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

TWN
Third World Network

Produced by
Pacific Network on Globalisation
and
Third World Network

CARPENTERS MOTORS
SERVICE
PARTS
PAINTS

Contents

CONTENTS 3

FOREWORD 5

AUTHOR'S NOTE 7

EXECUTIVE SUMMARY 9

CHAPTER 1 15

CHAPTER 2 33

CHAPTER 3 47

CHAPTER 4 63

CHAPTER 5 79

CHAPTER 6 95

BIBLIOGRAPHY 108

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.

Maureen Penjueli
Coordinator,
Pacific Network on Globalisation (PANG)

Chee Yoke Ling
Executive Director,
Third World Network

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.

We would like to thank all the participants of the debt workshops conducted by PANG and TWN, for taking the time to share their expertise and knowledge. Special thanks also to those who took time from their busy schedules to guide us on this journey through interviews and providing feedback on the draft report, even when it was not ready to be read, specifically Dr. Claire Slatter, Prof. Celine Tan, Tetteh Hormeku, Prof. Wadan Narsey, Prof. Vijay Naidu, Fantasha Lockington, Elenoa Baselala, Savenace Narube, Dr. Janesh Sami, and Manoa Rokotavaga.

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.

Design by The Kerninators
Images copyright to Pacific Network on Globalisation.

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.

CHAPTER 1: FIJI'S DEBT PROFILE AND DYNAMICS

At its peak, Fiji's unprecedented public debt was nearly the size of its entire economy, and has become the most pressing economic issue of the day. News of debt defaults in other developing countries such as Sri Lanka and Ghana—and the ensuing economic upheavals—has heightened the urgency and fear that a similar fate awaits the country. Fijians are rightfully perturbed by their country's sizeable debt burden and what this means for the economy and their livelihoods.

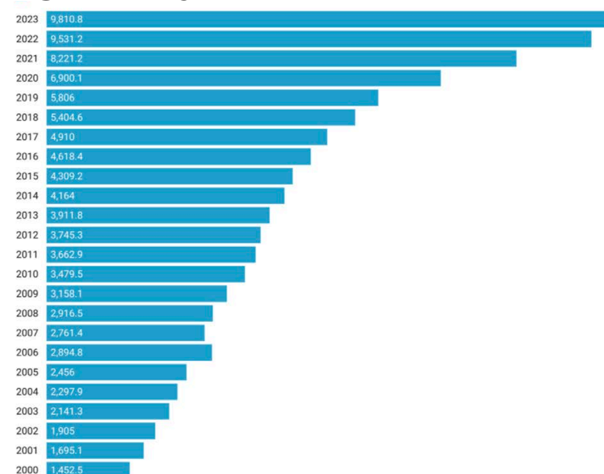
Fiji's debt situation has been worsening ever so slightly over the years as a result of its persistent fiscal deficits. However, like many other developing countries, its debt skyrocketed and its economy virtually collapsed because of the Covid-19 pandemic. It is now stuck with very elevated debt levels, which, if poorly managed, will continue to drain limited fiscal resources, amplify its susceptibility to shocks, and weaken macroeconomic variables and in turn, business outlook.

While the ramifications of excessive debt are similar, exacting punitive and painful social, economic, and political costs that will take a long time to fully recover from, the specific routes to this predicament vary.

It is therefore important to understand the intricacies of the country's debt profile and composition when trying to identify the most strategic and tactical interventions to make, in order to continually reduce the cost of borrowing, avoid increasing its risk profile, and ensure that the benefits of borrowing are indeed accrued.

Fiji's total public debt has crept up over the decades, growing at an average rate of 4.85% between 2006-16, driven primarily by persistent but modest fiscal deficits. Debt accumulation picked up pace to about 7.7% between 2016-18, as Fiji had to rebuild its economy and infrastructure from the devastation wrought by Cyclone Winston

Figure 1-1: Fiji's Total Public Debt[1]

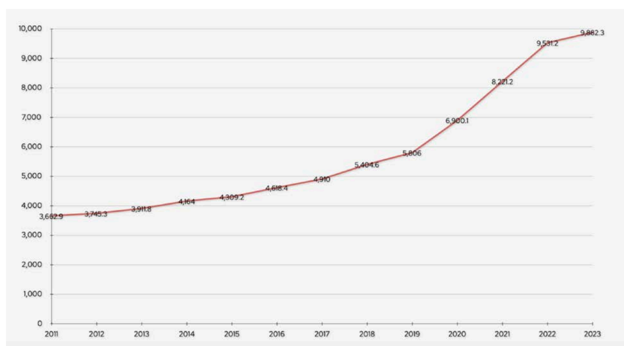


which was estimated to have cost the country approximately US$1.2bn[2].

Figure 1-1 shows the acceleration of debt build up over the last several years compared to previous periods of gentler debt accumulation.

More recently, because of Covid-19 and the consequent lockdown, the government had to borrow even more aggressively at an average rate of 17.7% year on year between 2019-22, spiking total national debt to unprecedented levels of FJ$9.88bn by the end of fiscal year 22/23.[3] Figure 1-2 below illustrates the increasing rate of borrowing over the decade.

Figure 1-2: Total Public Debt (2011-23)[4]



As a result of Fiji's growing and large debt burden, its debt-to-GDP ratio, a commonly-used dipstick to crudely determine the sustainability of a country's public debt and financial health, has invariably deteriorated.

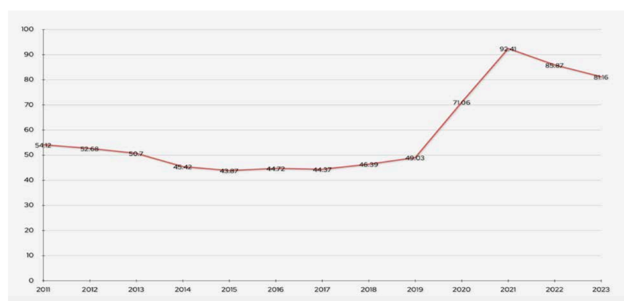
Under the IMF's debt sustainability framework for low-income countries (LICs), countries classified with "strong" debt-carrying capacity can handle public debt of up to 70% of GDP. For countries falling into the "weak" category, the debt threshold is far lower at 35% of the country's GDP.[5]

While Fiji is not a LIC, it was reclassified in 2019 by the World Bank as a "Blend" country, granting it access to concessional financing having satisfied the small island economy exceptions.[6] Nonetheless, it was treated by the IMF as a middle-income country in its most recent debt sustainability analysis using the framework for emerging market economies in the context of its Article IV consultation.[7] As such there was no direct and explicit judgement by the IMF on Fiji's debt sustainability, unlike other LICs.

However, the IMF found that Fiji's "public debt stays at a level with considerable risks"[8] and its debt tool indicates a high level of risk, leaving the country "vulnerable to large economic shocks, including those related to natural disasters and contingent liabilities".[9]

Fiji's debt-to-GDP ratio had breached the 70% threshold by 2020 at the start of the Covid-19 pandemic to reach an all-time high of 91.1% by July 2022.[10] It has since climbed down to about 81.2% by the middle of 2023.[11]

Figure 1-3: Debt-to-GDP Ratio (2011-23)[12]

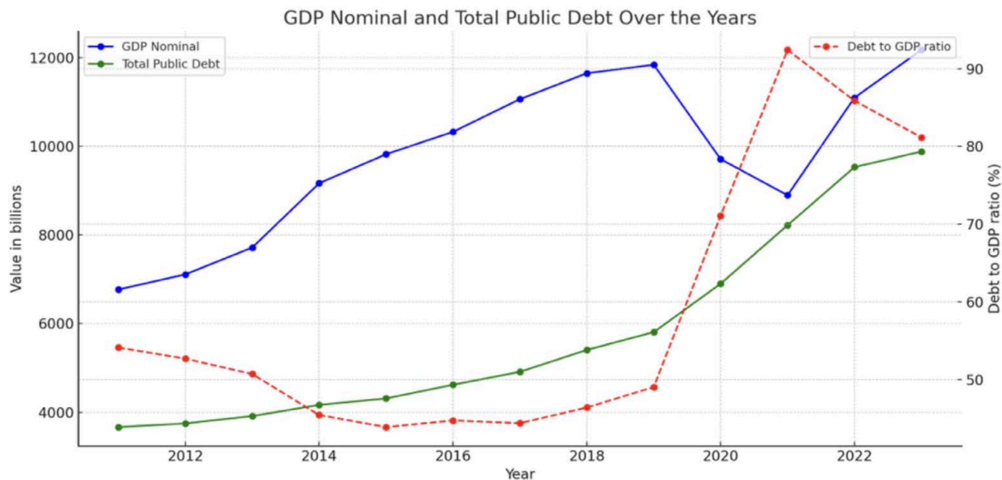


According to IMF and World Bank baseline scenarios, debt levels are expected to remain elevated at well over 85% in the medium and long term (up to 2032) unless the government undertakes adjustment measures.[13] (This will be discussed in greater detail in the following chapter.)

As observed in the graph below, the deteriorating debt-to-GDP ratio is the result of not just how much debt the country has, but also how economic activity collapsed at the same time. As countries imposed restrictions to stem the spread of the pandemic, Fiji's externally-dependent economy cratered.

The country relies heavily on tourism, which according to some measures, directly and indirectly account for more than 40% of the economy and 70% of the services industry.[14] When tourists stopped coming,[15] Fiji's GDP fell

Figure 1-4: GDP Nominal and Total Public Debt Over the Years[76]



by 7% in 2021 and 20% in the following year,[16] dealing an economic blow far worse than Cyclone Winston.

Debt levels rose exponentially and fiscal deficits ballooned to unprecedented levels as the government grappled with the pandemic and the economic fallout by implementing a swathe of tax cuts and cash transfers to help jumpstart and sustain the business sector and livelihoods. At the same time, the Covid-induced economic lockdown shrunk fiscal revenue collection. Measures taken by the previous government to help stimulate the economy also ended with lost revenue of about 5% of GDP,[17] compounding the fiscal deficit (see Figure 1-5).

Public and Public Guaranteed (PPG) Debt and Contingent Liabilities

The situation is even more dire when government guaranteed debt and the contingent liabilities of the government are added to the mix. Overall, contingent liabilities have increased to about 17% since 2020, compared to a historic average of around 10-11% between 2015-19.[19] In particular, explicit loan guarantees made by the government for state-owned enterprises, pose further risks to fiscal and debt sustainability.

Figure 1-5: Fiscal Balance (FJ$, in mn)[18]

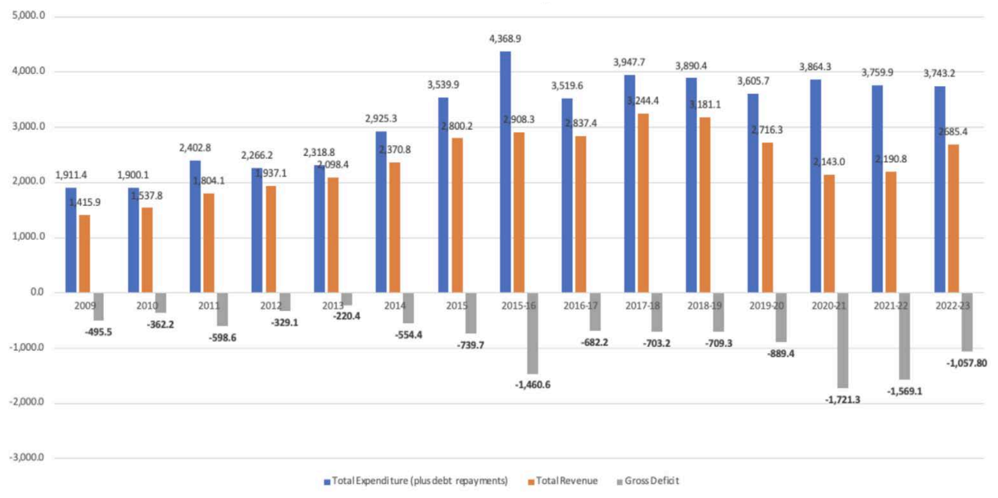
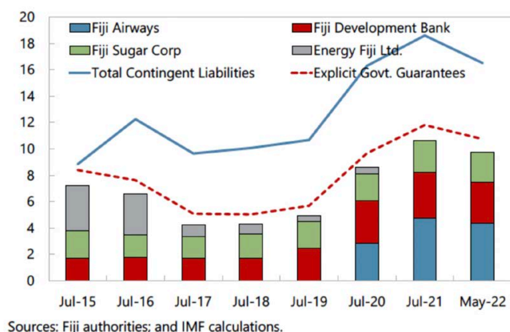


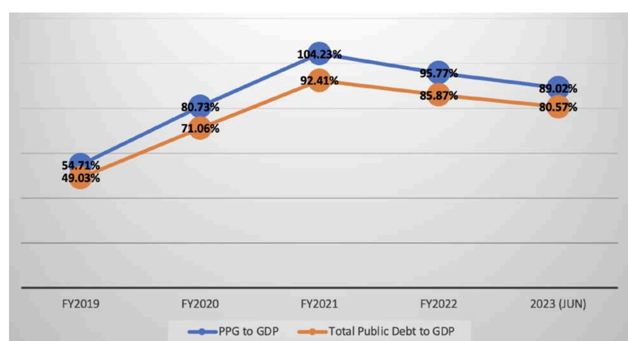
Figure 1-6: Fiji's Contingent Liabilities



Source: IMF "Fiji Article IV Consultation", p. 51

If such guarantees are included, this will push public- and state-guaranteed (PPG) debt-to-GDP ratio a lot higher—by almost 10 percentage points—compared to when such government guarantees are not factored in (see Figure 1-7).

Figure 1-7: PPG to GDP Ratio[20]



As of April 2023, total contingent liabilities stood at FJ$1.6bn, roughly equivalent to 14% of GDP, with the government's explicitly guaranteed debt portion of FJ$1.09bn taking up to 61% of the total.[21]

The government has provided guarantees to a number of state-owned enterprises (Figure 1-8) including Fiji Airways, Fiji Sugar Corporation, and the Fiji Development Bank, which are the biggest users of the guarantee facilities.

