Debt Dynamics in Fiji: Impacts, Challenges and Strategies for Sustainable Economic Development

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FOREWORD

COVID-19 exacerbated the debt levels of Pacific Island Countries (PICs) which were already struggling from the impacts of the climate crisis. The closure of key revenue-earning industries (particularly tourism, exports in raw materials, minerals, oil and gas, and agricultural produce) undermined the ability of PIC governments to raise revenue, leaving them increasingly reliant on external donors in direct budgetary support and loans to sustain economies. At a meeting with creditors in 2021, Pacific governments indicated that the cancelling of the majority of government debt would be their preferred response, however this didn't eventuate, as some deferments were offered instead under the Debt Service Suspension Initiative from the G20.

The reporting on the debt levels of the PICs, especially after COVID are frequently done in relation to the ocean resources of the PICs and their geopolitical strategic importance. This constant framing of the Pacific region being fought over highlights the politically charged nature of both debt and debt responses. The push to access resources in the Pacific is tied to donor funding with reports that health funding is being cut for extraction enabling projects like infrastructure.

Debt is now an even more central component in the economic considerations that governments take, permeating into decisions about spending, saving and more broadly how to finance development. Given the importance of debt-related decisions it is crucial to ensure that there are processes that seek genuine engagement and input from the expertise that resides.

The Fiji Debt White Paper is a project that seeks to provide a substantive and authoritative body of work providing evidence-based recommendations on national-level debt situations that supports the engagement and coherence of civil society response to debt issues. The paper offers governments with another source of knowledge, breaking from the monopolistic position that traditional partners and multilateral banks hold on debt advice, and provides other responses that PICs could take. It was an idea that was supported by Fijian Civil Society groups when we met in April 2023 and this represents the delivery of that idea.

More than that however, the Fiji Debt White Paper has been a process of bringing Fijian CSOs together around the issue of debt and creating the opportunity for further understanding and comprehension of the options for addressing debt. The process of creating the White Paper saw three CSO convenings to discuss what are the key issues as they related to the different groups. All this fed into a paper to help shape the understanding of the Fiji context and recommendations for a pathway forward.

While this paper aims to support ongoing civil society engagement on debt related matters in Fiji, this is an issue that is impacting many Pacific Island Countries with many experiencing similar scenarios. We hope that this is the start or many more conversations that support an economically self-determining Pacific region.

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AUTHOR'S NOTE

This report is the effort of many people, in particular Adam Wolfenden, the Deputy Coordinator of PANG, who worked tirelessly on each and every aspect of the report from its blue-sky inception to the gritty details of getting it published. We spent too many hours thinking, discussing and researching each chapter of the report. He provided his wise and insightful counsel generously and patiently each step of the way, without which this report would be all the poorer for. As such, Adam is very much a co-creator of this report.

We would like to sincerely thank Prof Ohio Omiunu and Chioneso Samantha Kanoyangwa for providing unhindered access to their knowledge and expertise, despite their many academic commitments by being the lead authors of Chapter 4 of this report on sovereign debt management and governance. Prof Ohio Omiunu is a reader of International Economic Law at the University of Kent Law School and Director of the Afronomicslaw Academic Forum, while Samantha is a Zimbabwean lawyer and the coordinator of African Sovereign Debt Justice Network at Afronomicslaw. We also had the privilege to work with Nona C. Tamale on Chapter 2 of the report on fiscal and debt sustainability. She is a legal and policy expert on development finance particularly sovereign debt, consulting on this issue for several international organisations including the UN. She is also a law lecturer at Makerere University and an editor of a recently published academic handbook on the intersection between climate finance and sovereign debt, "Transforming Climate Finance in an Era of Sovereign Debt Distress." We would also like to thank our colleague at TWN, Alexander Kozul-Wright for providing his research inputs to chapter 5 of this report.

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Despite all the help and advice we have received, any mistakes in this report are our own.

