

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

May 9, 2016
Report No.: AB7837

Operation Name	Fiji Post-Cyclone Winston Emergency Development Policy Operation
Region	East Asia and Pacific
Country	Fiji
Sector	General public administration (50%); Public administration – Other social services (50%)
Operation ID	P159774
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Fiji
Implementing Agency	Ministry of Finance and National Planning
Date PID Prepared	May 9, 2016
Estimated Date of Appraisal	May 12, 2016
Estimated Date of Board Approval	June 17, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Fiji is a small remote economy located in the South Pacific Ocean. Its population of 886,400 is spread across the approximately 110 inhabited islands of the 330 island archipelago. Fiji is about 2,000km from New Zealand and 3,000km from Australia, its nearest large markets. Fiji is an upper middle income country, with a GNI per capita of US\$ 4,870 in 2014.

Cyclone Winston, the most powerful storm on record in the Southern Hemisphere, made landfall on February 20, 2016, killing more than 40 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 Government of Fiji (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.

II. Operation Objectives

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.

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. The policy actions under this first pillar are expected to lead to the use of the Disaster Recovery Framework (DRF) as a strategic planning and resource allocation tool (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 use of the DRF to enhance disaster-resilience (indicated by whether the building code has been revised to strengthen it, in accordance with the DRF).

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. The policy actions under the second pillar are expected to improve the well-being of recipients of the additional social assistance provided in the wake of the cyclone (indicated by the timeliness of the assistance and its utility in enabling recipients to purchase essential items), and to support efforts to mainstream social protection within future disaster response (indicated by the use of the findings of the evaluation to inform recommendations for the design of a disaster-responsive social protection framework).

III. Rationale for Bank Involvement

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 3.3 percent, with cyclone-induced production losses taking 2.5 percent off the pre-disaster baseline, and recovery and reconstruction programs adding 2.0 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.

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.

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 Asian Development Bank (ADB) that Fiji specifically requested. The World Bank has worked closely with the 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.

IV. Tentative Financing

Source:	(\$m)
Borrower/Recipient	0
IBRD	50
Others	<u>0</u>
Total	50

V. Institutional and Implementation Arrangements

The Ministry of Finance and National Planning is responsible for coordinating the monitoring and evaluation of the results indicators for the proposed operation. The Ministry of Finance and National Planning 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 and National Planning 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 and National Planning 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 and National Planning has very strong convening power, which has been repeatedly demonstrated in previous disaster-response scenarios.

VI. Risks and Risk Mitigation

The proposed operation carries a moderate level of risk, on account of the macroeconomic risks to the operation, the potential limits to the capacity of the public sector to manage the entirety of the recovery effort, and the Bank’s still relatively recent reengagement in Fiji. 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. 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. Fiji has little recent experience with Bank operations, and the Bank’s program is in the early stages of development, posing a risk to the operation that is being mitigated by an increased in-country presence to strengthen the country relationship.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

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. 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.

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. For the specific vulnerable groups assisted through the CPS (single parents, deserted 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. 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.

The evaluation of this additional assistance supported under the second pillar of this operation, is also likely to benefit the poor and vulnerable in 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 evaluation will be particularly useful in enabling an assessment of the targeting parameters uses for the additional assistance, both geographic and with respect to the depth of poverty.

Environment Aspects

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.

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 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.

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 energy sector. 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.

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