Figure 1-8: Government Guarantees to State-owned Enterprises

Government Guarantees ($Million)	Jul-19	Jul-20	Jul-21	Jul-22	Apr-23
Air Pacific Limited trading as Fiji Airways		279.0	421.7	438.5	369.6
Fiji Development Bank	291.9	307.8	308.8	309.9	284.3
Energy Fiji Limited (EFL)	53.9	50.2	-	-	-
Fiji Hardwood Corporation Limited (FHCL)	3.6	1.7	0.7	-	-
Fiji Pine Limited (FPL)	-	-	-	-	-
Fiji Sugar Corporation Limited	241.3	199.2	216.9	273.0	264.5
Housing Authority (HA)	68.0	90.2	102.2	76.7	109.1
Fijian Broadcasting Corporation Limited (FBCL)	10.5	8.3	-	-	-
Pacific Fishing Company Pte Limited (PAFCO)	4.1	2.5	0.8	-	1.1
Total Explicit Government Guarantees (A)	**673.3**	**939.0**	**1,051.0**	**1,098.1**	**1,028.6**
% of Government Guarantees to GDP	5.7	8.8	11.5	10.7	8.4

Source: Ministry of Finance," Economic and Fiscal Update Supplement to 2023-2024 Budget Address," p. 43

However, not all the guaranteed entities pose the same level of risk. They are assessed and classified presumably by the Debt Management Unit (DMU), on three levels of risk: high, medium and low. The risk assessment is based on three broad considerations: 1) the latest three-year historical performance; 2) interim financial statements and cashflow projections; and 3) general industry assessments including economic conditions.

Figure 1-9: Risk Assessment of Guaranteed Entities

Budget Sectors	Tier 1 Low	Tier 2 Medium	Tier 3 High
Infrastructure			
Social Services		HA	
Economic Services	PAFCO		FA, FSCL
General Administration		FDB	

Source: Ministry of Economy

Source: Ministry of Economy, "Fijian Government 2021-2022 Annual Debt Report," Nov 2022, p. 8

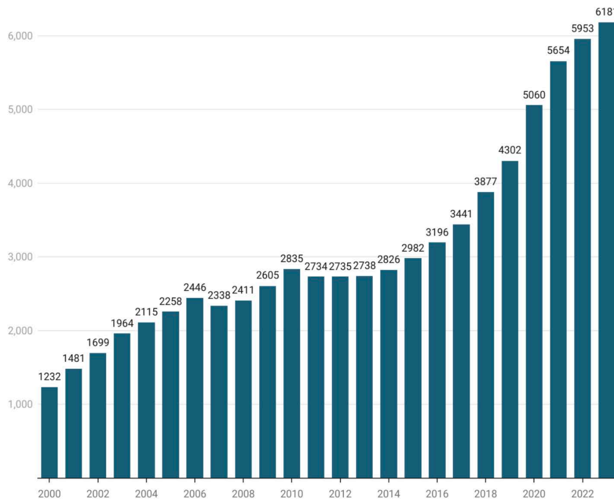
In their evaluation published in the 2021-2022 Annual Debt Report,[22] the DMU noted Fiji Sugar Corporation's "continuous net losses, cash overdraft and positive net debt over the past five years", deeming it high risk.

Given the significance of contingent liabilities to overall debt sustainability, the performance of state-owned enterprises should be monitored. In addition, risk assessments should be made regularly and communicated to stakeholders and parliament as part of the government's public debt reporting.

Public Domestic Debt

Domestic borrowing is the main source of government debt financing and it now stands at about 51% of the country's GDP.

Figure 1-10: Total Domestic Debt (FJ$, in mn)[23]



Public domestic debt held steady averaging FJ$3.16bn per annum over the most part of the last decade (2010-19). It started to pick up from 2016 and accelerated after that, more than doubling to FJ$6.2bn by the end of July 2023.[24] This comprises overwhelmingly of FJ$5.92bn of longer term domestic bonds and FJ$297.2mn in short-term (less than a year) Treasury bills.

Between 2017-21, public domestic debt grew rapidly at an average annual rate of 12.2%, compared to 3.6% per annum from 2007-16. The cost of borrowing or the interest rate on these bonds, as reflected in their yields over this period of domestic debt expansion, was a lot higher across all tenures, long- and short-term government bonds, compared to their current rates. According to Figure 1-11, 15- and 20-year bonds issued in 2018 and 2019 would have had to presumably pay an interest rate of 6.5% or 7% respectively to the bondholder. By May 2022 and continuing into 2023, the interest rate is 4.25% and 4.68% for similarly tenured bonds[25] (see figure 1-13 below).

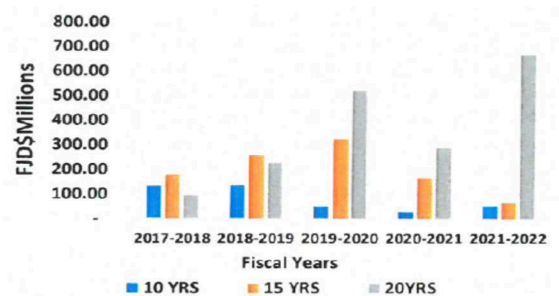
As such, the government, in its annual borrowing plans, is considering whether to "refinance or re-open government securities in the market with lower yields",[26] given the more favourable financing conditions.

Domestic Cost of Borrowing: Data on Government Bond Yields 2016 to 2023

In the current fiscal year 2023-24, the government plans to raise FJ$765.2mn through domestic bond issuances, specifically Fiji Infrastructure Bonds (FIB) and Viti Bonds, in order to meet its financing needs of FJ$1.15bn.[27] FIBs are the main financing instruments, accounting for the lion's share of the domestic debt while Viti Bonds typically amounting to FJ$10mn will be set aside for the retail market. The government will be issuing FJ$755.2mn of FIBs with varying maturities (two to five,10, 15 and 20 years).[28]

As with the previous government, one of the key objectives of the current government's domestic debt management strategy is to lengthen the maturity profile of its domestic debt portfolio through a "gradual reduction in T-Bills", which mature in less than a year, and increase the issuances of medium- (two to five years) and long-dated (10 to 20 years) bonds.[29]

Figure 1-11: Trends in Issuance of Long-dated Bonds



Source: Fijian Government 2021-2022 Annual Debt Report, Nov 2022, p. 5

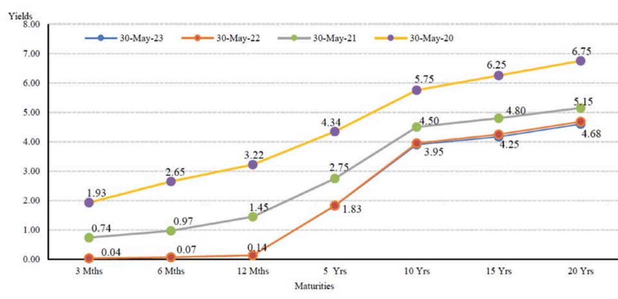
Over the last few years, the previous government has substantially increased the issuance of its longest dated FIBs. However these 20-year bonds are also the most expensive for the issuer, attracting the highest yield vis-à-vis other shorter term bonds, even though it fell from 7% in 2019 to about 4.68% in 2023, as shown in the table below (Figure 1-12).

Figure 1-12: Government Securities Yields (2016-23)

Financial Year	1m	2m	3m	6m	9m	12m	10y	15y	20y
2016	0.75	1.10	1.30	3.20	3.30	3.45	6.15	6.64	6.79
2017	0.95	1.10	1.35	3.17	3.38	3.63	6.00	6.50	6.70
2018	0.99	1.12	1.45	3.05	3.34	3.63	6.00	6.50	7.00
2019	2.35	2.63	2.70	3.35	4.10	5.00	6.00	6.50	7.00
2020 May	-	-	1.93	2.65	-	3.22	5.75	6.25	6.75
2021 May	-	-	0.74	0.97	-	1.45	4.50	4.80	5.15
2022 May	-	-	0.04	0.07	-	0.14	3.95	4.25	4.68
2023 May	-	-	0.04	0.07	-	0.14	3.95	4.25	4.68

Source: Ministry of Economy, RBF and Ministry of Finance, Budget Supplement.

Figure 1-13: Government Bond Yields



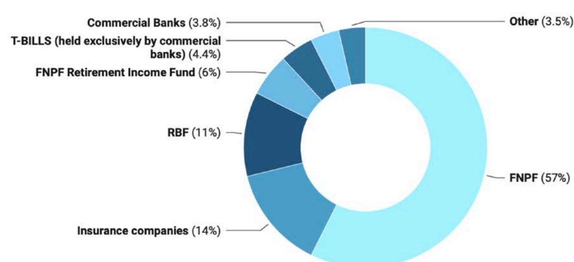
Source: Ministry of Finance, Budget Supplement, p. 38

It is important to pay attention to how domestic bonds of varying tenors are spread over the years, to avoid unevenly concentrated, or "lumpy" redemptions, while at the same time taking advantage of the best possible cost of borrowing (current and expected) for the different issuances. Low government yields offer bond buyback opportunities.

Finally, it is worth noting that Fiji's domestic bonds are denominated in local currency and held by residents, with the Fiji National Pension Fund being the largest bondholder accounting for 57% directly, followed by insurance companies at 14% and the RBF at 11% (see Figure 1-14). The bulk of the domestic debt is also of a longer tenure/duration as shown in Figure 1-11). Short-term treasury bills, which make up only 4.4% of the total domestic debt, are almost exclusively held by the commercial banks (Figure 1-14).

As such this makes the debt composition far less risky and more benign compared to many other developing countries such as Ghana, Sri Lanka, and Belize, where a large part of their debts are denominated in foreign currencies and held by non-residents.

Figure 1-14: Domestic Debt Creditors (% holdings)[30]



Source: RBF • Get the data • Created with Datawrapper

Figure 1-15: Domestic Debt Creditors (FJ$, in mn)[31]

FNPF	3,518
FNPF Retirement Income Fund	352
FNPF Special Death Benefit Fund	69
Insurance companies	846
Commercial Banks	234
RBF	696
Trust Fund	22
Unit Trust of Fiji	20
Merchant Finance	2
Kontiki Finance Limited	51
Others	54
T-BILLS (held exclusively by commercial banks)	272

Source: RBF • Get the data • Created with Datawrapper

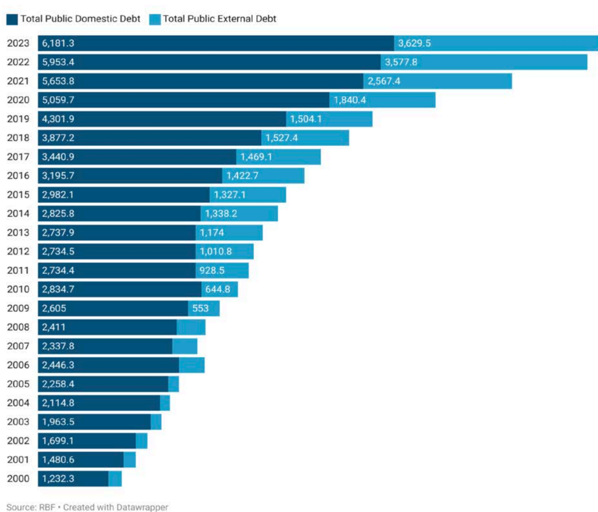
Public External Debt

Nonetheless, over the decades, the composition of public debt has undergone a fundamental shift from what was almost exclusively domestic to a more substantial mix of external and local liabilities. Currently, about 63% of total debt is local while 37% is external. This mix is about several percentage points higher than what the government considers

to be a more ideal profile between external and domestic debt,[32] as external debt carries additional risks that domestic debt does not.

Fortunately for now, Fiji's public external debt is less exposed to volatile and costly market dynamics as it appears to be entirely official, in other words, owed only to multilateral development banks and official bilateral creditors. This was not always the case.

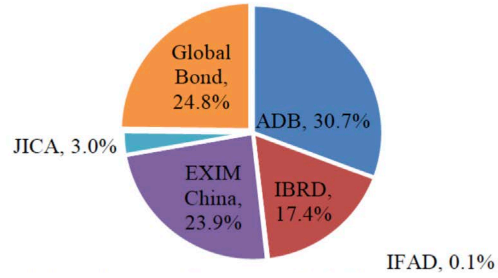
Figure 1-16: Public Domestic and External Debt Over the Years[33]



Fiji had in the past issued commercial sovereign bonds. This US$200mn "global bond" was redeemed in October 2020[34] and refinanced on more favourable and safer financing terms from multilateral lenders, such as lower costs of borrowing and longer repayment schedules.

The global bond, which constituted about a quarter of Fiji's external debt in 2020 (see Figure 1-17), would have complicated its debt dynamics with commercial bondholders and creditors as its debt-to-GDP ratio and other financial indicators worsened. Fiji could have been implicated by the same global market sentiment that has soured and continues to be pessimistic towards many developing countries with high levels of debt.

Figure 1-17: Fiji's External Public Debt Creditors in 2020

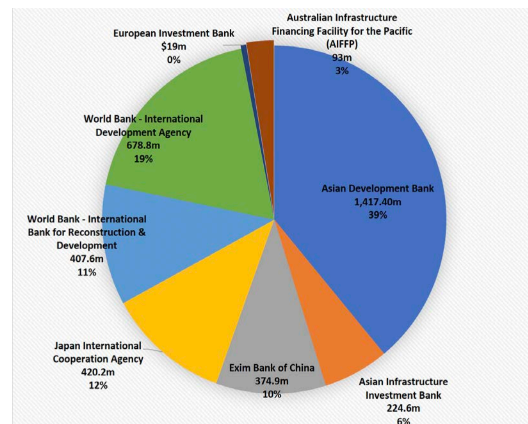


Source: Ministry of Economy, RBF

To qualify for more favourable financing, Fiji was re-classified as an IBRD-IDA "Blend" country and a "Group B" country in Asian Development Bank (ADB) parlance, which permitted the country to access loans on more concessional terms.[35] However, it is not clear whether this comes with other policy and geopolitical conditionalities. In any case, the commercial sovereign bond or Fiji's only "global bond" is no longer on its books.