And, while we have made every effort to scrutinise, cross reference and verify the data and facts asserted here as far as possible, we cannot guarantee the veracity nor accuracy of the data and facts cited in this report.

The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of the Pacific Network on Globalisation or Third World Network.

Goh Chien Yen and Adam Wolfenden, 2024

About:

Chien Yen, Goh (LLB, LLM) is trained in law with postgraduate specialisation in international human rights law and economic development. He is currently an advisor to Third World Network on development finance issues with a focus on sovereign debt. He was previously based in Geneva working on international development issues in particular the WTO trade talks and other bilateral free trade and investment agreements, providing strategic advice to developing countries on their economic and development interests in international negotiations. He was also the founder of a news media business – Asia360 News, a weekly print and digital newsmagazine focusing on Asian current affairs. He is also interested in using technology for research and has spearheaded several tech projects involving AI/ML, NLP, and network graphs when he was working in DBS (a Singaporean bank). He was the chief architect of the two key platform applications used by DBS Group Research to disseminate its research to the rest of the bank and institutional investors.

Adam Wolfenden is the Deputy Coordinator (Program Advisor) and has been with the Pacific Network on Globalisation since 2010. During that time he has worked on the negotiations for the regional free trade deal known as PACER-Plus, provided analysis and technical advice for a number of governments regarding the WTO fisheries subsidies negotiations and conducted numerous workshops and trainings about trade and development in Pacific communities. He has a Ba. Economic/ Ba. Arts (Hons) from University of Newcastle and has worked on trade and international economic issues in the Pacific region and globally for many years.

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EXECUTIVE SUMMARY

The public debt of a country is an important barometer of its economic health. It is an integral part of its fiscal calculus, impacting the nation's ability to invest in development priorities, address socio-economic issues and respond to external shocks. For a country like Fiji, characterised by its unique geography and economic structure, it faces a myriad of challenges and opportunities that are intricately linked to its public debt situation. Effective management of its public debt is vital in ensuring its economic resilience and long term development.

Fiji is grappling with a profound and complex public debt burden. Its public debt as a percentage of GDP has risen significantly in recent years; as of July 2022, this ratio had breached 90%, a sharp increase from 49% in 2019. Studies and the experiences of many developing countries have shown that too much debt can be deleterious to growth and development.

Prior to this pronounced surge, Fiji grappled with a number of economic hurdles, which led to its debt-to-GDP ratio inching up over the decades. Political turbulence, anaemic growth, natural calamities, and external economic shocks have all played their part. The global financial meltdown in 2008 and catastrophic events like Cyclone Winston in 2016 wreaked havoc on Fiji's infrastructure and decimated its primary revenue channels, particularly in the tourism sector. Such adversities compelled the Fijian government towards more borrowing to rejuvenate its economy.

The advent of the Covid-19 pandemic in 2020 only intensified these economic tribulations. The pandemic crippled Fiji's tourism sector, which makes up a significant chunk of its GDP and employment, and the government had to take decisive action. It launched a Covid-19 response budget encompassing wage subsidies and direct financial aid, resulting in an inevitable spike in borrowing. This fiscal spending, while necessary, led to a deepening government deficit and an unparalleled spike in the debt-to-GDP ratio.

Already, Fijians are feeling the weight of this debt burden through new fiscal measures such as increased taxation and constraints on government spending, which were recently introduced in the country's latest budget. An increasing and higher incidence of limited fiscal revenue is also being spent on debt servicing than on essential social sectors, threatening to channel funds away from investing in long-term economic development and the UN's Sustainable Development Goals (SDGs). Additionally, excessive debt can erode investor confidence and dissuade investments as macroeconomic underpinnings deteriorate and dampen business outlooks.

The consequences of Fiji's rising debt burden extend beyond mere fiscal cutbacks and constraints; it could hamper and diminish the country's economic growth and development prospects.

