





# CHAPTER 4: DEBT MANAGEMENT GOVERNANCE

In 2020, a public expenditure and financial accountability (PEFA)<sup>1</sup> assessment scored Fiji a “B” for the quality of its debt management and an “A” for its recording and reporting of debt management and approval of debt and guarantees. However, Fiji earned a “D” for the absence of an endorsed debt management strategy.<sup>2</sup> To address this weakness, the government approved its inaugural new medium-term debt management strategy FY2021-23 in Jan 2021.

Upon closer examination, it is evident that areas within the institutional and legal framework governing Fiji’s public debt management could be revised to ensure that the country’s socio-economic needs are met while upholding the principles of accountability, transparency, and good governance. Notably, Fiji’s legal framework governing public debt could be more cohesive; currently, debt management provisions are scattered across various laws, directives, and circulars rather than consolidated within a single integrated government debt management legislation

as best practice. These fragmented debt management provisions result in challenges and shortcomings that impact transparency, accountability, and effective debt management practices.

This chapter critically evaluates the effectiveness of the qualitative nature of Fiji’s public debt governance system. It highlights gaps in the system regarding transparency, accountability, and good governance mechanisms for sovereign debt contracting and monitoring. It also aims to identify the gaps and loopholes that may hinder efficacy in the system’s overall functioning. The goal is to provide actionable insights and policy recommendations from a legal perspective to tackle the issues of Fiji’s public debt management and governance.

### **Public Debt Management**

The theoretical exposition on the concept of public debt management is critical in understanding how public debt management performs in the context of overall public finance management. Countries borrow to realise development plans, establish or expand socio-economic infrastructure, support fiscal and extraordinary expenditures, bolster international monetary reserves, or settle international transactions. According to Wheeler, debt management aims to efficiently fund the government's borrowing needs, ensure that debt service obligations are met, and manage the government's debt portfolio in accordance with the government's cost and risk objectives,<sup>3</sup> to which this paper would add economic development priorities. Debt management also tries to ensure that public debt growth rate and degree of growth are sustainable and serviceable under various scenarios while simultaneously meeting cost and risk criteria.

### **Good Governance in Debt Management**

Sound debt management must be guided by good governance which should exhibit the following characteristics: participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law.

The IMF created a set of debt management guidelines to assist policymakers in improving the quality of public debt management and reducing exposure to global financial shocks.

To start, credit/funds must be earmarked for targeted debt management goals. This idea requires the payback of borrowed funds. Funds must only be utilised for the purposes for which they were borrowed. A legal responsibility must be to prioritise and act on public and social concerns that demand finance. In actuality, many jurisdictions divert monies from their intended use, or invest it in ineffective initiatives.

Second, there must be inter-generational equity. This means that debts incurred at present must not have an adverse effect on future generations. Precautions must be made while taking out loans to ensure that current well-being does not undermine future economic and social growth.

Third, debt modalities, debt structure and sustainability factors must be considered while contracting loans (see previous chapters). This demands an examination of the debt structure (Chapter 1). The numerous elements of the debts, such as currencies, holders, interest rate terms, instruments, and contractual government bodies must all be investigated. This approach would enable Fiji to make debt payments at the lowest possible cost and with the least risk.

Fourth, debt management requires transparency and responsibility. Debt management financial agencies must grasp their duties, obligations, and objectives. Open mechanisms for formulating and reporting debt management policies must be explicitly established in the legal frameworks governing debt management. Information on the country's debt management techniques, debt stock and composition, and maturity and interest rate structures must be made public.

Finally, appropriate governance for debt management is necessary. Adequate legal frameworks and effective institutions are required: the legislative framework should spell out who has the authority to borrow, issue new debt, invest, and transact on behalf of the government. There must also be internal check-and-balance processes and legal documents for institutions dealing with debt difficulties. Sound business processes must be followed, and personnel duties must be clearly defined.

It is imperative to highlight that the criteria mentioned above mitigate against mismanagement and misuse of loans, all potential forms of corruption. Along with the principle of accountability, it is crucial to

ensure that borrowed money is used for the intent for which it is sourced. In the context of Fiji, where the national debt levels are already elevated, it becomes prudent to take stock of the public debt. Such monitoring and evaluation of the usage of loans will help prevent the mismanagement and misuse of public loans—and help expose such issues, as well as cases of grand corruption, should they occur.

Also of note is the extent of influence the public sector finance regulations from other countries have had on Fiji's public finance landscape, particularly the country's public sector auditing. Public sector regulations from New Zealand, Australia and Canada have often taken centre stage in Fiji's public finance management.<sup>4</sup> Be that as it may, the country must ensure that such borrowing is done by best practices and standards that suit Fiji's specific political-economic landscape. To capture these nuances, apt contextualisation should be encouraged.

### **Fiji's Legal Framework on Public Debt Management**

To give effect to the above, debt management legislation is a critical component to guarantee solid financial policies and defined obligations, accountability, and transparency. The ultimate goal is for Fiji to have a legal and institutional/governance framework that supports sustainable borrowing practices, reduces the risk of debt distress, and ensures that borrowed funds are appropriately utilised for development purposes. Therefore, a scoping analysis of the country's debt management portfolio is prudent to gauge the extent to which Fiji's legal and institutional framework is equal to tackling debt management effectively and efficiently promoting socio-economic development.