Hence Fiji's current external creditors are all official lenders with multilateral development banks, accounting for about 76% of its public external debt. Chinese debt has also been significantly reduced in this regard from almost 24% to just about 10% of its external debt. (See Figure 1-18.)

Figure 1-18: Fiji's External Debt Creditors as of June 2023[36]



However, despite the official character of its external debt, only 29% or about FJ$1bn out of the FJ$3.66bn is deemed to be concessional in nature, according to the government.[37] It will be beneficial to review each of these loans to ascertain whether the benefits are indeed accrued and better terms could be sought.

External debt stock is forecasted to reach FJ$3.66bn by the end of July 2023, which is equivalent to about 30% of the country's GDP. As mentioned, the size and share of Fiji's external debt has been growing over the decade, however it jumped exponentially over the last three years from 2020-22, more than doubling since 2019. The government tapped external financing to deal with the economic and social impact of the global pandemic. While the majority of this recent increase in external debt was on concessional terms, almost 71% of the country's total external debt remained non-concessional.[38]

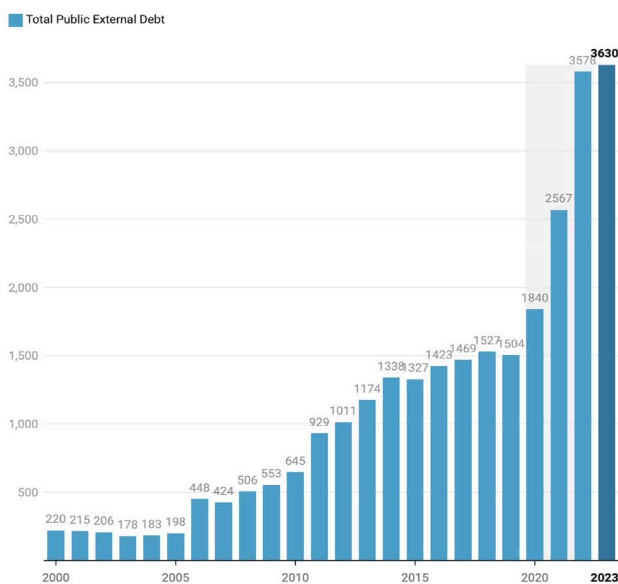


Figure 1-19: Total External Public Debt[39]

Over the last two fiscal years (ending July 2022 and July 2023), the government secured the following external borrowings:[40]

- A policy-based loan of US$50.3mn (FJ$117mn) from the Asian Infrastructure Investment Bank (AIIB).
- A US$40mn (FJ$93mn) loan with Export Finance Australia, Fiji's first-ever loan under the Australian Infrastructure Financing Facility for the Pacific (AIFPP).
- A US$200mn (FJ$454.3mn) financial package for a 10-year term from IDA, part of the World Bank Group, for the development of tourism in Vanua Levu.

For the current fiscal year 2023/24, the government intends to potentially borrow FJ$359mn[41] from external sources,[42] although it "may increase its overseas borrowing limit simultaneously [while](sic) reducing its domestic limit and vice versa."[43]

From the planned total external debt that will be incurred in fiscal year 2023/24, FJ$269.4mn will be new financing while the remainder is made up of project loan drawdowns which is elaborated in the table below (Figure 1-20).

However, the government has also approved FJ$136.5mn to be drawn down in fiscal year 2023/24 as phase one of the IDA's FJ$454.3mn financing package for tourism development.[44] It is not clear where this is reflected in the latest Annual Borrowing Plan.

Projects	External Financing FY2023-2024 (US$million)	FY 20232024 (FJ $million)	Drawdown Date
Newly Proposed Multilateral Financing :	120.0	269.4	
Urban Water Supply and Wastewater Management Investment Program:			
• European Investment Bank (EIB)	3.2	7.1	August 2023
• Asian Development Bank (ADB) – Direct Payments	4.4	10.0	
Direct Payments (Project loans)			As and when a request for drawdown is submitted by the Implementing Agencies (IA's)
Transport Infrastructure Investment Sector Project:			
• ADB	14.2	31.8	
• IBRD	9.3	20.8	
• AIFFP	10.7	24.1	
Fiji COVID-19 Emergency Response Project:			
• International Development Association (IDA)	3.2	7.1	
Fiji Social Protection COVID-19 Response and System Development Project:			
• IDA	1.9	4.2	
• IDA – additional financing	4.8	10.7	
Fiji Tourism Development Project – Vanualevu			
• IDA 7369	2.2	5.0	
TOTAL	**US$173.9**	**FJ$390.2**	

Source: Ministry of Finance. *Numbers may not be precise due to rounding.*

Figure 1-20: Sources of External Financing

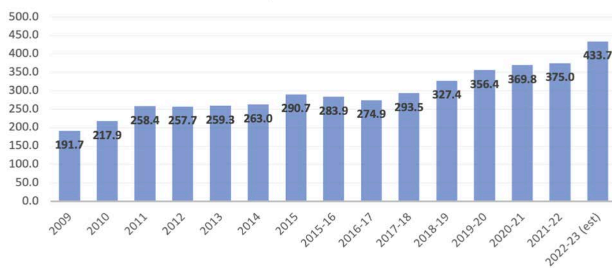
Source: Ministry of Finance, "Annual Borrowing Plan Fiscal Year 2023-2024", p. 8.

As such, to keep the public external debt composition as benign as possible, the government should stick to less risky terms with the lowest cost, and with conditionalities that do not run contrary to nationally-determined economic priorities and autonomy, and respect the country's policy space and autonomy.

Debt Servicing: Debt Repayments and Debt Interest Payments

Invariably, the high debt levels entail high debt interest payments. According to the government in the supplement to its latest Budget,[45] Fiji is at present paying approximately 3.8% for its external debt and 6.1% for its domestic liabilities, with the weighted average interest rate for both at 5.2%.[46] In the previous fiscal year, the interest rate on external debt was 1.9%[47] while the domestic debt interest rate was 6.1%, resulting in a lower overall interest rate of 4.6%.

Figure 1-21: Interest Payments (FJ$, in mn)[48]



The increase in the external debt's interest rate could be due to the fact that variable interest rates account for about 21% of Fiji's total public debt, comprising mostly of external multilateral loans.[49] The variable interest rate loans are subject to the Secured Overnight Financing Rate (SOFR), which replaced the London InterBank Offered Rate (LIBOR) as the benchmark rate for dollar-denominated loans, and it has been on the rise. At the same time, the Fijian dollar has also depreciated against the US dollar, making debt servicing more expensive.[50] US dollar denominated debt constitutes about 78%[51] of public external debt, followed by the Japanese yen and the Chinese yuan .

Figure 1-22: External Debt by Currency (in mn)

Particulars	Jul-19	Jul-20	Jul-21	Jul-22	Jul-23(f)
USD	982.6	1,247.3	1,686.7	2,519.0	2,865.0
CNY	462	409.0	444.8	431.4	378.9
JPY	9.7	50.9	290.3	413.7	420.2
EUR	2.5	2.3	0.7	-	-
Total External Debt	**1,456.8**	**1,709.5**	**2,422.5**	**3,364.1**	**3,664.1**

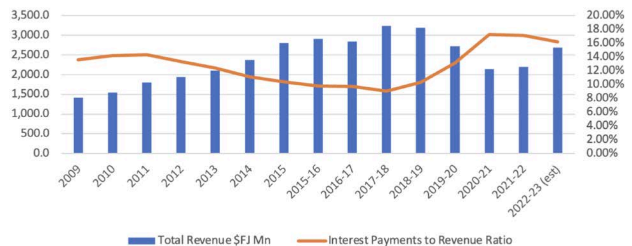
Source: Ministry of Finance

Source: Economic and Fiscal Update Supplement to the 2023-24 Budget Address, p. 39

The upshot is the government is now paying roughly in fiscal year 2022/23, FJ$433.7mn,[52] and it estimates that it will hit FJ$536.6mn in the current fiscal year.[53]

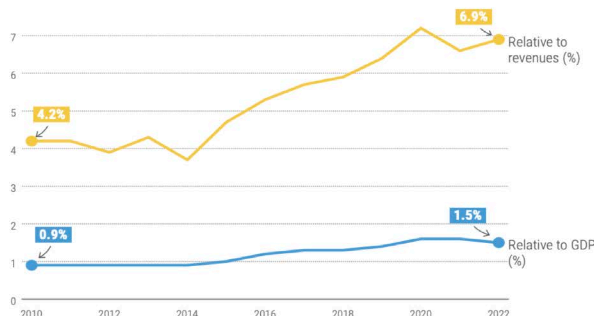
This means that almost 16% of its revenue is now spent on paying interest on its debt[54]—approximately what the government spends on health, social services etc and works out to about 3.9% of its GDP.[55]

Figure 1-23: Relationship Between Interest Payments and Revenue (FJ$, in mn)[56]



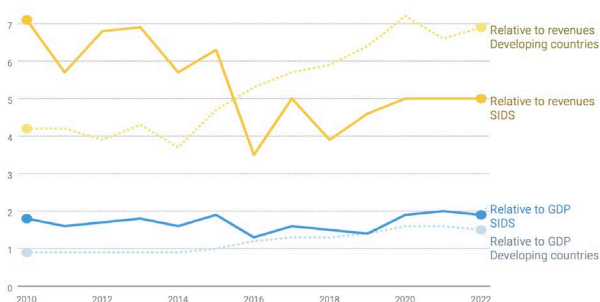
This places Fiji on the higher end of the spectrum when compared to other developing countries which have also ended up with higher debt burdens as a result of the pandemic. Currently, half of developing countries devote more than 1.5% of its GDP and 6.9% of its government revenues for interest payments, a sharp increase over the last decade.

Figure 1-24: Net Interest Payments of Developing Countries on Public Debt



Source: https://unctad.org/publication/world-of-debt#:~:text=Today%2C%203.3%20billion%20people%20live,burden%20and%20achieve%20sustainable%20development

Figure 1-25: Net Interest Expenditures as a Share of Revenues and GDP

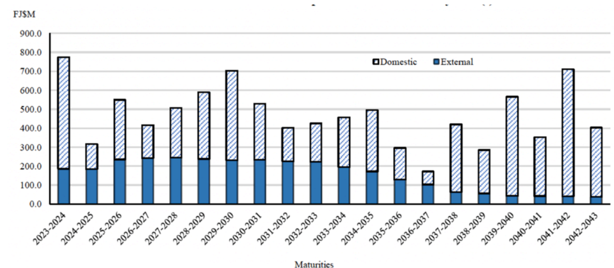


Source: https://unctad.org/publication/world-of-debt#:~:text=Today%2C%203.3%20billion%20people%20live,burden%20and%20achieve%20sustainable%20development

The siphoning of limited resources to make debt interest payments is a widespread problem. In 2020, the number of developing countries where interest spending represented 10% or more of public revenues increased from 29 in 2010 to 55.[57]

Apart from diverting much needed and limited revenue for interest payments, the government also has to pay for upcoming debt repayments. According to the Ministry of Finance, it has a sizeable debt redemption in fiscal year 2023/24 and has therefore sought to raise another FJ$516mn on top of what is needed for its fiscal deficit in its latest annual borrowing plan.[58] The debt repayments comprise FJ$324.1mn and FJ$192.1mn for domestic and external debt respectively. While the bulk of the redemption is for domestic debt, external debt repayments for Fiji will also be at its highest levels for the next decade before trending down in fiscal year 2032/33.

Figure 1-26: Projected Government Debt Redemption Profile



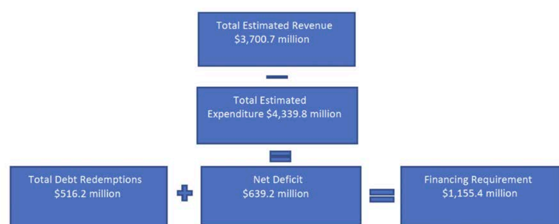
Source: Ministry of Finance, "Update Supplement to FY23-24 Budget," p. 40

According to the government, there is a "higher maturity structure" for the current fiscal year 2023/24, due to the presence of shorter-term treasury bills. The government will continue to face off against a "wall of payment" until the end of the decade in 2026, '29 and '30 which it needs to address to ensure that the country will be able to comfortably meet its obligations and manage attendant risks. The government plans to repurchase bonds to actively manage the refinancing risk that is associated with large maturities in a year.

For the fiscal year 2023/24, the government anticipates a budgetary shortfall of FJ$639.2mn and debt repayments of FJ$516.2mn. On July 13 2023, Parliament approved the Appropriation Act, sanctioning the Government's financing requirements of FJ$1.15bn for fiscal year 2023/24.

Together with the interest payments of FJ$529mn, the government anticipates total debt servicing of just slightly over a billion dollars (FJ$1.05bn) in fiscal year 2023/24. Arguably, the vast majority of the planned borrowing for the current fiscal year is eaten up by debt servicing.

Figure 1-27: Government Borrowing Requirements for fiscal year 2023/24 (in FJ$, mn)



Source: Ministry of Finance, "Annual Borrowing Plan FY2023-2024", p. 4.

This comprises funding necessary to cover the estimated net deficit of FJ$639.1mn and estimated debt redemptions of FJ$516.2mn to refinance maturing government debt securities and loans.

Consequently this will lead to a higher absolute amount of debt, but the government forecasts that the debt-to-GDP ratio will stop rising and start to gradually climb down starting over the next few years, on the backs of higher nominal GDP growth and a shrinking fiscal deficit.[59]

In its latest medium-term fiscal targets, the government anticipates a 37.8%[60] increase in revenue from the last to current fiscal year. This substantial jump is premised on the menu of tax increases introduced in the recent budget (this will be dealt with in greater detail in the following chapter), and the expectation that the economy will continue to rebound from the pandemic years as tourists and visitors return in droves. As the increase tapers off, fiscal revenues are expected to continue to grow to FJ$4bn by fiscal year 2025/26.