Furthermore, Fiji's vulnerability to climate change and natural disasters compounds the urgency of addressing its debt situation. As public coffers are drained by high debt servicing and repayments, less monies will be available to invest in climate resilience and to build up financial reserves to respond effectively to extreme climate events. With a significant portion of its economy being externally oriented and reliant on tourism, Fiji is also susceptible to global economic slowdowns and recessions. A burgeoning national debt amplifies these vulnerabilities, constricting the government's flexibility to pursue counter-cyclical fiscal strategies during economic slumps.

Hence, Fiji's current debt burden is a matter of grave concern. It underscores the importance of prudent fiscal management, economic diversification, and strategies for debt sustainability in the face of ongoing external challenges such as climate change and the health of the global economy. Fiji's ability to address and manage its debt burden will play a pivotal role in determining its economic future and overall well-being

To be sure, debt is and can be a crucial tool for development; however effective management is vital to harness its benefits. It is essential that there is a sound blueprint outlining how the nation plans to put its borrowings to optimal use and manage its debt obligations. A coherent strategy can ensure that debt levels remain sustainable, servicing costs are manageable, and borrowing aligns with the country's developmental goals.

Understanding Fiji's public debt burden is not just an exercise in fiscal accounting but a deep dive into the nation's economic pulse. The way Fiji manages its debt, strikes a balance between basic needs and developmental aspirations, and aligns its debt management strategy with long-term goals can significantly influence its economic trajectory. Thus it is important to study and analyse the nation's debt profile and dynamics, its proximate causes, and underlying drivers in order to craft an effective debt management strategy.

This paper aims to situate the country's public debt burden within the context of its economic performance and fiscal policies, and attempts to highlight the complexities and challenges inherent in balancing growth aspirations with fiscal responsibilities. It also tries to reveal the significance of Fiji's public debt burden not merely as a reflection of numerical indicators but as an issue that is deeply intertwined with the nation's socio-economic well-being, policy frameworks, and strategic priorities.

How Fiji successfully navigates its debt maze is pivotal for its future prosperity and the well-being of its peoples, and we hope that this paper can contribute meaningfully to this important effort and provide a framework for dialogue, analysis, and action, enabling stakeholders to grasp the multifaceted dimensions of public debt and its impact on the nation's future.

Chapter 1 – Fiji's Debt Profile and Dynamics

This chapter lays the technical groundwork to understand Fiji's debt profile and composition. It details standard attributes, such as the breakdown between domestic and external debt, its servicing schedule, and contingent liabilities, which are typically scrutinised and evaluated by debt managers to get a general sense of the country's debt dynamics and its sustainability. As Fiji's economy and debt profile are quite unique, this chapter attempts to contextualise and understand the debt composition and implications against its own history and circumstance rather than by analysing it against other countries and peers. As such, it provides an in-depth picture of the evolving nature of Fiji's public debt over recent decades, with a focus on 2006-2023. It chronicles the steady rise in the country's total public debt, which has been driven by modest yet persistent fiscal deficits, the effects of natural disasters like Cyclone Winston, and the profound economic impact of the Covid-19 pandemic.

Additionally, the chapter also touches on the government's strategies for debt management, such as refinancing plans, bond issuances, and efforts to balance domestic and external borrowing. The increasing costs of debt servicing and the implications for Fiji's fiscal health and future economic prospects are also discussed, providing a comprehensive view of the country's debt situation and the challenges it faces.