Legislation is a key component of the governance and high-level strategic framework applying to government debt management. Good legislation defines and focuses powers, limits potential abuses of power, and establishes accountabilities for managing the government's debt liabilities to promote governance. According to the handbook<sup>5</sup> on auditing public debt by the INTOSAI<sup>6</sup> Development Initiative (IDI) and Working Group on Public Debt (WGPD), primary legislation should include, among others, the clear authorisation by parliament to the executive branch of government to approve borrowing on behalf of the sovereign. It should also have specified borrowing purposes, and clear debt management objectives or goals.

Therefore, a robust legal framework is critical for effective public debt management, given the centrality of law to public debt.<sup>7</sup> Government borrowing from domestic or external sources necessitates the existence of a well-established legal basis for incurring debt. Public debt contracting and management should be anchored in the constitutional framework of a state and supported by a legal framework based on coherent and coordinated structures with predictable rules



and regulations. In effect, constitutional law and statutory legislation form the foundation of public debt law at the national level. Interrogating Fiji's debt-governing laws reveals a fractured line in various legal instruments and practices.

### **Constitution**

As apex legal instruments, constitutions typically define public borrowing powers and procedures. They frequently delegate the authority to incur debt to specified governmental organs, typically the executive and legislative departments, and may establish debt approval processes, including checks, to prevent excessive indebtedness. Adopting the Constitution of Fiji in 2013 enabled a strong base for public finance management procedures and systems. The Constitution, being the country's supreme law, sets out precedence to the country's fiscal management system. It is imperative to highlight that the 2013 Fijian Constitution is the country's supreme law and, therefore, can neither be abrogated nor suspended, and can only be amended according to the procedures set out wherein.

In the spirit of transparency, the Constitution allows for parliamentary oversight of public funds, including loans. According to Section 145, the government must not guarantee the financial ability of any person or body in respect of a loan or otherwise unless the parliament authorises the giving of the guarantee by conditions prescribed by law. Additionally, by resolution, the parliament may require the minister responsible for finance to present information concerning any particular loan or guarantee to parliament. Such information may include the extent of the total indebtedness by way of principal and accumulated interest, the use made or to be made of the proceeds of the loan or the purpose of the guarantee, the provisions made for servicing or repayment of the loan, and the progress made in the repayment of the loan. This information is vital in ensuring

that procedural frameworks that allow for parliamentary oversight in public borrowing and citizen participation in budgetary processes are followed.

Additionally, such regulatory procedures help prevent governments from accruing huge public debt due to unregulated and unmonitored borrowing. Abrogating such regulatory procedures, therefore, often creates avenues for the State to continue accruing huge public debt due to unregulated and excessive borrowing. Further, in the spirit of accountability, section 146 of the Fiji Constitution of 2013 states that all funds must be handled and accounted for in line with the law and accounting principles generally accepted in the public sector. Despite the lack of specific mention of such loans, such funds should include revenue sourced through borrowed loans.

### **Statutory Law**

In addition to constitutional provisions, statutory laws flesh out the national legal framework for public debt. These laws establish designated debt management institutions, regulate specific debt management processes, and articulate requirements for transparency and accountability in public debt administration. The principal legislation providing for debt governance in Fiji is the Financial Management Act 2004. Most recently amended in 2021, the act is guided by a set of principles of responsible fiscal management outlined in section 5. This includes accountability, comprehensiveness, fiscal discipline, specificity, sustainability, transparency, and value for money. All these principles are critical for sound debt management.

Part 9 of the amended Financial Management Act, which includes sections 53-64, is dedicated to Fiji's legislative and regulatory framework governing debt. Beyond this, it is critical to note that Fiji's legal framework governing public debt needs to be more



cohesive, as other debt management provisions and policies are scattered across various laws, directives, and circulars, rather than being consolidated within a single integrated government debt management legislation, as is best practice.

While the Financial Management Act (2004) represents the key statutory instrument on debt, it does not align with the Constitution and the Finance Instructions, which sets minimum standards for the financial management of government agencies. Inconsistencies and ambiguities between these three legal instruments—2013 Constitution, the Financial Management Act (2004), and the Finance Instructions (2010)—hinder more transparent and accountable governance practices in Fiji's public finance management. For instance, while the constitution has delegated the role of permanent secretary to chief executives, the Financial Management Act (2004) and the Finance Instructions have yet to be amended to clarify this. Additionally, the powers devolved to the permanent secretary under sections 127(7) and 127(8) of the constitution have yet to be incorporated into the Financial Management Act 2004 and the Finance Instructions 2010. Such inconsistencies in the legal framework must be resolved, preferably through the consolidation of all debt-related provisions into a single comprehensive act of parliament dedicated to public debt management.