However government expenditure is also expanding quite dramatically, increasing by 26.3%[61] between this and last fiscal year, before stabilising at around FJ$4.38bn in the subsequent years. Consequently, its forecasts for net deficit are higher than the previous government's forecasts (see Figure 1-29) over the same time period, despite the higher expected revenue.

This in turn translates into higher debt stock in absolute terms (see Figures 1-28 and 1-29).

Figure 1-28: Forecasts from Current Government (FJ$, in mn)

$Million	2022-2023 (Revised)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)
Revenue	**2,685.4**	**3,700.7**	**3,868.1**	**4,004.0**
As a % of GDP	*22.1*	*27.9*	*27.6*	*27.3*
Tax Revenue	*2,252.3*	*3,107.7*	*3,321.3*	*3,487.3*
Non-Tax Revenue	*433.1*	*593.1*	*546.9*	*516.7*
Expenditure	**3,435.7**	**4,339.9**	**4,361.6**	**4,440.1**
As a % of GDP	*28.2*	*32.7*	*31.2*	*30.2*
Net Deficit	**-750.3**	**-639.1**	**-493.4**	**-436.0**
As a % of GDP	*-6.2*	*-4.8*	*-3.5*	*-3.0*
Debt	**9,882.3**	**10,521.4**	**11,014.9**	**11,450.9**
As a % of GDP	*81.2*	*79.3*	*78.7*	*77.9*
GDP at Market Prices	**12,176.8**	**13,266.6**	**13,991.9**	**14,691.4**

Source: Ministry of Finance

Source: Ministry of Finance, "Budget Supplement FY2023-24," p. 34

Figure 1-29: Forecasts from Previous Government (FJ$, in mn)

($M)	2022-2023 (Budget)	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Revenue	**2,939.9**	**3,354.0**	**3,503.5**	**3,595.4**	**3,693.9**	**3,799.4**	**3,912.5**	**3,948.4**
As a % of GDP	25.1	26.3	26.2	25.6	25.0	24.5	24.1	23.1
Expenditure	**3,812.1**	**3,800.0**	**3,838.0**	**3,876.4**	**3,915.1**	**3,954.3**	**3,993.8**	**4,033.8**
As a % of GDP	32.6	29.8	28.7	27.6	26.5	25.5	24.6	23.6
Net Deficit	**(872.2)**	**(446.0)**	**(334.5)**	**(281.0)**	**(221.3)**	**(154.9)**	**(81.3)**	**(85.4)**
As a % of GDP	**(7.4)**	**(3.5)**	**(2.5)**	**(2.0)**	**(1.5)**	**(1.0)**	**(0.5)**	**(0.5)**
Debt	**9,976.7**	**10,422.7**	**10,757.3**	**11,038.3**	**11,259.5**	**11,414.4**	**11,495.8**	**11,581.2**
As a % of GDP	85.2	81.8	80.4	78.6	76.3	73.7	70.7	67.8
GDP at Market Prices	**11,708.0**	**12,743.7**	**13,380.9**	**14,050.0**	**14,752.5**	**15,490.1**	**16,264.6**	**17,077.8**

Source: Ministry of Economy, "Economic and Fiscal Update Supplement to the 2022-2023 Budget Address," 15 July 2022, p. 36

Despite that, the debt-to-GDP ratio will decline more steeply under the current government's projections, as GDP growth resumes and is expected to perform according to historic trends over the medium term.

While on a very gradual downward trend, Fiji's debt-to-GDP ratio nonetheless remains highly elevated, averaging 78.6%[62] over the next three fiscal years, which leaves little headroom to deal with shocks and surprises.

The current government has taken the bitter pill of fiscal consolidation in order to put the brakes on the pace of debt accumulation and improve its sustainability. This issue of fiscal and debt sustainability will be explored in greater detail in the following chapter. Given that much of the decline in debt as a percentage of GDP is premised on a certain rate of growth, the paper will also delve into the drivers of the Fijian economy and the challenges it faces.

Fiji is also facing huge financing needs for its planned climate actions. In Chapter 5, the paper analyses the potential impact and implications of these actions on the already high debt levels, and makes several suggestions on how this could be managed, before ending with a recap of recommendations made throughout the paper in Chapter 6.

Proposals to Reduce Debt Burden

Ensure lowest possible cost of borrowing

- Fiji should maintain its status, and not be prematurely graduated from this classification, as an IBRD-IDA Blend country and as a Country B member of ADB, given its inherent vulnerabilities in order to have access concessional finance despite being a middle-income country.

- Fiji should prioritise concessional finance for its economic development and climate adaptation and mitigation needs. External borrowing on non-concessional and commercial terms exposes the country to the vagaries of the market and its associated risks, including volatile market sentiments, sudden reversals in capital flows, high interest rates and exchange rate changes that could exacerbate the country's debt standing.

- Despite the official character of its external debt, only 29% or about FJ$1bn out of FJ$3.66bn is deemed to be concessional in nature, according to the government.[63] It will be beneficial to review each of these loans to ascertain whether the benefits are indeed accrued, and potentially seek better terms.

- One of the key challenges for Fiji is mobilising new concessional financing for climate-related investments. Fiji was the first developing country to issue a green bond of US$50mn.[64] The coupon terms of the bond issued in domestic currency were five years at 4% per annum and 13 years at 6.3% per annum with respective maturities of 2022 and 2030.[65] The government was required to make two biannual payments on May 1 and Nov 1 every year from issuance to maturity. The current government is planning to issue blue bonds following the previous government's initial announcement in 2022, with the aim of raising US$50mn.[66] It is important to note the cost implications associated with debt instruments of this nature. There are concerns that these bonds tend to be more expensive to issue than conventional bonds,[67] (see Chapter 5 for more analysis on this issue) including the case of Fiji's green bond as noted by the OECD.[68] Governments and international organisations usually provide subsidies to meet the costs associated with issuances, including consulting and verification of green credentials.[69]

- The high costs of issuing such bonds can wipe out any associated "greeniums" if any, and in the event of a default , restructuring could be very costly. Reputational risk from souring market sentiment could also worsen the country's macroeconomic

variables, leading to capital flight and exacerbating the debt problem. This will have a magnified impact especially for Fiji, which is highly dependent on positive perception of tourists and visitors to the country.

- The assessment on climate financing (and how it could be sequenced to manage financial costs and risk) and its instruments will be dealt with in greater detail in Chapter 5.

- As such, to keep the external debt composition as benign as possible, the government should stick to less risky terms with the lowest cost, and with conditionalities that do not run contrary to nationally-determined economic priorities, and respect the country's policy space and autonomy.

- With regard to domestic debt, apart from reducing its issuances of short-term bonds (treasury bills) in favour of long-term bonds, the government could consider bond buybacks and bond switches to reduce the pressure on its resources, especially before significant debt payments are due. This is among the proposals in the government's "Medium Term Debt Management Strategy 2021-2023" and "Medium Term Fiscal Strategy 2024-2026" to manage the debt burden.

- In practical terms, it would be similar to the arrangement in which Fiji replaced its global bond with concessional finance from the ADB and World Bank in 2020, and consideration can be given for such options to reduce the debt burden in the medium term.

- As such, the RBF can consider purchasing domestic government bonds from primary and secondary markets, especially when the government is faced with high pending debt payment obligations. Central banks in some developing countries, such as Indonesia and Philippines, took this route to support the financing needs of the government and reduce the debt servicing pressures amid the economic crisis caused by the pandemic.[70] Indonesia eventually passed the Financial Sector Development and Strengthening Law in 2023 requiring its central bank to purchase government bonds in the primary market during crises in the future.[71] While there are concerns around the independence of the central bank and the powers given to the president under the law, this option should be exercised under only defined instances and in accordance with the principles of good governance, particularly transparency and accountability.[72]

- Given the significance of contingent liabilities to overall debt sustainability, the performance of state-owned enterprises should be monitored. In addition, risk assessments should be made regularly and communicated to stakeholders and parliament as part of the government's public debt reporting.

Build in debt pauses or suspension mechanisms in all its borrowing

Automatic debt pauses or suspension mechanisms

- The Fiji government could consider negotiating clauses in all its borrowing transactions whereby debt suspension will be automatically triggered when the country is hit with exogenous shocks including pandemics, natural calamities, political upheaval, and civil war, among others. The value of having such buffers in place was demonstrated regrettably by its absence. The Debt Service Suspension Initiative (DSSI)[73] was established after several low-income countries struggled to continue with their heavy debt repayments after being hit hard economically by the Covid-19 pandemic.

Natural disaster clauses

- These were adopted by both Grenada and Barbados in their debt restructurings

in 2013 and 2015 respectively. There is increasing global support for inclusion of such clauses in debt contracts, including from the World Bank, which recently announced that it will launch these clauses in its loan programmes for climate-vulnerable countries.[74] While they are designed to allow more fiscal space for countries to adequately respond to climate shocks,[75] they are limited to only specified natural disasters and typically have high monetary thresholds which have to be met before they can be triggered.

- Therefore, for Small Island Developing States (SIDS) like Fiji, the value in debt moratoriums cannot be overstated and natural disaster clauses are only a bare minimum. The key issue for Fiji will be designing clauses which provide sufficient fiscal space for the country to respond to a range of possible shocks.

ENDNOTES

1 Author's calculations using data available from Reserve Bank of Fiji (RBF) and Fiji Bureau of Statistics (FBoS) data. Please note that the debt data may not be identical across various datasets and official documents, as sometimes it is supplied according to the fiscal year and others in the calendar year. Not all data is available on a month-on-month level which can then be reconciled. Older data may be aggregated; however it is not always clear to the author whether it was based on the calendar or fiscal year. All errors of interpretation are those of the author. Nonetheless, the debt data is generally consistent across the various sources.
2 Sandra Tarte, "Fiji emerges from 2016 undaunted by disaster,", East Asia Forum, December 17, 2016, https://www.eastasiaforum.org/2016/12/17/fiji-emerges-from-2016-undaunted-by-disaster/
3 Ministry of Finance, "Economic and Fiscal Update Supplement to the 2023-2024 Budget Address," June 30, 2023, p. 34. As of Oct 2023, based on the latest figures available for external debt (July 2023) and domestic debt (Aug 2023) from the RBF website, the country's total public debt stands at FJ$9.9bn.
4 Author's calculations, using RBF data.
5 IMF, "The Debt Sustainability Framework for Low-Income Countries," July 13, 2018, https://www.imf.org/external/pubs/ft/dsa/lic.htm
6 Development Finance Corporate IDA and IBRD, "Republic of Fiji Eligibility for Blend Country Borrower Status," World Bank Group, April 9, 2019, https://documents1.worldbank.org/curated/pt/471291563195931804/pdf/Fiji-Eligibility-for-Blend-Country-Borrower-Status.pdf
7 IMF, "Republic of Fiji: 2023 Article IV Consultation," June 28, 2023, https://www.imf.org/en/Publications/CR/Issues/2023/06/28/Republic-of-Fiji-2023-Article-IV-Consultation-Press-Release-and-Staff-Report-535377
8 IMF, "Fiji Article IV Consultation", supra, p. 50.
9 Ibid., pp. 35 and 40.
10 Ministry of Economy, "Fijian Government 2021-2022 Annual Debt Report", June 2023, p. 2.
11 Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 34.
12 Author's calculations, using RBF and FBoS data.
13 IMF, "Fiji Article IV Consultation," supra, p. 38. See also "Fiji Public Expenditure Review," World Bank, April 2, 2023, p. 27.
14 Asian Productivity Organisation, "Fiji National Productivity Master Plan 2021-2036," 2019, p. 38-39.
15 Visitor arrivals plummeted from around 895,000 in 2019 to 147,000 in 2020, and to a mere 31,000 in 2021. Fiji Bureau of Statistics (FBoS), "Visitor Arrival Statistics," accessed January 29, 2024, https://www.statsfiji.gov.fj/index.php/statistics/tourism-and-migration-statistics/visitor-arrivals-statistics
16 FBoS, " Fiji's Gross Domestic Product (GDP) 2022," August 31, 2023, p. 13. Real GDP for 2020 and 2021 were -17% and -4.9% respectively.
17 IMF, "Fiji Article IV Consultation," supra, p. 51.
18 Author's calculations. Total/gross expenditure figures before 2023 are from RBF. Total/gross expenditure (include debt repayments) for 2023 is pieced together from the Ministry of Finance's "Budget Supplement 2023-2024" and "Annual Borrowing Plan Fiscal Year 2022-2023", from the previous government's estimate of debt redemption of FJ$307.5mn in fiscal year 2022/23.
19 IMF, "Fiji Article IV Consultation," supra, p. 51, and Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 43.
20 Author's calculations based on data from "Medium Term Fiscal Strategy 2024-2026," (MTFS) Ministry of Finance, February 17, 2023.
21 Ministry of Finance, "Budget Supplement 2023-2024," supra, pp. 42-43. Please note that contingent liabilities are broken down into: 1) explicit government guarantees; 2) other explicit contingent liabilities; and 3) implicit contingent liabilities. What is of material and practical importance is the explicit government guarantees portion of total contingent liabilities.
22 Ministry of Economy (DMU), "Annual Debt Report 2021-2022," November 2022, p. 8.
23 Created by author with data from RBF and FBoS.
24 Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 36.
25 Yield is an indication to the bond issuer of what the market will demand to take on the risk and expected return of lending (investing).
26 Ministry of Finance, "Annual Borrowing Plan Fiscal Year 2023-2024," August 2023, p. 5.
27 Ibid., pp. 4-5.
28 Ibid., p. 6.
29 As articulated by previous and current governments in their respective Annual Borrowing Plans (2020-21, 2021-22, 2022-23, 2023-24)
30 Created by author using RBF data.
31 Created by author using RBF data.
32 Ministry of Economy, "Medium Term Debt Management Strategy Fiscal Years 2021-2023," (MTDS) p.

