of income) to be around \$1 billion. The economic damage was extensive, with thousands of homes damaged or destroyed; the sugar-cane industry, key electricity and communications infrastructure, and inland roads, were also severely damaged. Fortunately, critical tourism infrastructure, particularly hotels, was relatively unscathed due to their geographical location and stronger building standards.

3. **Despite the hit to activity, growth is expected to recover and the fiscal and external positions are expected to remain sound.** Staff projects 2016 GDP growth to fall by 1.2 percentage points to 2.5 percent, although this projection could be raised if reconstruction efforts accelerate. Growth is projected to rebound in 2017, reflecting higher fiscal and broader reconstruction spending, and a recovery in tourism. Importantly, the fundamentals that supported strong growth prior to the cyclone are expected to remain in place and Fiji's credit rating has been reaffirmed by Standard and Poor's (on April 27). Engagement with traditional development partners will also continue to benefit Fiji, as demonstrated by a recently-announced World Bank /ADB loans.

4. **While the fiscal and the current account deficits are expected to be somewhat larger in the near term than anticipated prior to the cyclone, debt is expected to remain sustainable.** The budget deficit is expected to rise to around 5.5 percent in 2016 (0.4 percentage point of GDP above the 2016 Article IV projection), financed in part by foreign aid. The deficit is expected to decline to 3 percent of GDP in 2017 as reconstruction spending drops. Public debt, currently at 47 percent of GDP, is expected to decline to 43 percent of GDP by 2021, owing to privatization receipts, a modest primary surplus from 2018 onwards, and a relatively favorable interest rate-growth differential as the effective nominal interest rate is expected to average 6.3 percent, while



nominal GDP growth averages about 6.8 over the 2016-2021 period. External debt remains low at around 16 percent of GDP. The current account is projected to widen to 7.3 percent of GDP in 2016 as imports surge and growth in tourism receipts temporarily slows. Reserve coverage is expected to remain adequate at about 4 months of imports.

**5. Government is partnering with development agencies and the private sector to speed up assistance to those hit by the cyclone and address longer-term issues.** In the critical area of housing, the government recently announced its “Help for Homes” initiative, with an initial F\$70 million of funding. The scheme will provide financial aid to homeowners for the purchase of building materials, to be implemented with assistance from the Fiji Institute of Engineers (FIE) and Vodafone. Legislation is being planned to improve building standards and codes, and insurance industry reform is also expected, given limited insurance coverage in rural and maritime communities.

### *Policy Requirements*

**6. The immediate challenge is to deliver a timely and effective disaster response in the face of capacity constraints.** First, mismatch in the timing of aid receipts versus expenditure execution could create volatility in the fiscal balance. Second, cyclone-related expenditure could contribute to excess demand and inflationary pressures, especially if supply bottlenecks are not addressed. In this connection, efforts are being made to smooth expenditures and manage price pressures.

**7. Fiscal consolidation to rebuild buffers remains a priority.** However, an increase in the deficit in 2016-17 would be appropriate to restore growth and help finance reconstruction. It is also important that public debt remains on a sustainable trajectory. Fiscal policy had been accommodative in years prior to Cyclone Winston and rebuilding of fiscal buffers will be needed to cushion the blow from future shocks. As discussed in the 2015 Staff Report, restraint on current spending will be important even in the near term, especially as public investment is expected to remain high. Base-broadening revenue measures should remain a priority, as abundant use of income-tax holidays and tax incentives have narrowed the direct tax revenue base and added complexity to the tax system.

**8. Monetary policy should be normalized as the economy recovers.** In the immediate aftermath of the cyclone, there may be scope for temporary liquidity support to some segments of the economy to facilitate recovery. However, overheating risks that existed prior to the cyclone remain relevant, and may intensify with increased fiscal spending. Therefore, as the economy recovers, excess liquidity should be withdrawn to enhance monetary policy effectiveness. Continued strong credit growth should be contained through a tightening of lending standards, and introduction of macro-prudential measures. Close monitoring of cyclone-related developments in financial institutions is also required.