A disjointed approach towards debt governance has various implications for clarity, as it may restrict public access to full and up-to-date debt data and policies. Without clear accountability procedures under a dedicated act, there may be a lack of defined responsibility and monitoring in debt management methods, potentially leading to suboptimal decision-making and unsustainable debt burdens. Furthermore, the fragmentation of debt management may impede integrated strategies, risk assessment frameworks, and debt sustainability assessments, potentially leading to inefficient

debt management practices. It ultimately leads to a need for more cohesion and coordination in debt management efforts.

### **Power to Borrow**

A key legal question that needs to be answered in understanding the legal framework for public debt is who exercises borrowing authority on behalf of the state. The government's authority to borrow is perhaps as fundamental to sovereignty as its power to tax and spend. This may be provided for in the Constitution and/or in primary legislation such as Public Finance Management-type and debt management laws.

The government of Fiji, through the Ministry of Finance, holds the legal mandate to borrow funds required to fund the budget deficit and any standing or other appropriations. This mandate is reflected in section 59, subsection 1 of the Financial Management Act (2004). According to section 59, on behalf of the state, the minister may borrow money by raising loans for the purpose of funding the budget deficit or for such purposes as may be authorised by parliament through a resolution. In this regard, the Ministry of Finance is also mandated to assess the creditworthiness of the public debt issuer. Under the act, the ministry has to ensure that the issuance of sovereign guarantees is based on an analysis of the financial position and its outlook during the guaranteed period. This includes analyses of the liquidity, solvency and profitability indicators of public enterprises and companies, and the budget and financial performance indicators of municipalities and public institutions established by the republic.

According to section 6 of the Financial Management Act 2004, the Minister of Finance is responsible for promoting sound financial resource management practices among various government departments, and sound economic management of the national economy in accordance with macroeconomic aims for long-term development. Among other functions, the minister is responsible



for managing revenue and expenditure in such a way as to achieve “prudent level” of public debt.<sup>8</sup> The minister may carry out such functions with the assistance of Fiji’s central bank. According to section 4 of the Reserve Bank of Fiji Act, one of the stated statutory functions, powers, and responsibilities of the Reserve Bank of Fiji (RBJ) include promoting a sound financial structure and fostering credit and exchange conditions conducive to the orderly and balanced economic development of the country. This means that the ministry, together with the RBJ, may oversee the contraction and management of debt in Fiji. This is supported by section 63 of the Financial Management Act, which stipulates that the minister may delegate any powers to the RBF and may appoint the central bank as the fiscal agent for the government for any of the borrowing purposes.

The process of obtaining public debt typically begins with the government or relevant bodies identifying borrowing needs. These requirements may arise due to various factors, such as funding infrastructure projects, funding social services, or addressing budget deficiencies. Generally, in the case of Fiji,

borrowings have been made to support fiscal expenditures in recent years. After identifying the fiscal gap/deficit for the new fiscal year, that amount constitutes part of the Annual Borrowing Plan.<sup>9</sup> The government also considers upcoming debt repayments in the fiscal year. Together, this will constitute the total borrowing needs of Fiji for the fiscal year. An Appropriations Act<sup>10</sup> for that fiscal year is then passed, stipulating the total amount of monies to be drawn down and the government’s borrowing limit.

Once the borrowing needs are determined, the government must assess its borrowing capacity, considering factors such as debt sustainability, creditworthiness, and market conditions.

Governments typically issue debt securities, such as bonds or treasury bills, through the primary market to secure public debt. These securities represent the contractual obligations between the government (as the borrower) and investors (as the lenders). The issuance process involves the preparation of legal documentation, including prospectuses or offering circulars, which provide detailed

information about the terms and conditions of the debt instrument, the purpose of borrowing, and the rights and obligations of both parties. Debt securities have varying risks and costs based on each instrument's terms and conditions, such as its tenure and coupon, the currency it is issued in, who the bond holders are and its governing jurisdiction.

Beyond the bonds and treasury bills typically utilised in the primary market, governments use a variety of additional instruments to secure public debt. Examples of these tools are loans from international financial institutions such as the IMF or World Bank and bilateral lenders such as foreign governments or development agencies. Commercial loans from private creditors such as banks or other financial organisations, are another vital source of state debt. These loans can be used for various objectives, such as infrastructure projects or budget funding. They can provide greater flexibility by allowing governments to negotiate terms such as interest rates, repayment schedules, and loan amounts directly with the lender.

While beneficial in providing crucial funding, especially during economic stress, these commercial loans can come at a higher cost due to the elevated risk perceived by private creditors. They may also carry stricter terms and conditions. Therefore, effective monitoring, risk assessment, and transparent reporting of these loans are essential to maintain fiscal health and stability. Overall, sovereign borrowing has to comply with the debtor country's law, rules and regulations.