19. In the document, the ministry noted: "Therefore external debt will be maintained at 30 percent (+/- 5%) of total debt." MTDS has a target borrowing mix of 70:30 (+/- 5%), according to the previous government in "Economic and Fiscal Update Supplement to the 2022-2023 Budget Address," p. 37.
33 Created by author using RBF data.
34 Ministry of Economy, "MTDS 2021-2023," supra, p. 18.
35 Asian Development Bank (ADB), "Country Classification: Fiji," November 2021. It is important to note that the ADB classified Fiji as a Group B developing member country (DMC) in its latest review of the country, given that ADB is Fiji's largest official creditor, accounting for almost 40% of its external debt. As a Group B DMC, Fiji is eligible for a blend of concessional and regular loans as well as limited access to grants. The reasons for the ADB classification, similar to those considered by the World Bank, are namely Fiji's vulnerabilities as a small island state, its deteriorating debt profile, high economic concentration, and its sovereign credit risk rating of "highly speculative" by credit rating agencies. It was reclassified as an IBRD-IDA "Blend" country by the World Bank with effect from July 2019.
36 Created by author using RBF data.
37 Ministry of Finance, "Budget Supplement 2023-2024," p. 38.
38 Ibid.
39 Created by author using RBF data.
40 Ministry of Finance, "Budget Supplement 2023-2024," supra, pp. 38-39.
41 This amount is derived from FJ$390.2mn, which is the total amount the government intends to raise externally, minus FJ$31.2mn, which are reimbursements made by the European Investment Bank and the AIFPP to the Fijian government. Ministry of Finance, "Annual Borrowing Plan 2023-2024," supra, p. 8.
42 Ibid,p. 4.
43 Ibid.
44 Ministry of Finance, "Budget Supplement 2023-2024 ," supra, p. 39.
45 Ministry of Finance, "Budget Supplement 2023-2024 ," supra, p. 41.
46 Ibid.
47 Ministry of Economy, "Annual Debt Report 2021-2022," supra, p. 6. According to the previous government, the 1.9% weighted average interest rate for external debt was due to the use of concessional loans from World Bank's IDA and JICA.
48 Created by author using data from RBF and FBoS
49 Ministry of Economy, "Annual Debt Report 2021-2022," supra, p. 6.
50 In the words of the government, "given Fiji's high exposure to the US denominated debts (78.2% of external debt), the rise in interest rates (SOFR) from 2.28% in Aug 2022 to 5.04% in May 2023) and the appreciation of the US dollar has significantly increased debt servicing costs."
51 Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 39.
52 Ibid., 10.
53 Ibid.
54 Author's calculation.
55 Author's calculation.
56 Created by author with data from RBF and FBoS. Note that the total revenue for fiscal year 2022/23 have been revised by the government in its budget supplement issued in June 2023. The interest payment-to-revenue ratio is an estimate however, as available data from RBF is only up to April 2023. The author has averaged the July 2023 interest payments from previous quarters, and also compared it against total debt and weighted average interest for fiscal year 2022/23, which is reported to be 5.2% in the budget supplement. A straightforward calculation from this would have resulted in interest payments of approximately FJ$518mn (5.2% x FJ$9.88bn).
57 https://unctad.org/publication/world-of-debt#:~:text=Today%2C%203.3%20billion%20people%20live,burden%20and%20achieve%20sustainable%20development
58 Ministry of Finance, "Annual Borrowing Plan 2023-2024," supra, p. 4.
59 Ministry of Finance, "Budget Supplement 2023-2024,"supra, p. 34.
60 Author's calculations.
61 Author's calculations.
62 Author's calculation made by averaging the government's debt-to-GDP projections over the next three fiscal years.
63 Ministry of Finance, "Budget Supplement 2023-2024," p. 38.
64 OECD, "Financing for a sustainable ocean economy and blue recovery," in Towards A blue recovery in Fiji: COVID-19 Appraisal Report (OECD Publishing, 2022), https://www.oecd-ilibrary.org/sites/54c8d06f-en/index.html?itemId=/content/component/54c8d06f-en
See also, Pacific Islands Forum and UN Development Programme (UNDP), "Green and blue bonds for the Pacific Region," 2022. https://www.undp.org/sites/g/files/zskgke326/files/2022-08/demystifying-green-and-b

lue-bonds-for-the-pacific.pdf
65 RBF, “Fiji Sovereign Green Bond 2019 Update,” 2020. https://www.rbf.gov.fj/wp-content/uploads/2020/03/Fiji-Sovereign-Green-Bond-Impact-Report-2019.pdf
66 OECD, “Financing a sustainable ocean economy,” p. 59.
67 Ibid.
68 Jochen M. Schmittmann and Yun Gao, “Green bond pricing and greenwashing under asymmetric information,” IMF, 2022. See also, OECD, “Financing a sustainable ocean economy,” p. 59.
69 Ibid.
70 Bloomberg, “Bank Indonesia agrees to buy government debt to fund budget,” Gulf Times, July 6, 2020, https://www.gulf-times.com/story/667515/bank-indonesia-agrees-to-buy-govt-debt-to-fund-budget. See also, Claire Jiao and Ditas B. Lopez, “Philippines joins EM central banks unorthodox bond-buying club,” Bloomberg, August 12, 2020, https://www.bloomberg.com/news/articles/2020-08-12/philippine-central-bank-buys-almost-half-of-government-borrowing#xj4y7vzkg
71 Stefanno Sulaiman, “Indonesia expands central bank mandate to support stability, growth,” Reuters, December 15, 2022, https://www.reuters.com/world/asia-pacific/indonesias-new-finance-laws-expand-central-banks-mandate-2022-12-15/
72 IMF, “Indonesia: 2023 Article IV Consultation,” June 25, 2023, https://www.imf.org/en/Publications/CR/Issues/2023/06/22/Indonesia-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-535060
73 Established in May 2020 by the G20, “the DSSI helped countries concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the most vulnerable people. Forty-eight [including Fiji] out of 73 eligible countries participated in the initiative before it expired at the end of December 2021.” https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative. This was superseded by the G-20’s Common Framework.
74 World Bank, “World bank group announces comprehensive toolkit to support countries after natural disasters,” June 22, 2023, https://www.worldbank.org/en/news/factsheet/2023/06/22/comprehensive-toolkit-to-support-countries-after-natural-disasters
75 IMF, “State-Contingent Debt Instruments for Sovereigns,” May 22, 2017, https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/05/19/pp032317state-contingent-debt-instruments-for-sovereigns
76 Author’s calculations.

OUT

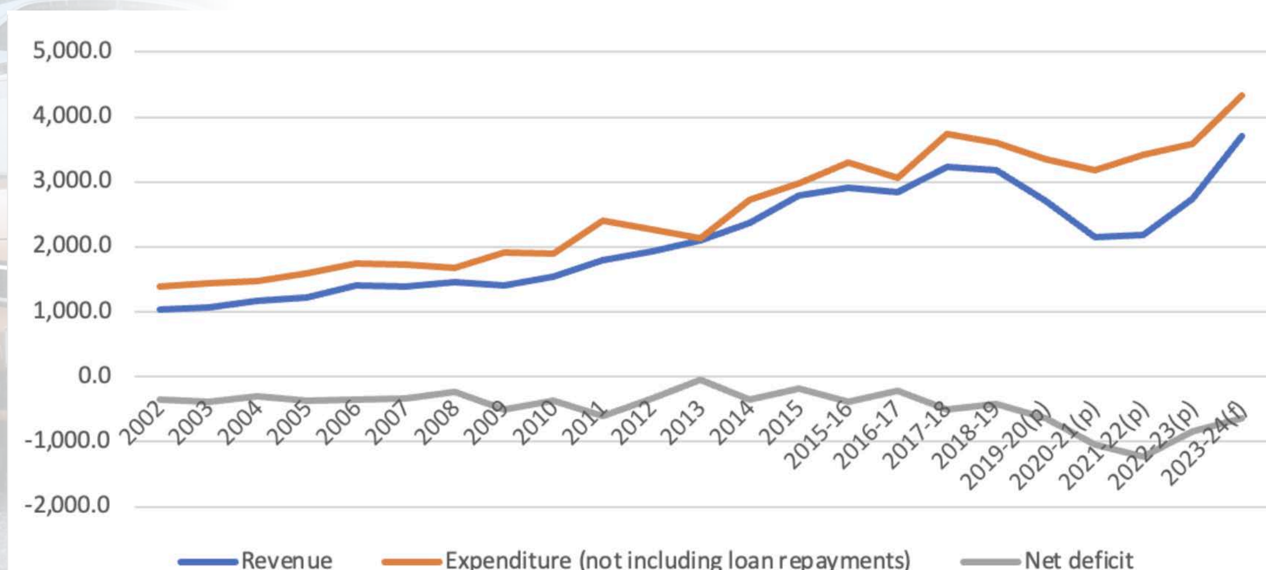
CHAPTER 2: FISCAL AND DEBT SUSTAINABILITY

Fiji has not run a net fiscal surplus in the last 20 years. For the most part, the country has maintained a gap between spending and revenue of around -3% of GDP on average from 2002-2019. The deficit started to noticeably worsen in 2017, dipping to -4.4%, inching further to -5.9% in 2019, and fell off the cliff when Covid-19 hit in 2020, plunging to a net fiscal deficit to GDP of -12.2% in fiscal year 2021/22 (Figure 2-1).

The deficit picture worsens when debt repayments are factored in. Gross fiscal deficit shows the total financing needed by the government to meet all its obligations, not just what is required for its typical business-as-usual spending. Even before Covid, Fiji was running a persistent gross fiscal deficit to the tune of approximately -7% of GDP on average every year from 2010 to 2019. The earlier spikes in deficits during this period were due to large loan repayments in 2011 and 2016. (See Figure 2-2.)

With the onset of Covid-19 and its debilitating impact, government responses in the form of tax reliefs and transfer payments, sent the gross fiscal deficit soaring to 17.3% of GDP over the last two years (2020-2022). (See Figure 2-2).

Figure 2-1: Fiscal Deficit (F$, in mn)[1]



It would have been worse if the government had not been able to defer some of its repayments under the G20's Debt Service Suspension Initiative (DSSI). As the economy recovered from the ravages of Covid-19, gross fiscal deficit in fiscal year 2022/23 has also recovered in tandem, although settling at higher levels than before at 9.6% of GDP.

Subtracting the loan repayments from the gross deficits, the net fiscal balance observes a similar pattern and remains staunchly negative and in deficit over the same time period from 2010 to 2023 (see Figure 2-1). Interestingly, in certain years the government did manage to have primary fiscal surpluses—when interest payments and charges on debt were removed from the net fiscal deficits.

The damage to public finances has been done. The measures taken to deal with the pandemic in running a necessary fiscal deficit has created a huge debt burden and left it at unprecedented levels. The government's debt-to-GDP ratio peaked in fiscal year 2021/22 at around 92%, up from 49% just before the pandemic. This has led the new coalition government to conclude that there is no "room for any further increase in debt" and "fiscal space has been exhausted," as proclaimed in its medium-term fiscal strategy for 2024-2026.[2] As such, "fiscal consolidation is at the heart"[3] of its plans.

Survey of Proposed Pathways To Fiscal and Debt Sustainability - Nona Tamale[4]

In the aftermath of the Covid-19 pandemic, the IMF has advised Fiji to undertake adjustments to bring down its fiscal deficit and debt burden through a range of revenue and expenditure reforms (see Figure 2-3). The new Fiji government has adopted some of the recommendations in its recent 2023 budget (Figure 2-3). Specifically, it is projected that the proposed reforms will reduce the debt-to-GDP ratio to 70% in the medium term.

Prior to adopting these reforms, the World Bank and the 2023 Fiji Fiscal Review Committee also proposed several measures for a fiscal consolidation plan. These recommendations ultimately shaped the government's economic prioritisation of debt and consequently its fiscal adjustment, both revenue and expenditure measures (Figure 2-3). The Fiscal Review Committee in particular recommended setting a target of reducing debt to below 70% of GDP by 2033.

Figure 2-2: Fiscal Balance as Percentage of GDP (FJ$, in mn)[5]

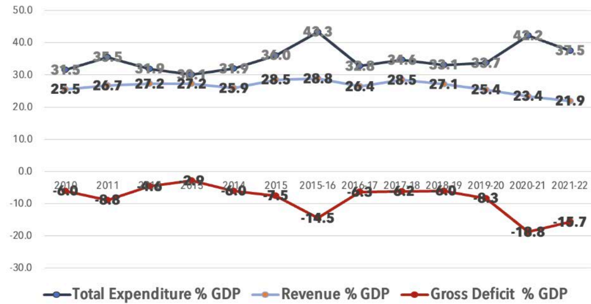


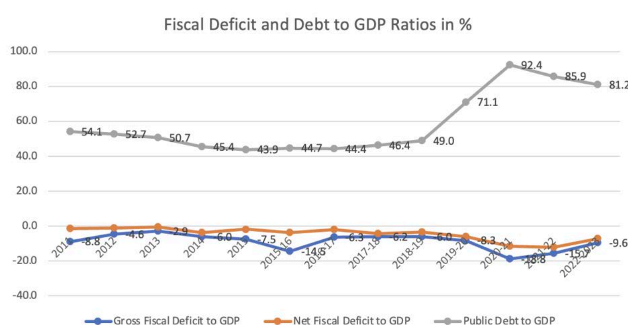
Figure 2-3: Various Proposals for Reducing Fiji's Fiscal and Expenditure Burden