Chapter 2 – Debt and Fiscal Sustainability

This chapter examines Fiji's fiscal challenges and strategies post-Covid. It underscores the persistent fiscal deficits, exacerbated during the pandemic, leading to a soaring debt-to-GDP ratio nearing 92%. The chapter examines the various fiscal targets proposed to bring debt levels down to a more sustainable trajectory, and what that might entail. For now, the government's fiscal consolidation commitment is aimed at reducing the budget deficit to -3% of GDP by 2026. This approach, however, sparks debate: the chapter contrasts Fiji's gradual fiscal consolidation strategy with the more aggressive tactics recommended by institutions like the IMF and World Bank. The chapter also takes a nuanced view of debt, not just as a financial burden but as a tool for productive investment. It delves into the complexities of balancing fiscal sustainability with equitable growth and development, advocating for a cautious, yet strategic approach to fiscal management and debt utilisation. The chapter also introduces the UN Conference on Trade and Development (UNCTAD) proposal for a more holistic debt assessment approach, linking debt sustainability to the broader development objectives and UN SDGs.

Chapter 3 – Growth, Debt and External Sustainability

This chapter serves as a critical and analytical exploration of Fiji's economic landscape and structure in order to identify the underlying causes of debt. It analyses the nation's economic growth patterns, emphasising the erratic and volatile nature of this growth over the last four decades. This volatility is linked to a combination of policy decisions, political instability, and external shocks like natural disasters and the Covid-19 pandemic. A key focus of the chapter is the structural analysis of Fiji's economy, dissecting major sectors such as agriculture, tourism, and manufacturing. It delves into the challenges and inefficiencies within these sectors, particularly highlighting the agricultural sector's struggle with low productivity and the tourism sector's vulnerability to external market conditions.

The chapter proposes a strategic approach to economic development, advocating for the modernisation, diversification, and commercialisation of key sectors. It underscores the necessity of transitioning from a reliance on low-value-added activities to embracing high-value-added industries, which could significantly contribute to sustainable economic growth. It emphasises the need for structural transformation and policy interventions that align with the evolving global economic landscape and Fiji's unique socio-economic context.

Chapter 4 – Debt Management and Good Governance

This chapter provides an analytical review of Fiji's public debt governance, emphasising the need for legal and institutional reforms to manage the growing debt burden effectively. It observes that Fiji's dispersed legal framework for debt management, spread across various laws, directives, and circulars, may pose challenges in terms of transparency, accountability, and efficiency. A consolidated public debt management law can help in this regard and strengthen the implementation of integrated strategies, risk assessment frameworks, and debt sustainability assessments.

The chapter makes other recommendations, including strengthening legal frameworks to enhance transparency and accountability, establishing an enhanced Debt Management Office (DMO) reporting to an executive board made up of the minister of finance, parliamentary representatives and other key stakeholders. It also emphasises the importance of participatory democracy in debt governance, advocating for public involvement in decision-making processes and open data policies.

Chapter 5 – Climate Finance and Debt

This chapter provides a critical analysis of Fiji's climate finance strategy, juxtaposing the financial challenges and solutions to addressing the impact of climate change with fiscal and debt sustainability. Fiji's vulnerability to climate change, which necessitates significant investments in adaptation and mitigation measures, have been captured in a swathe of documents, among them its National Climate Change Plan, National Adaptation Plan, and Nationally Determined Contribution. The country has tried to tally the substantial financial commitment needed to build resilience against climate change and natural hazards. However, the chapter contends that a comprehensive financing strategy is still lacking, pointing out the need for a clearer understanding of the economic impact of these actions, including development, fiscal health, and debt sustainability. Assessing climate actions in terms of their economic impact will lead to better prioritisation and sequencing of actions. The chapter argues for a robust climate finance strategy that evaluates funding sources and prioritises climate actions aligning with Fiji's development, climate resilience, and fiscal goals. It recommends a strategic approach that balances the need for climate action with fiscal and debt sustainability, emphasising the importance of developed countries fulfilling their international commitments to provide the necessary financing.

Chapter 6 – Conclusion and Recommendations

This chapter summarises key conclusions from the White Paper, providing a range of opportunities for Fiji to shore up and improve on its current debt position, strengthen its legal frameworks and institutions to enhance debt management and governance, and implement a climate financing framework to ensure that climate-related investments reinforce the nation's broader objectives.