### **Other Key Institutions and Instruments**

In most countries, government debt management is centralised either inside the Ministry of Finance or a separate debt office, which advises on debt management strategy outside the Ministry of Finance. Even in the case of the latter, both entities work closely together to ensure sustainable debt management for any given country. In acknowledgment of the role that various

public debt management strategies and sustainability tools/institutions play in managing debt burdens, it is prudent to highlight these briefly:

### **i) The Medium-Term Debt Management Strategy (MTDS)**

The Medium-Term Debt Management Strategy (MTDS) is a document that describes a country's debt management goals for the medium term, which is typically three to five years. It specifies the intended composition of the government's debt portfolio and proposes solutions for achieving it while considering the cost-risk trade-off. An efficient MTDS considers the country's existing and future fiscal status, development priorities, monetary policy stance, domestic financial market development (functioning government securities), and access to international capital markets. The MTDS also aids in aligning borrowing with the country's fiscal policy and macroeconomic framework by providing a road map for debt issuance, risk management, and debt payment.

In many countries, the Ministry of Finance is often tasked with formulating such a strategy. So is the case in Fiji. Historically, Fiji did not always publish a MTDS, and it only did it once so far in 2021<sup>11</sup> with technical assistance from the World Bank. However, its debt policies could be found in the budget supplements and fiscal strategy. The new government has continued with this practice, articulating its thinking on public debt in its Medium Term Fiscal Strategy (MTFS)<sup>12</sup> and budget supplement.<sup>13</sup> That said, it has promised to publish a medium-term debt management strategy for the fiscal years 2023-24 and 2025-26 by July 2023.<sup>14</sup>

According to section 59A of Fiji's Financial Management Act (2004), the Ministry of Finance must prepare a debt management strategy that sets out the government's plans to source financing, manage associated costs and risks, review any debt management strategy in place, and make any amendment,



where required. The act however does not stipulate the extent to which data, analyses and recommendations may be required in, and in the formulation of the strategy, leaving the scope and substance of the strategy to be determined by the ministry.<sup>15</sup>

When it comes to the execution, Fiji's Debt Management Unit leads as the implementing agency of the MTDS.<sup>16</sup> The stated objectives are to minimise the cost of government debt and support the development of the domestic debt market.<sup>17</sup> The strategy focuses on the central government debt portfolio and considers using securities and financing instruments. For instance, specific benchmarks have been established to guide borrowing decisions and manage risks. The current debt portfolio consists of 74.4% domestic borrowing and 25.6% external borrowing. The cost of domestic borrowing is currently higher than external borrowing. The maturity structure of the debt is evenly distributed, with some exceptions. (See Chapter 1 for more details.)

The MTDS aims to maximise budget support financing, change the maturity profile, and refinance existing bonds. The strategy also considers the risks associated with different scenarios and shocks. The government has adopted a prudent fiscal strategy and aims to promote growth while maintaining stability. The debt securities market in Fiji is underdeveloped, and efforts are being made to address this. The MTDS has been developed based on baseline projections and alternative shocks to interest and exchange rates. The preferred strategy focuses on issuing short- and medium-term domestic bonds, increasing domestic funding, and diversifying the investor base.

In its most recent official debt analysis,<sup>18</sup> the government of Fiji stated its intention to produce an MTDS outlining its medium-term debt strategies, targeted financing needs, payment obligations, and assessment of cost and risk indicators in line with the MTDS and responsible financial management

policies to ensure public debt is maintained at sustainable levels. While an MTDS gives a strategic roadmap for controlling a country's debt and aligning borrowing decisions with macroeconomic policies, its effectiveness depends on its capacity to implement it properly.

### **ii) The Medium-Term Fiscal Strategy (MTFS) — Fiscal Discipline and Sustainability**

Previously, Fiji's primary legislation on public finance management did not include a section on the country's medium-term fiscal strategy (MTFS). However, with a legislation amendment in 2021,<sup>19</sup> the government is now mandated to formulate a fiscal strategy for the medium term under the amended Financial Management Act.

Fiji's medium-term fiscal strategy is set against the backdrop of a looming global recession and a domestic economy recovering from three consecutive years of decline, including the largest-ever economic contraction of over 17% in 2020.<sup>20</sup> Fiji's current MTFS, covering the fiscal years of 2023/24 to FY2025/26, is focused on addressing the high public debt situation and achieving fiscal sustainability while supporting economic growth.<sup>21</sup>

The strategy takes into account the looming global recession and the domestic economy's recovery from three years of decline. The government aims to reduce the debt-to-GDP ratio and increase revenue through tax reforms. The strategy also emphasises the need for structural reforms to support private sector-led growth and sustainable economic development. Section 12 (1) of the Financial Management (Amendment) Act 2021 mandates the minister responsible for finance to prepare a fiscal strategy based on the principles of responsible fiscal management<sup>22</sup> sets out the government's fiscal objectives for the medium term. Operationally, the responsible ministry is tasked with setting the government's financial targets or limits for the medium term, with regards to its fiscal budget

(including borrowings)<sup>23</sup> government debt stock and servicing<sup>24</sup> and contingent liabilities,<sup>25</sup> as a proportion of gross domestic product. The sitting government is further obliged to evaluate the state's performance against its own targets as part of the fiscal strategy.<sup>26</sup>