	World Bank[46]	Fiji Fiscal Review Committee[47]	IMF 2023 Article IV Consultation[48]	Fiji Budgetary Measures FY2023/24[49]
Fiscal Targets	Deficit of less than 3% by 2027 Debt-to-GDP ratio of 65% by 2032 (moderate consolidation)	Adopt a target to reduce debt to below 70% of GDP by 2033	Reduce the fiscal deficit to 2.1% of GDP over the medium term (by 2026) Attain a (primary?) budget surplus of 0.4% of GDP in 2024 and 1.5% of GDP in the medium term (2028) Commit to a fiscal anchor targeting debt-to-GDP ratio of 72% by 2028 and below 50% by 2034 Commit to a fiscal adjustment of around 3.5% of GDP by 2028 Raise tax revenues by 3-4 percentage points	Net deficit of 4.8% in FY2023/24 Net deficit of below 3% in the medium term
Revenue Reforms	Unify the value-added tax (VAT) rate at 15% Remove zero rating of VAT on essential items Apply a standard corporate income tax (CIT) rate of 20% Discontinue export incentives Introduce dividend withholding tax of 10% Increase excise tax on alcohol Reverse fuel duty reduction Introduce excise duty on sugar products Simplify personal income tax (PIT) structure and lower threshold to FJ$20,000 Raise fringe benefit tax to 35% Raise departure tax from FJ$100 - 125 in FY2024/25 and then to FJ$200 with a small annual increase	Increase VAT (between 12.5% and 15%, no zero rating on essential items) Increase corporate tax (from 20% to 25%) Increase departure tax to $150 and then $200 by 2025 Increase customs and excise revenue by returning to (near) pre-COVID rates including alcohol	UNify VAT to 11.5% Increase VAT from 11.5% to 12.5% in FY2024/25 and 12.5% to 14% in FY2025/26 Raise CIT to 23% in FY2023/24 and 25% in FY2024/25 Simplify the PIT structure and lower the threshold Raise the fringe benefit tax to 35% Introduce dividend withholding tax of 10% Increase excise duty tax on alcohol Discontinue export incentive Raise departure tax from FJ$100 - 125 in FY2024/25 and then to FJ$150 in FY2025/26	Plans to unify the VAT rates (two rates applicable - 15% and 0%) Zero-rated items maintained Increase CIT rate to 25% Increase departure tax (in future) Review of tax exemptions (e.g. resident interest withholding tax, tax deductions under the employment taxation scheme etc) Increase in departure tax to FJ$125 in 2023 and FJ$140 in 2024 Increase in excise duty by 5% on motor vehicles Increase in excise duty for selected items including alcohol and tobacco Reduction in fiscal duty for selected food items Increase in water resource tax rate
Expenditure Reform	Control the wage bill Prudently manage capital outlays and make public investment more efficient Phase out sugar sector subsidies Phase out pandemic support and restrain other current spending Compensate low-income households for negative effects from reversal of VAT zero rating Improve targeting of social protection schemes Introduce additional social assistance spending Reform teritary education scholarships (improve targeting of financing)	Increase social welfare spending Directed targeted assistance Increase expenditure, with urgent capital expenditure on infrastructure and health	Allow inflation mitigation and Covid-19 spending measures (zero tax rate on consumer items, removal of fiscal duty on fuel) to expire Implement rationalisation of the public wage bill Do a cost-benefit review of transfer payments Improve management and efficiency of government capital spending Well-targeted transfers to the most vulnerable groups (0.5% of GDP) and priority spending areas (1% of GDP)	Wage bill reforms Limit government operational expenditure Review of capital spending by conducting proper investment appraisal and project selection Support for the vulnerable through social protection programme and increase in pension funding by 15%

As illustrated in Figure 2-3, the Fiji government has to a greater extent adopted majority of the recommendations in the latest annual budget (fiscal year 2023/24), demonstrating its commitment to reducing its deficit and debt levels. In other areas, contrary to the recommendations, the Government has taken a firm stance, for instance maintaining zero-rated VAT on basic items given the rise in inflation. Importantly, due consideration should be given to the impact of fiscal adjustments on low-income households and vulnerable persons who typically face the brunt of indirect tax increases and budget cuts when countries are facing economic strain.

In regard to social expenditure, the government pledged to continue support for the vulnerable through social protection programmes (US$160mn, up from US$125 mn in fiscal year 2022/23) and an increase in pension funding by 15% to provide a cushion during an economic downturn.[6] This is in line with the Fiscal Review Committee recommendations to increase social welfare spending. The budget allocation to the health sector increased by FJ$69.1mn to FJ$453.7mn, with more than half allocated to capital expenditure.[7] However, the allocated sums fall below the proposed target of FJ$200mn, thus more resources will need to be allocated to health spending to realise universal health coverage as recommended by the Fiscal Review Committee.[8]

Figure 2-4: Net Deficit Trajectories[9]



The goal of the government's fiscal plan is to reduce net deficits and put debt on a downward path to ensure sustainability. To achieve this, the government plans to restore revenues to pre-pandemic levels and place limits on its expenditure, and has provided a schedule for doing so.

From its peak, debt-to-GDP ratio has climbed down to 81% in fiscal year 2022/23, but is projected to remain aloft at around 78-81%[10] on average for the foreseeable future, even with the new fiscal measures aimed at bringing it down.

Figure 2-5: FY2023/24 Fiscal Framework

($Million)	2022-2023 (Budget)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)
Revenue	2,939.9	3,246.1	3,383.0	3,466.2
As a % of GDP	24.9	25.3	25.0	24.3
Tax Revenue	2,322.1	2,789.9	2,934.6	3,034.4
Non-Tax Revenue	617.8	456.2	448.4	431.8
Expenditure	3,812.1	3,819.7	3,862.3	3,891.8
As a % of GDP	32.2	29.8	28.6	27.3
Net Deficit	**-872.2**	**-573.6**	**-479.4**	**-425.6**
As a % of GDP	**-7.4**	**-4.5**	**-3.5**	**-3.0**
Debt	10,003.7	10,577.3	11,056.6	11,482.2
As a % of GDP	**84.6**	**82.6**	**81.8**	**80.4**
GDP at Market Prices	11,827.3	12,811.8	13,524.2	14,276.1

Source: Ministry of Finance, "Medium Term Fiscal Strategy 2024-2026," p.15.[11]

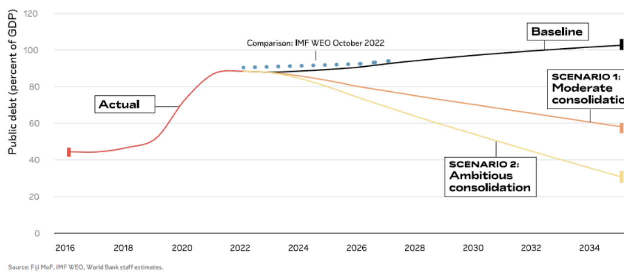
Net deficit is targeted to eventually fall to -3% of GDP in 2026 from -7.1%[12] in the past fiscal year FY2022-23. As a result, debt-to-GDP ratio will also gradually decline over the next few years as fiscal deficits are reined in, decelerating the pace of debt accumulation. To be clear, the amount of debt in absolute terms will continue to grow, although at a slower rate. And with the anticipated economic recovery and growth, the debt-to-GDP ratio will therefore start coming down.

According to the IMF's calculations, if net deficits were to remain high at around 5.5% of GDP over the medium term, the public debt-to-GDP ratio is projected to stay above 85%, a precariously high level.[13]

More simulations conducted by the World Bank[14] demonstrate how even if the net fiscal deficit improved organically from -12% in 2022[15] and ended up at -7.3% in 2027, the debt-to-GDP ratio will be on an unsustainable trajectory, distending to reach 100% of GDP by 2032. Only by constricting the net fiscal deficit to no more than -3% by fiscal year 2027 will Fiji be on a downward, "more sustainable" path towards a 65% debt-to-GDP ratio.

The Fiji Fiscal Review Committee[16] has recommended a gentler pace of reaching a debt-to-GDP ratio of 70% in 10 years' time, which will translate into less stringent fiscal measures than the ones envisaged by the World Bank in its "moderate consolidation" scenario.[17]

Figure 2-6: Fiscal Consolidation Pathways and Their Impact on Public Debt



Source: World Bank, "Public Expenditure Review" April 2023, p .6

Constantly Changing Targets

In any event, the government in its updated medium term fiscal targets, plans to arrive at the destination sooner than FY27 of no more than 3% of GDP by fiscal year 2025/26 (see Figure 2-7). This will, according to government projections, lead to a gradual fall in the country's debt-to-GDP ratio from 81.2% at the end of fiscal year 2022/23 to 77.9% by fiscal year 2025/26.

It is not certain this would and should in some ways act as "a commitment to fiscal anchor targeting debt-to-GDP with operational targets"[18] for its revenue, expenditure and fiscal balance.

These targets have already been changed once by the new government, between its medium term fiscal strategy issued in Feb 2023 (Figure 2-5), and its national budget in June 2023 (Figure 2-7).

Furthermore, as pointed out in its supplement to the budget, the Ministry of Finance is "currently working on a 15-year fiscal management plan", taking into "careful consideration on the pace of fiscal consolidation and growth and development."[19]

Projections about the future should warrant caution. While these figures suggest a potentially stable economic trajectory, they hinge on several variables that could shift, affecting the accuracy of these forecasts. Assumptions about tax revenue growth and the impact of fiscal policy changes are not guaranteed, and thus, a degree of scepticism may be warranted when considering these projections.

Figure 2-7: Medium-term Fiscal Targets

$Million	2022-2023 (Revised)	2023-2024 (Budget)	2024-2025 (Budget)	2025-2026 (Budget)
Revenue	**2,685.4**	**3,700.7**	**3,868.1**	**4,004.0**
As a % of GDP	*22.1*	*27.9*	*27.6*	*27.3*
Tax Revenue	*2,252.3*	*3,107.7*	*3,321.3*	*3,487.3*
Non-Tax Revenue	*433.1*	*593.1*	*546.9*	*516.7*
Expenditure	**3,435.7**	**4,339.9**	**4,361.6**	**4,440.1**
As a % of GDP	*28.2*	*32.7*	*31.2*	*30.2*
Net Deficit	**-750.3**	**-639.1**	**-493.4**	**-436.0**
As a % of GDP	*-6.2*	*-4.8*	*-3.5*	*-3.0*
Debt	**9,882.3**	**10,521.4**	**11,014.9**	**11,450.9**
As a % of GDP	*81.2*	*79.3*	*78.7*	*77.9*
GDP at Market Prices	**12,176.8**	**13,266.6**	**13,991.9**	**14,691.4**

Source: Ministry of Finance,"Economic and Fiscal Update Supplement to 2023-24 Budget Address" June, 2023. p. 34

Therefore, it would seem ill-advised to lock these or any targets and thresholds into legislation under the country's Financial Management Act, as the IMF had recommended. Furthermore, this will curtail the fiscal and policy space needed to respond swiftly to changing circumstances and modify these measures after their socio-economic impact is better known.

Current Fiscal Year 2023/24

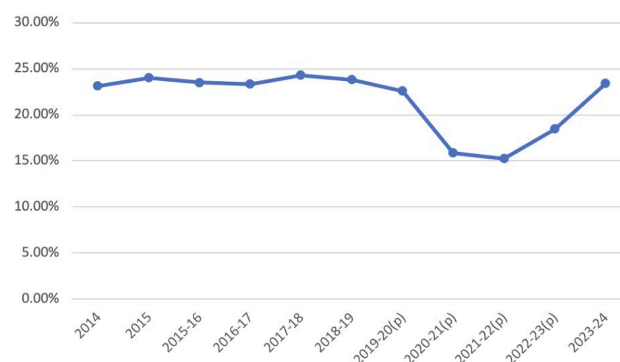
For the current fiscal year 2023/24, the government's budgetary plan, consistent with its latest medium-term fiscal strategy, projects a net deficit of FJ$639.1mn, which is about 4.8% of the GDP (Figure 2-7). This figure emerges from a projection of total revenue at FJ$3.7bn against expenditure of FJ$4.34bn. (Figure 2-7)

Tax revenues are forecast at FJ$3.11bn for the fiscal year, which would be a substantial increase of FJ$855.4mn from the year before. This would raise the tax-to-GDP ratio to 23.4% compared to 18.5% in the previous fiscal year, putting it roughly back to its historic average before the disruption caused by Covid-19.

However, the bulk of the tax revenue burden will be shouldered by VAT payers. Out of the additional tax revenue of around FJ$596mn, VAT collections will contribute FJ$455.6mn to the total.[20] On its own, indirect taxes are regressive and indiscriminate, and more importantly, they add to the mounting costs of living. To mitigate the effects, the government has maintained zero-rating VAT on 22 essential basic items.[21]

Fiji's indirect taxes (mostly VAT and custom duties) have always contributed more to the state coffers. However, its share vis-à-vis direct taxes has largely stayed the same until about 10 years ago, when it started to diverge significantly. By 2019, indirect tax receipts were 2.7 times larger than collection from direct taxes.

Figure 2-8: Tax revenue to GDP[22]

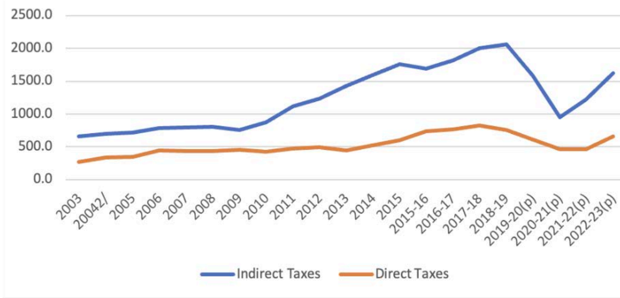


In this regard, the government needs to ensure that there is equity in the overall tax regime and structure even as it pursues debt and fiscal sustainability. Its stated revenue principles in the medium term of widening the tax base and enhancing collection are focused on augmenting its receipts.[23] While this is important, how the debt burden is alleviated and shared cannot be overlooked. In the review of the tax system, there should be a commitment to not just a more effective but also a fairer and thus a fiscally more sustainable one.

As for non-tax revenue, it is important to obtain as much funding as possible through grant funding. While grant funding has increased over the years as part of non-tax revenue, peaking in the Covid years, it dipped in fiscal year 2022/23; however the Fiji government seems assured that it will be able to secure FJ$216.8mn.[24] The government should continue to garner as much overseas development aid (ODA) and grant funding as it can at least for now, since it does not create financial liabilities. However, there is no free lunch and there is a need to ensure the network of interests among its official partners is balanced and aligned with Fiji's.