**9. Longer term growth prospects will be supported by structural reforms.** The well-established structural reform program is being continued, with assistance from development partners in several areas. Recent developments have included work on a payment switch to improve financial sector service delivery and competition, and on-going work towards civil

service reform, supported by the World Bank. Work is also underway on tax reform and critical infrastructure (electricity supply and roads). Meanwhile, efforts to reform the sugar industry (a major employer in the country) could be stepped up, facilitating economic diversification. The business environment would benefit from further relaxation of price controls, and improved efficiency of land use.

**Table 1. Fiji: Selected Economic Indicators, 2011–17**

Nominal GDP (2014): US\$4,532 million  
Population (2014): 887,027 (est.)  
GDP per capita (2014): US\$5,109  
Quota: SDR 98.4 million

	2011	2012	2013	2014	2015	2016	2017
					Est.	Proj.	Proj.
<b>Output and prices (percent change)</b>							
Real GDP (at constant factor cost)	2.7	1.4	4.7	5.3	4.3	2.5	3.9
GDP deflator	10.6	3.3	2.3	5.1	3.2	3.3	3.2
Consumer prices (average)	7.3	3.4	2.9	0.5	1.4	3.3	2.8
Consumer prices (end of period)	6.4	2.5	3.4	0.1	1.6	3.3	2.8
<b>Central government budget (percent of GDP)</b>							
Revenue	26.7	26.5	27.0	27.6	28.2	29.3	29.1
Expenditure	28.0	28.9	27.6	31.8	31.4	34.8	32.2
Fiscal deficit	-1.4	-2.4	-0.6	-4.3	-3.2	-5.5	-3.0
Fiscal deficit in national convention 1/	-1.4	-2.4	-0.5	-4.1	-2.1	-2.4	-2.0
Total debt outstanding	52.6	51.7	49.5	47.7	47.0	46.7	45.2
<b>Money and credit (percent change)</b>							
Net domestic credit	0.5	2.7	14.0	18.7	13.4	...	...
Private sector credit	3.9	6.3	9.2	15.5	14.2	...	...
Broad money (M3)	11.5	5.9	19.0	10.4	13.9	...	...
Monetary base	19.6	11.4	7.5	4.2	8.4	...	...
Reserve Bank of Fiji's discount rate	1.0	1.0	1.0	1.0	1.0	...	...
Commercial bank lending rate	7.4	6.6	5.8	5.7	5.8	...	...
<b>External sector (in millions of U.S. dollars)</b>							
Trade balance 2/	-844	-770	-1,167	-1,028	-900	-1,088	-1,091
(In percent of GDP)	-22.3	-19.4	-27.8	-22.7	-20.6	-24.0	-22.9
Exports, f.o.b.	1,068	1,205	1,138	1,208	1,313	1,347	1,439
Imports, f.o.b. 2/	1,912	1,975	2,305	2,236	2,213	2,435	2,531
Current account balance 2/	-184	-53	-413	-326	-235	-332	-341
(In percent of GDP)	-4.9	-1.3	-9.8	-7.2	-5.4	-7.3	-7.1
Capital/financial account balance	478	339	412	531	341	396	374
Errors and omissions	-177	-218	78	-188	-43	0	0
Overall balance	117	69	77	17	63	63	33
<b>Gross official reserves (in millions of U.S. dollars)</b>							
(In months of retained imports) 2/	5.2	5.7	5.0	5.0	4.7	4.3	4.1
<b>External central government debt (in millions of U.S. dollars)</b>							
(In percent of GDP)	12.2	13.1	14.0	14.7	14.6	15.7	16.1
<b>Miscellaneous</b>							
Real effective exchange rate (average)	103.4	106.6	107.6	106.6	110.1	...	...
Exchange rate (Fiji dollars per U.S. dollar; period average)	1.79	1.79	1.84	1.89	2.10	...	...
GDP at current market prices (in millions of Fiji dollars)	6,769	7,120	7,727	8,553	9,206	9,748	10,452

Sources: Reserve Bank of Fiji; Ministry of Finance; and IMF staff estimates and projections.

1/ Including privatization receipts as revenue.

2/ Includes purchase of aircraft by Fiji Airways in 2013.