According to Section 12 (2) of the Financial Management (Amendment) Act 2021, the minister responsible for finance is required to submit a medium-term fiscal strategy to the cabinet for approval and then immediately to the Parliament, "no later than 6 months before the annual budget." Following cabinet endorsement, the minister must table the fiscal strategy in parliament. This procedure is commendable as it allows for both the executive and legislative arms of the state to have a say on the fiscal strategy before it is put into motion, which is well in line with the principle of accountability, providing opportunities for the government to be held accountable to parliament when it comes to the management of public finances. To promote greater transparency, the law also obliges the permanent secretary to publish the strategy on an official website on the same day it is tabled in parliament.<sup>27</sup>

Another commendable highlight is the extent to which the act outlines the circumstances under which deviation from the fiscal strategy may be effected. These include when an economic shock occurs, the effects of said economic shock cannot be accommodated through the annual budget, and the cabinet approves the deviation. This promotes fiscal discipline and ensures transparency.

### **iii) Debt Management Offices (DMO)/ Debt Management Unit (DMU)**

Debt Management Offices (DMOs) are specialised offices that manage the country's debt portfolio, typically housed within a country's finance ministry or central bank. Their responsibilities include debt issuance, risk management, debt servicing, and lending advice. A well-managed DMO with

independent oversight guarantees that the government's funding needs are satisfied at the lowest feasible cost while maintaining a sensible level of risk, thereby contributing to the country's macroeconomic stability. It contributes to developing a domestic debt market, increases transparency and accountability in public debt management, and enhances the quality of the government's fiscal statistics. DMOs can also play a crucial role in dealing with external shocks, such as sudden currency depreciations or commodity price shocks, which could impact the country's debt sustainability. A well-functioning DMO can improve a country's debt management and its access to credit markets. However, the efficiency of DMOs is determined by their technical capacity, independence, and the quality of the information at their disposal. DMOs' usefulness may be reduced in nations where specific prerequisites still need to be met.

While the natural responsibilities of the DMO are the operational debt management functions, the exact responsibilities may vary from country to country.

Under Fiji's previous government, the debt management office/unit reported to the divisional head of financial and asset management, who held the rank of deputy secretary, and in turn reported to the permanent secretary. It was responsible for drafting the medium term debt management strategy and getting it approved by the cabinet. It was also tasked by the previous government to develop a policy on bond buybacks and liability operations, with technical assistance from the World Bank.<sup>28</sup> These debt management operations however must be approved by the minister and be consistent with the debt management strategy.<sup>29</sup>



**iv) The Auditor-General**

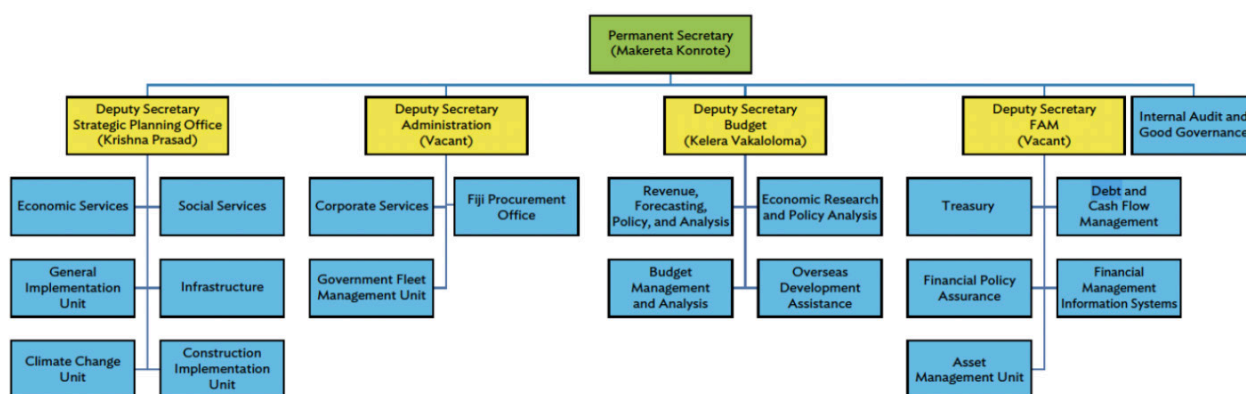
The auditor-general’s involvement in fiscal management is critical as it allows the continuous monitoring of public resources. Recognising that auditor independence is the cornerstone of an effective auditing framework, it is prudent to investigate the function of the auditor-general in Fiji in terms of institutional autonomy, reporting frameworks, and access to information. The auditor-general’s unanimously agreed-upon role is to assist parliament by holding the government accountable for how it spends public money. In Commonwealth countries and Westminster-style democracies, an Auditor-General office (OAG) works closely with a legislative Public Accounts Committee (PAC). Both agencies scrutinise and oversee how the government spends public funds and are thus critical institutions in economic governance.

Accountability and transparency of the government’s financial activities are ensured through timely audit reports. The audit reports prepared by the OAG and scrutinised by the PAC keep residents informed of the government’s financial actions. Auditing reports, prompt disclosure,

and public examination are thus pillars of good administration. The audit results and suggestions aim to increase integrity and accountability in the government’s financial management issues. Apart from being for public consumption, audit reports are also utilised by the government to enhance its systems and processes to ensure proper and effective use of public funds.