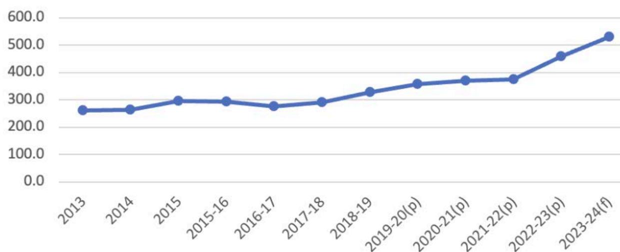
The government plans to spend a total of FJ$4.3bn in the current fiscal year 2023/24, which is an increase of FJ$904.2mn from the revised estimate for the previous fiscal year. Personnel expenses are the most significant part at approximately FJ$1bn. This represents an increase of FJ$104.6mn or 10.9%, which will address the need for more staff and higher superannuation contributions.

Figure 2-9: Tax Revenue (FJ$, in mn)[25]



This is not particularly high when benchmarked against peers and its own historic wage bill. The civil service wage bill has also been effectively frozen since the start of the pandemic. What is high—and has become the government's third biggest expense item—is debt interest payments and charges, which stand at FJ$529.4mn, an increase of 16.5% from the previous year's FJ$454.3mn.[26]

Figure 2-10: Debt Interest Payments and Charges (FJ$, in mn)[27]



As shown in Figure 2-10, debt interest payments and charges have been increasing over the years, in line with the growing debt stock. Debt service obligations compete directly with other public expenditure for available resources. Indeed, public debt interest payments are projected to increase from almost FJ$400mn in 2019 to almost FJ$500m in 2023. Over the same period, public expenditure on healthcare and education as a share of GDP, has remained stable. Further increases in debt-servicing costs may induce declines in government expenditure in these areas and other social spending. Again, this raises the question of equitable burden sharing and fiscal priorities when limited resources are being allocated and spent.

Borrowing to Improve Fiscal Space

More importantly, how borrowed resources are used has implications for the ability to repay debt. Productive investments in the economy and UN Sustainable Development Goals (SDGs) can generate future growth and in turn fiscal revenue; and contribute to lowering debt ratios over time and create a positive feedback loop. It can be helpful to differentiate how borrowed resources are used. Well-designed public sector investments that boost the productive capacity of an economy can result in higher income for the government and help offset the associated debt service.

Such investments increase fiscal space when the return on public capital exceeds financing costs. Debt financing should be channelled to projects with clear and large returns that would not tip the country's debt indicators into distressed levels or trajectories.

To this end, the government should proactively incorporate these considerations as it seeks to better manage and be more accountable for its spending. Some of the stated guiding principles in its expenditure strategy include: 1) requiring all ministries to provide "proper justification for every dollar of funding requested"; 2) the need for all new capital projects to undergo a "proper investment appraisal" and selection process; and 3) major programmes are to be assessed to ensure that they do "derive value for money."[28]

Unfortunately, this is not all the financing the government needs for the year. The projected total gross deficit, which is the sum of the net deficit and principal debt repayments, is around FJ$1.16bn, which the government plans to fund through a mix of domestic and external borrowing.[29]

With a raft of fiscal measures introduced in the latest budget for fiscal year 2023/24, it remains to be seen whether these targets will be adhered to. The impact of these

measures on economic growth will also need to be ascertained. After all, these targets are premised on a certain rate of growth ranging from 3-5%, which might be impacted by these fiscal measures themselves, or derailed by some other macroeconomic or exogenous event (see more about this in Chapter 4).

Conclusion and Recommendations

The government and policymakers will have to find a balance between keeping the lid on fiscal deficits, while prudently pushing ahead with the necessary spending and investments to ensure growth does not sputter. It will continue to face difficult trade-offs between maintaining fiscal sustainability and investing in structural transformation, including productive investment, climate action and SDGs. For example, forgoing investments in sustainable transformations not only undermines development progress but could also amplify vulnerabilities—to disasters, other external shocks and ultimately debt sustainability—down the line.

To retain and expand fiscal space for SDG-related investments in this challenging context, multipronged policy action is needed, at both the national and global levels.

- Domestically, the government could rigorously include differentiating how debt financing is used, and prioritising borrowing for productive investments that can create durable economic growth and thereby more fiscal space.

- Where needed and when the debt burden becomes too onerous and debilitating, the government may seek pre-emptive debt restructuring to free up fiscal space. It should acquaint itself with pre-emptive maturity managing tools such as debt reprofiling operations or other liability management operations.

- The government should also be familiar and knowledgeable about the processes and policies around domestic debt restructuring, given that the bulk of its public debt is domestic. It should have a contingency plan in place for such an eventuality, so that the problem is not aggravated by a lack of understanding and not knowing what to do in such a situation.

- Externally, it could work with bilateral and multilateral development partners to put in place instruments and tools to create fiscal space in a time of crisis. This could include:

    - Commitments from official development partners for a standby or sinking fund that could be activated and utilised by Fiji under certain conditions or risk events.
    - All debt servicing including repayment, interest and charges are automatically suspended upon the national declaration of a crisis or emergency.
    - Debt obligations could also be scaled back depending on its ability to pay, as state contingent debt instruments are being explored.[30]

- Given that only about 28% of its external public debt are on concessional terms, the government should negotiate with its official creditors better credit terms, which includes lengthening average maturities or lowering borrowing costs, so that Fiji is not further hampered and delayed in trying to achieve its SDGs and climate objectives.

- The advocacy for better borrowing terms and debt relief measures with the support of development partners could be done regionally with other Pacific Island Countries, especially when neighbouring countries are also facing similar fiscal and national debt challenges.

- Finally, creating fiscal space, making trade-offs and ensuring that borrowings are used for the right development objectives are ongoing judgment calls that the government would have to make in

consultation with its constituencies and citizenry.

Case Study - UNCTAD's SDFA Framework

The IMF's and World Bank's debt sustainability model has been criticised for its overemphasis on governments being able to meet their debt obligations and their capacity to service debt repayments. This typically translates into a diet of fiscal austerity for countries struggling with high debt burdens.[31] By focusing solely on "debt sustainability as an end in itself", and requiring that certain performance benchmarks, "defined independently of long term development goals", are met, means that domestic policy space, particularly fiscal policy, will be invariably curtailed.

As is the case with Fiji, the IMF, in its latest Article IV Consultation with the country, has also prescribed a medley of fiscal consolidation measures that the government should urgently adopt in order to place the country's debt on a more sustainable path.

The IMF avoided looking at issues and underlying factors that could have a more fundamental impact on Fiji's debt levels and long-term sustainability, such as a clear economic development plan and industrial policy that could help structurally transform the economy, improve its export earnings, raise its productivity and put the country on a higher growth trajectory beyond its historic average. On the other hand, some proposed measures could be counterproductive in reducing the debt burden and may instead lead to higher cost of borrowing, as the government was advised to tighten its monetary policy and remove capital controls.[32]

In this regard, the UN Conference on Trade and Development's (UNCTAD) Sustainable Development Finance Assessment (SDFA) framework diverges from the standard debt sustainability assessments, and presents a more complete analysis by looking at development finance as a whole to achieve structural transformation, and exploring a range of policy options beyond fiscal austerity to maintain external financial and public sector sustainability.[33]

At its heart, the SDFA framework assumes balance of payments performance is the most relevant economic constraint on growth for a developing country, i.e. what is the maximum attainable long-run economic growth given the external constraint.[34] This qualified growth rate is then used to determine the pace and extent to which the public sector can incur further liabilities without it becoming unsustainable, thereby substantiating greater fiscal space for public investments and pursuing national development agendas.[35]

In other words, "causality runs from the external position to the country's fiscal space in the medium- and long-run."[36] This "places external financial sustainability (the country's ability to service the stock of net external liabilities, including its net external debt) at the centre of the analysis."[37]

UNCTAD's Debt Sustainability Framework[38]:

- Investments in appropriate infrastructure that facilitate higher export volumes;
- Assistance to new exporters to access foreign markets;
- Diversification of exports away from sunset industries towards products encompassing new technologies; and
- Support for firms and sectors with revealed competitiveness (i.e. growing global market shares) to increase the scale of their operations and export activities.
- Reduction of the average cost of net external liabilities by progressively restructuring external debt to secure more favourable terms

The SDFA has three main components:

- *External Financial Sustainability*— if growth in exports and remittances is faster than growth in net external liabilities (NEL) and its average costs, external financial sustainability will be improving. "If this ratio increases persistently, it will become

necessary for the country concerned to generate a trade surplus to stabilise the growth of NEL."[39] "If the country concerned manages its [NEL] effectively and adopts policies that serve to increase the rate of growth of exports and remittances and/or reduce the country's dependence on imports in the long-run, it will raise the rate of GDP growth consistent with external financial sustainability and—in the process—create additional fiscal space to adopt policies and programmes that support sustainable development."[40]

- *Public Sector Financial Sustainability*—If the rate of GDP growth is greater than the rate at which public sector net liabilities are increasing, the public sector finances will be moving towards sustainability. "If the cost of servicing public sector net liabilities is persistently higher than the rate of GDP growth the ratio will be deteriorating. It will be necessary for the countries concerned to adopt policies that serve to increase the rate of GDP growth and/or reduce the average cost of public sector net liabilities."[41] The usual policy recommendation, ie fiscal austerity, would only reinforce the vicious cycle: growth will remain subdued and the fiscal space constrained, putting the country further away from the goal of achieving the SDGs with sustainability in the external and public sector accounts."[42]

- *Integrated External and Public Sector Financial Sustainability*— Over the longer term, public sector net liabilities will be sustainable if the rate of growth, consistent with the external financial sustainability, exceeds the average cost of public sector net liabilities. Some aspects of this have been dealt with in the preceding chapter, which proposes recommendations for reducing the costs of borrowing.

The framework highlights and underscores the primacy of the developmental needs (including SDGs) of a country and the structural transformation needed to improve export performance and enhance economic growth in a way that does not overstretch dependence on foreign capital. In the event that external debt and other liabilities of a country straitjackets its ability to develop and provide for its citizens, increased access to ODA, concessional finance and debt restructuring or cancellation would be more effective and critical than fiscal consolidation.[43] In this context, further fiscal tigthening will only exacerbate the problem of subdued growth and limited fiscal space.[44]

It is beyond the scope of this paper to provide a fuller consideration of UNCTAD's SDFA framework and apply it to Fiji's case. It is however the intent to show that there are alternative debt sustainability assessments that provide a "wider focus on a set of policies compatible with both medium- and long-run external and public debt sustainability", and take into account national development priorities.[45]

The following chapter will analyse some of the key variables used in the SDFA framework, such as economic growth, NEL and current account balance to articulate their relationship and dynamics with debt. This could provide an initial premise to apply UNCTAD's SDFA to Fiji's specific external and public accounts to ascertain the required and sustainable rate of growth, which would be instructive to all stakeholders in setting development targets and strategies.

ENDNOTES

1 Author's calculations.
2 Ministry of Finance, "Medium Term Fiscal Strategy 2024-2026," Strategic Planning, National Development and Statistics. February 17, 2023, p.13.
3 Ibid., p. 3.
4 Ms Nona Tamale is law lecturer at Makerere University. Ms. Tamale is an inaugural Fellow with the African Sovereign Debt Justice Network (AfSDJN) where she conducts research on sovereign debt in Sub-Saharan Africa. She is a qualified advocate of the High Court of Uganda.
5 Created by author.
6 Ministry of Finance, "Economic and Fiscal Update Supplement to the 2023-2024 Budget Address," June 30, 2023, p. 6.
7 Ibid., p. 13.
8 2023 Fiji Fiscal Review Committee, "Report of the Committee," May 31, 2023, p. 18.
9 Author's calculations.
10 Figures are based on two official projections by the new coalition government. The first is in "Medium Term Fiscal Strategy 2024-2026" released in February 2023, the second is in the Ministry of Finance's "Budget Supplement 2023-2024" released in June 2023.
11 Ministry of Finance, "Medium Term Fiscal Strategy 2024-2026", (MTFS) February 17, 2023, p. 15. These targets have been updated and can be found in the Ministry of Finance's "Budget Supplement 2023-2024."
12 Net deficit to GDP of -7.1% is the latest figure reported by the Reserve Bank of Fiji (RBF) in "Government Summary of Revenue and Expenditure." Accessed November 14, 2023. https://www.rbf.gov.fj/statistics/economic-and-financial-statistics/#1595821800900-2f8c5a08-2fc0
13 IMF, "Fiji Article IV Consultation," supra, p. 7.
14 Demet Kaya and Fayavar Hayati, "Fiji - Public Expenditure Review: Towards Fiscal Sustainability and Improved Spending Quality," World Bank Group, April 2, 2023.
15 Input variables used by the World Bank. A net fiscal deficit-to-GDP ratio of -12% is also the official figure recorded by RBF.
16 2023 Fiji Fiscal Review Committee Report, supra.
17 As mentioned in Chapter 1, there is a certain arbitrariness as to what the sustainable debt-to-GDP ratio threshold should be.
18 IMF, "Fiji Article IV Consultation," supra, p. 7.
19 Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 34.
20 Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 25.
21 Ibid.
22 Author's calculations
23 Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 32. The report states: "The following will be the guiding policy principles in the medium term: Widen the tax base by gradually removing exemptions and other distortions; Improve tax compliance and collection of tax arrears; Make the tax regime and tax administration even simpler to encourage tax compliance; and Review non-tax revenues on a cost recovery basis while also ensuring that the vulnerable and disadvantaged are protected."
24 Ibid., p. 27.
25 Author's calculations
26 Ministry of Finance, "Budget Supplement 2023-2024," supra, p. 28.
27 Author's calculations
28 Ministry of Finance, "Budget Supplement 2023-2024," pp. 32-33.
29 Ministry of Finance, "Annual Borrowing Plan Fiscal Year 2023-2024."
30 UN Inter-agency Task Force for Financing for Development, "Financing for Sustainable Development Report." 2019 and 2020.
31 Karina Patricio Ferreira Lima, "Reforming the IMF's Sustainability Assessments towards achieving the UN's Sustainable Development Goals (SDGs): A Crucial Post-Pandemic Recovery Agenda," African Journal of International Economic Law, Volume 2 (Fall 2021).
32 IMF, "Fiji Article IV Consultation."
33 UNCTAD, "Sustainable Development Finance Assessment (SDFA) Framework: Linking debt sustainability to the achievement of the 2030 Agenda," November 29, 2022, p. 4.
34 Ibid., p.12.
35 Ibid
36 P. Hawkins and D. Prates, "Box 1: Key elements of the UNCTAD SDFA framework" in "An UNCTAD Sustainable Development Finance Assessment: The Case of Sri Lanka," UNCTAD, April 2022, p. 19.
37 Ibid.
38 K. Lockwood, "Application of the UNCTAD Sustainable Development Finance Assessment (SDFA) Framework to Developing Countries The Cases of Indonesia & Sri Lanka Presentation to a meeting on