In the case of Fiji, section 152(1) of the 2013 Constitution states that “at least once every year, the auditor-general shall inspect, audit, and report to Parliament on the public accounts of the state, the control of public money (including government projects) and public property of the state, and all transactions with or concerning the public money or public property of the state”. The 2013 Constitution further requires the auditor-general to provide their opinion that transactions involving or involving state money or property have been legally approved and that expenditure has been applied to the purpose for which it was authorised. The Audit (Amendment) Act 2006 further empowers the OAG to inspect, audit, and report to parliament on the state’s public accounts, control of public money, and public property. This includes project auditing. After being tabled

**Figure 4-1: Fiji’s Debt Management Unit in the Ministry’s Organisation Chart**



FAM = financial and asset management division.  
Source: Ministry of Economy.

Source: Asian Development Bank, “Public Financial Management Systems—Fiji Key Elements From A Financial Management Perspective,” p.8

in parliament, the auditor-general's reports are evaluated by the PAC. The committee evaluates the government's accounts for each fiscal year, the auditor-general's reports, and any other items connected to the expenditures of the government or any directly or indirectly associated entity or activity that the committee deems appropriate to review.

A notable query around the independence of the OAG concerns how the OAG reports are tabled in parliament. According to section 152 (13) of the 2013 Constitution, "the Auditor-General must submit a report made by him or her to the Speaker of Parliament and submit a copy to the Minister responsible for finance". As is the case in most countries, the Speaker of Parliament, who is usually from the ruling party, is often unable to conduct their mandate without undue influence from the main party to which they belong. This, undoubtedly, carries significant implications on the speaker's ability to objectively engage in discussion over the OAG's report. This has been cited as affecting the efficiency of the available reports for public scrutiny, as it potentially frustrates parliamentary oversight and participation. This provision, therefore, impedes the efficacy of the OAG.

Instead of waiting up to 30 days after the speaker has received the report to table it in parliament, it would be preferable for parliament to have direct access to the report from the Auditor-General when the report is produced. Effective scrutiny of public finances requires adequate room for parliamentary oversight and input after the tabling of said report.

## Conclusion

The need for a rigorous governance framework and institutional capacity cannot be overemphasised in light of Fiji's sizeable debt burden and its profound ramifications for its entire economy. Such a framework will not only help bring about prudent public debt management in Fiji, but will minimise the

exposure to debt default risks and bring about the desired economic development achieved through judicious debt utilisation.

Additionally, a robust and effective debt management/governance framework and practice goes a long way in winning market confidence. Credit rating agencies' evaluations of a country's quality of debt management and policy setting capability are crucial considerations in ascertaining sovereign risk. Ultimately, a policy perspective that combines the principles of accountability, professionalism, transparency and democratic participation, with a substantive agenda that prioritises social justice, realisation of SDGs and economic development, should guide the pursuit of debt management and its sustainability.

In this vein, we make the following recommendations:

### *Strengthened Legal and Institutional Reforms*

The absence of dedicated statutory instruments can lead to discrepancies in the measurement and reporting of public debt, thereby interfering with transparency initiatives. Consolidating and harmonising debt management provisions into a comprehensive and single legislative act could enhance Fiji's transparency, accountability, and prudent debt management, fostering sustainable economic growth and development.

The government and the Ministry of Finance are advised to make appropriate changes in the Financial Management Act (2004) and the Finance Instructions (2010) to ensure consistency with the Constitution and provide clear accountability and governance arrangements for public funds. Good legislation defines and focuses powers, limits potential abuses of power, and establishes accountabilities for managing the government's debt liabilities to promote governance. Therefore, a robust legal framework is critical for effective public debt management, given the centrality of law to public debt.



Government borrowing from domestic or external sources necessitates the existence of a well-established legal basis for incurring debt. Public debt contracting and management should be anchored in the constitutional framework of a state and supported by a legal framework based on coherent and coordinated structures with predictable rules and regulations, preferably through the consolidation of all debt-related provisions into a single comprehensive act of parliament dedicated to public debt<sup>30</sup> management.

*An Enhanced Debt Management Office (DMO)*

Given the urgency and criticality of Fiji's current public debt burden, its DMO should be elevated in the policy-making process and its capacity enhanced accordingly:

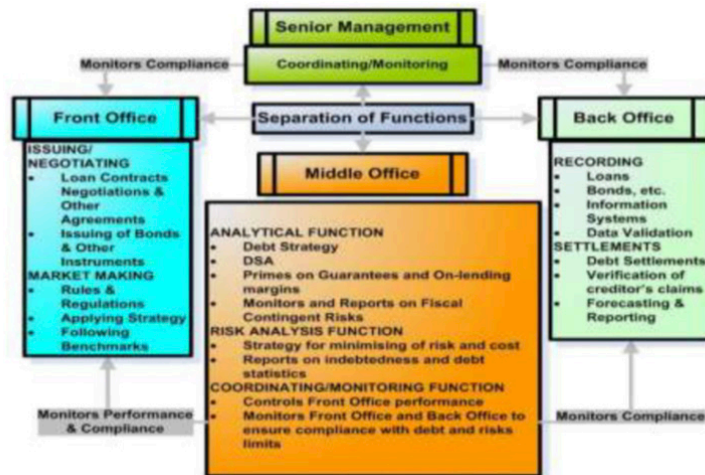
- It should have a fair measure of professional independence, and be shielded from politicisation.
- It should have sufficient autonomy and mandate to carry out its objectives and work with other state entities including ministries, departments, the central bank, and state-owned enterprises.
- It should be directly led by the permanent secretary reporting to an executive board.
- It should have an executive board/management chaired by the Minister of Finance, comprising relevant stakeholders such as the central bank governor, the DMO head, parliamentarians, etc.
- The executive board/management of the DMO should be responsible for formulating the country's debt strategy and objectives, while the DMO is responsible for implementing the strategy and realising its objectives.

**Figure 4-3: DMO Executive and Operational Roles and Functions**

<b>Executive Debt Management</b>	→	<b>Direction and Organization</b>
Policy Function	→	Strategy
Regulatory Function	→	Structure
Resourcing Function	→	Staffing and Systems
<b>Operational Debt Management</b>	→	<b>Debt Dynamics and Practice</b>
Controlling/coordinating/monitoring	→	Control, coordinate and, monitor
<b>BACK OFFICE</b>		
Recording Function	→	Debt data and statistics
Operating/monitoring functions	→	Debt operations settlement and monitoring
<b>MIDDLE OFFICE</b>		
Analytical Function	→	Analysis and financial strategy
Risk analysis function	→	Minimise cost and risk
<b>FRONT OFFICE</b>		
Issuing/negotiating function	→	Securities, loans and restructuring agreements
Market-making	→	Government securities trading

Source: E.Cosio-Pascal, "The Debt Office and the Effective Debt Management Functions: An Institutional and Operational Framework," 2006, p. 5.

- Clear segregation of duties to ensure that no one person has sole control over the entire lifespan of a transaction (initiating, approving, recording, and verifying).
- Segregation of duties to provide protective controls.

**Figure 4-2: DMO Functions and How They Are Segregated**

Source: UNCTAD, "Guidelines on Responsible Sovereign Lending and Borrowing," 2013, p. 38.

#### *Adopt International Best Practice Systems*

- The OAG can play a critical role in ensuring effective debt management by independently verifying and ensuring that delegation of authority has been done in accordance with the law; borrowing purposes have been adhered to; that a debt management strategy is in place and is implemented faithfully; and debt reporting has been done in a transparent, adequate and timely manner. As such, the OAG is recommended to adopt guidelines from the GUID 5250 issued by INTOSAI<sup>31</sup>, which is based on the auditing principles of the International Standards of Supreme Audit Institutions, and adapted for public sector audit institutions.
- Aside from ensuring that debt management ultimately leads to its financial sustainability, the Fiji government should also require a Return on Investment or Internal Rate of Return assessment (which includes the positive externalities or risk mitigation impact) of the planned borrowing, especially for projects, and formulate relevant key performance indicators and metrics to ensure that the use of borrowings is economically justified and implemented in a manner that has the desired impact.

- This chapter further supports and recommends that Fiji holistically implements the MTDS to enable a more transparent and accountable system beyond the current system. By doing so, greater transparency and accountability will be witnessed, allowing for enhanced government revenue, expenditure, debt and liabilities monitoring, thereby limiting and capping non-concessional borrowing. This entails ensuring that the MTDS facilitates the ratification of loans by parliament to promote an updated public debt register. The practical and proper use of the MTDS will enable the government to manage risk exposures arising from its debt portfolio, reduce macro-financial risks, reinforce the fiscal policy and support economic development priorities.

#### *Enhancing Institutional Framework for Debt Management*

Political factors and institutional weaknesses can undermine accountability mechanisms. For instance, weak parliamentary oversight, insufficient independent audit institutions, and a lack of informed public debate about public debt can all obstruct debt transparency initiatives. Mechanisms allowing for public participation, independent audits, and parliamentary oversight should, therefore, be established to ensure that debt procurement



is conducted transparently and in an accountable manner. Given the technical nature of public debt management and the fact that many potentially significant debt-related transactions may not be immediately made public, the members of the legislature and the public must rely on the independent audits performed by the supreme audit institutions (SAI) to determine whether the government's public debt reports show the true condition of public debt and its most relevant details.

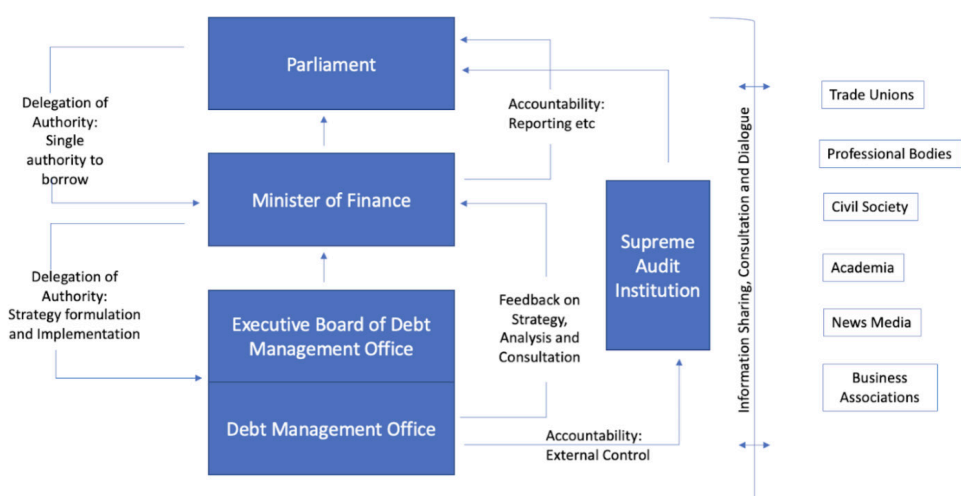
From a legal standpoint, affirming the active involvement of citizens in decision-making processes is crucial in promoting social cohesion and inclusivity. Transparency is closely linked to accountability, and without access to information, it is difficult to hold governments accountable for their borrowing decisions and debt management practices. Therefore, the Ministry of Finance must invest in adopting open data policies in the procurement (including terms and conditions), utilisation and management of public loans and debts. This ought to be done in a way that is transparent, accountable, participatory and inclusive.

Elected officials and government institutions are more likely to act in the public interest when they know an engaged and informed citizenry scrutinises their actions. This, in turn, reduces the likelihood of corruption and mismanagement.

As such, in the interest of public accountability, civil society organisations in Fiji should leverage section 25 of the Constitution to call for the publishing of consolidated information on Fiji's debt management in a way that is understandable to the ordinary citizen. While the government's recent attempt with the budget is a step in the right direction, this should also be extended to the country's debt situation.

The broad cast of stakeholders, decision-makers and elected officials required to ensure public debt is effectively mobilised and managed for the national priorities is captured in Figure 4-4:

**Figure 4-4: Institutional and Governance Framework for Debt Management**



Source: Author's based on chart from UNCTAD, *Guideline on Responsible Sovereign Lending and Borrowing*, p. 35

# ENDNOTES

- 1 PEFA is a programme administered by eight international development partners, among them the European Commission, the IMF and World Bank.
- 2 Asian Development Bank (ADB), "Country Classification: Fiji", November 2021.
- 3 Graeme Wheeler, "Sound Practice in Government Debt Management," World Bank, April 2004.
- 4 Ministry of Economy, "Medium Term Debt Management Strategy Fiscal Years 2021-2023," (MTDS) 2021.
- 5 IDI-WGDP, "Audit of Public Debt Management: A Handbook for Supreme Audit Institutions," 2020.
- 6 The International Organisation of Supreme Audit Institutions.
- 7 A. Roy and M. Williams, "Government Debt Management: A Guidance Note On The Legal Framework," Commonwealth Secretariat, 2010.
- 8 Sections 5(e) and 6(a) of the Financial Management Act.
- 9 Ministry of Finance, "Annual Borrowing Plan Fiscal Year 2023-2024," August 2023.
- 10 See 2022-2023 Appropriations Act 2022
- 11 Ministry of Economy, "Public Financial Management Improvement Plan 2020-2025", November 2021, p. 30.
- 12 Ministry of Finance, "Medium Term Fiscal Strategy 2024-2026," (MTFS) February 17, 2023.
- 13 Ministry of Finance, "Economic and Fiscal Update Supplement to the 2023-2024 Budget Address," June 30, 2023.
- 14 Ibid., p. 36.
- 15 Section 59 (A) of the Financial Management Act.
- 16 Ministry of Economy, "Financial Improvement Plan 2020-2025," supra.
- 17 Ministry of Economy, "MTDS 2021-2023," supra.
- 18 Ministry of Finance, "Budget Supplement 2023-2024," supra.
- 19 The Financial Management (Amendment) Act 2021.
- 20 Ministry of Finance, "MTFS 2024-2026", supra.
- 21 The current government first issued its MTFS for 2024-26 on February 17, 2023. The MTFS was subsequently updated and published as Chapter 4 of the "Budget Supplement 2023-2024," supra.
- 22 Section 5 of the Financial Management Act.
- 23 Section 12(1)(c)(i) of the Financial Management Act
- 24 Section 12(1)(c)(ii) of the Financial Management Act.
- 25 Section 12(1)(c)(iii) of the Financial Management Act
- 26 Section 12(1)(d)(e) of the Financial Management Act.
- 27 Section 12(4) of the Financial Management Act.
- 28 Ministry of Economy, "Financial Improvement Plan 2020-2025," supra, p. 30.
- 29 Section 60(2) of the Financial Management Act.
- 30 Roy and Williams, "Government Debt Management," supra.
- 31 INTOSAI, "Guidance on the Audit of Public Debt," 2020. . See also "Audit of Public Debt Management" by IDI-WGDP.