South South Sharing of Policy Experiences: Debt Sustainability in Developing Countries, "11 May 2022, p. 16.
39 K. Lockwood, "An UNCTAD Sustainable Development Finance Assessment: The Case of Sri Lanka," UNCTAD, April, 2022, p. 20.
40 Ibid.
41 Ibid.
42 UNCTAD, "SDFA Framework: Debt sustainability," supra, p.13.
43 Ibid.
44 UNCTAD, "SDFA Framework: Debt sustainability," supra, p. 14.
45 Ibid., p. 7.
46 World Bank, "Public Expenditure Review - Towards Fiscal Sustainability & Improved Spending Quality." April 2023.
47 2023 Fiji Fiscal Review Committee, " Report of the Committee." May 31, 2023.
48 IMF, "Republic of Fiji: 2023 Article IV Consultation," June 28, 2023.
49 Government of Fiji, "2023-2024 National Budget Address: Rebuilding Our Future Together," delivered by Deputy Prime Minister Biman Prasad, June 30, 2023. See also Ministry of Finance, "Economic and Fiscal Update Supplement to the 2023-2024 Budget Address," June 30, 2023.
** This chapter was written with Nona Tamale

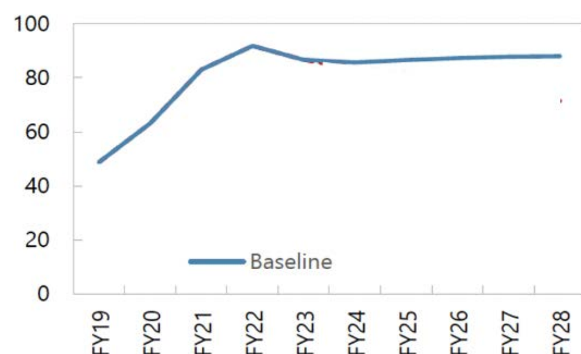
CHAPTER 3: GROWTH, EXTERNAL LIABILITIES AND DEBT SUSTAINABILITY

The debt-to-GDP ratio, often regarded as a key indicator of government finance[1] measures a country's public debt to its gross domestic product. Expressed as a percentage, the ratio is often used to gauge the government's ability to service and repay its debt. A high debt-to-GDP ratio is undesirable as it indicates a higher risk of default and the likely adoption of contractionary economic measures. This, in turn, may dampen growth prospects and reduce business confidence. On the other hand, a declining debt-to-GDP ratio over time is a well-accepted indication that a country's debt is on a more sustainable trajectory.

While it is important to pay attention to the direction debt-to-GDP is headed in, several studies[2] have also tried to show that debt-to-GDP ratio beyond a certain threshold has a negative impact on growth. In a study conducted by the World Bank[3], a ratio that exceeds 77% for an extended period of time may result in an adverse impact on economic growth, "with each additional percentage point of debt [to] cost 0.017 percentage points of annual real growth." The effect is even more pronounced in emerging markets where the threshold is "64% debt-to-GDP ratio. In these countries, the loss in annual real growth with each additional percentage point in public debt amounts to 0.02 percentage points."[4] Therefore, when the ratio is high, a country is likely to exhibit a slowdown in economic growth.

In this regard, the IMF's latest base scenario for Fiji's debt-to-GDP ratio does not bode well (see Figure 3-1). The IMF forecasts Fiji's debt-to-GDP ratio to hover around 80% over the next several years and well into the next decade. As discussed in Chapter 2, the Fiji government has a different point of view, premised on the fiscal consolidation measures they have adopted in the latest budget, and their GDP forecasts.

Figure 3-1: IMF's Forecast on Fiji's Debt-to-GDP Ratio



Source: IMF, Republic of Fiji: Article IV Consultation 2023

Hence it is important to see and understand where economic growth in Fiji is headed in order to anticipate and consequently steer its debt levels towards sustainability. No doubt the economy has bounced back with a vengeance since the pandemic-induced lockdown, with the tourism sector leading the charge. The economy skyrocketed back from the trough of negative -17% growth in 2020 to 20% in 2022, and is forecasted to grow by another 8% in 2023.[5]

As a matter of fact, over the last four decades, data shows (Figure 3-2) that Fiji's economic growth has been erratic and volatile, jumping from highs of 7-8% growth and then dipping dramatically the following year after, especially in the period just before the turn of the century.

by coups in 1987. Tourism declined, sugar cane production was disrupted, and some US$83mn fled the country.[7]

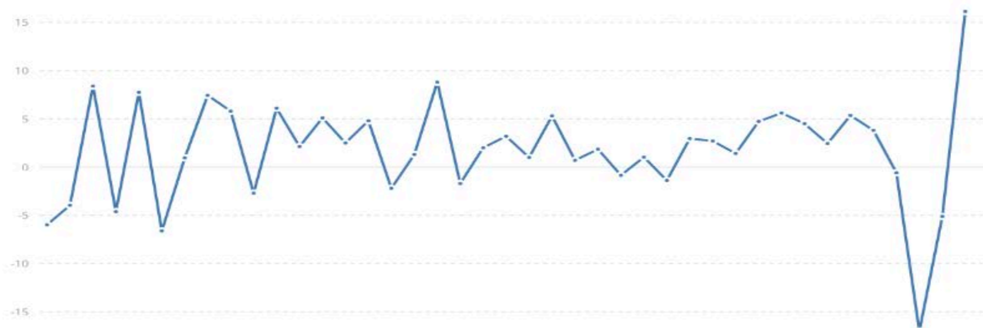
It was around this time when the country made the economic policy switch from import substitution to niche market exports.[8] Confronted by the challenge of a weakening economy, the government was also swayed by "the international trend towards economic liberalisation and export-oriented

Figure 3-3: Fiji Average Real GDP Growth vs Real Per Capita GDP Growth (at constant 1990 prices)

	Average GDP growth rate	Average per capita GDP growth rate
1970–75	9.7	7.5
1976–80	2.3	0.3
1981–85	-1.3	-3.1
1986–90	1.2	0.2
1991–95	2.4	0.8
1996–2000	2.1	1.5

Source: Sunil Kumar and Biman C. Prasad, "Fiji's economic woes: a nation in search of development progress," p. 3

Figure 3-2: Fiji's GDP Growth Rates



Source: World Bank, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=FJ

While the ups and downs in growth rates have been less pronounced since the 2000s, it undulated at lower levels of growth. Between 2000-09, Fiji averaged 1.11% growth, and between 2010-19, before the start of the pandemic, it grew by an annual average of 3.3%. And with the dire economic impact of Covid-19, economic growth averaged 0.5% over the last four years.[6]

A Potted History of Fiji's Economy

The highest level of GDP growth was achieved between 1970 and 1975—the period immediately after Fiji gained independence. This was followed by a period of very low growth in the 1980s. The economic woes faced by the country was seriously aggravated

industrialisation and to specific advice from its consultants and international agencies". The argument was that Fiji needed to radically improve its export potential by reducing unit labour costs if it was to continue to grow and transform the country from, in the words of the Finance Ministry then, an "inward looking, high tax, and slow growth economy to a dynamic outward looking, low tax and high growth economy." [9]

While modest economic recovery and normalisation followed in the 90s after the preceding tumultuous period, it was clear that this policy shift did not deliver the higher average growth rate as promised, with the decade registering an average rate of 2.25%.[10]

In the 2000-2009 period, especially after 2006, political upheavals and the ensuing uncertainty led to a period of low and negative growth as Fiji became increasingly isolated internationally. After registering -1.4% growth rate in 2009, the economy rebounded and managed to stay positive for the rest of the decade right up to the eve of the pandemic.

Between 2013-17, the longest period of stable and relatively high growth, Fiji's real growth rate entered a "golden period" averaging about 5% (excluding 2016 when it grew by 2.6% as a result of Cyclone Winston), a feat not seen since the 1970s. As a result, debt-to-GDP ratio came down to just below 50% over this period. (See Figure 1-3 in Chapter 1). Unfortunately, this new normal did not last. By 2018, Fiji reverted to its mean growth rate and GDP fell back to 3.8%, sliding further to 0.5% in 2019, just before Covid-19 struck.

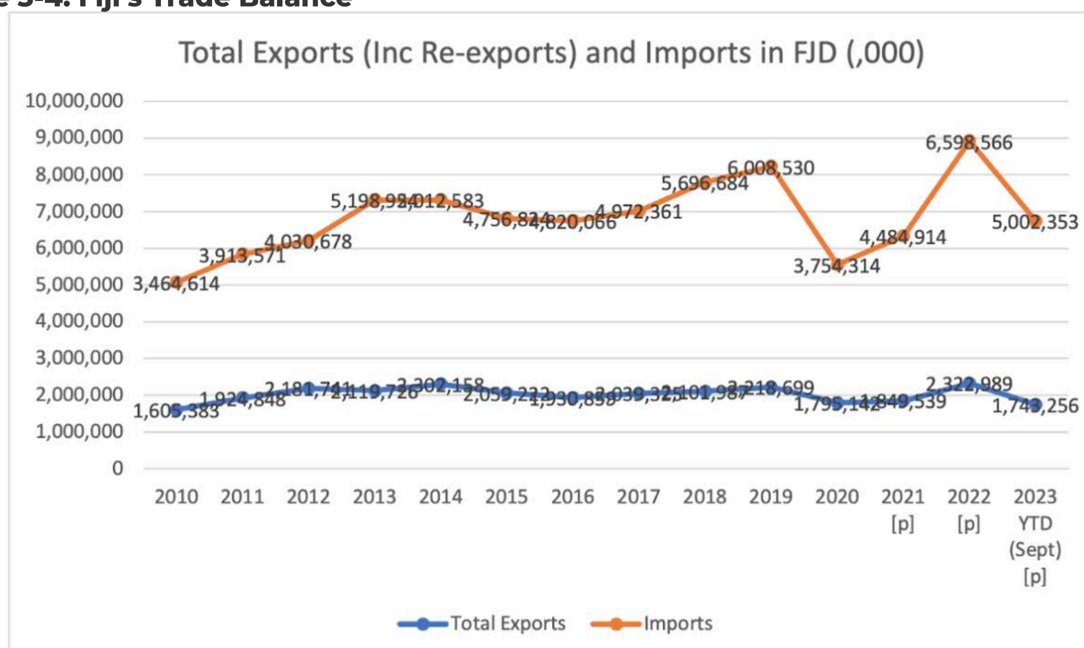
Observers and pundits of the Fiji economy have all concluded that the country's growth rate has been paltry for whichever time period they had looked at.[11] It seems unable to break away from its track record and remains "trapped on a low growth path."[12]

The underlying reasons according to various authors are due to a mix of policies and politics which have undermined business and investment sentiments, leading to under-investment and other infrastructural deficits.[13] Together with its immanent susceptibility to climate risks and other shocks, they form major obstacles to sustained and robust growth.[14]

While it is not the purpose of this chapter to go into great depth to pinpoint the causes of structural low growth, the goal is to identify the more evident gaps and vulnerabilities in the Fijian economy that might derail even the relatively low growth rates that has been officially forecasted in the medium term, and suggest areas of attention and action.

More importantly for current purposes, GDP growth is a key variable in the government's own projections and forecast towards debt sustainability, as discussed in previous chapters. In the standard debt assessment model, failure to achieve the anticipated growth rate will send debt levels even higher, necessitating further fiscal austerity.

Figure 3-4: Fiji's Trade Balance[15]



As previously noted, the lacklustre performance of the Fijian economy over the decades has also found expression in its external accounts. Given the challenges in terms of its limited productive capacity, inadequate structural transformation and declining access to export markets, it is perhaps unsurprising that its trade performance has steadily worsened.

Except for bottled water, most merchandise exports have either declined or stagnated. On the other hand, merchandise imports have grown by three times the value of total merchandise exports, leading to a persistently large and growing trade deficit in goods.

Take for instance the sugar industry which until the 1990s was the single most important industry in the economy, contributing to more than 10% of the GDP compared to 1.7% today. Despite the precipitous decline, it remains the main cash crop dominating Fiji's agriculture total production at almost 90%. (See Figure 3-5.)

Figure 3-5: Composition of Fiji's Agricultural Production

Product	Tons	% of total
Sugar cane	1,631,000	88.8
Cassava	68,135	3.7
Taro	42,985	2.3
Fisheries, meat and poultry	42,163	2.3
Yaqona	9,113	0.5
Paddy rice	9,081	0.5
Kumala	8,411	0.5
Ginger	7,585	0.4
Copra	1,916	0.1
Others	16,992	0.9
Total	1,837,381	100

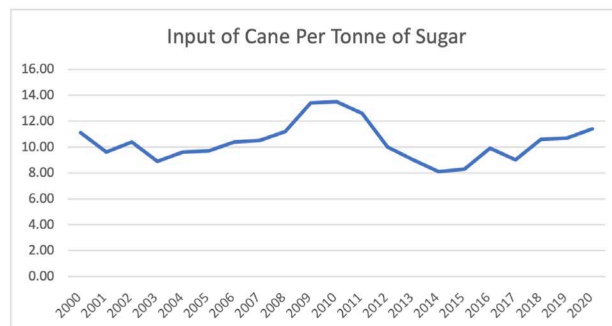
Source: Fuji Bureau of Statistics, Composition of Agriculture Sector Production, March 2018.
Note: The statistics are for 2017 (preliminary).

Production Source: Fiji Productivity Master Plan, p.30

Farm productivity of sugar cane production (sugar cane produced/area of sugar cane harvested) has fallen persistently for more than four decades, from 55 tonnes/ha from 1981-90, to 51.4 tonnes/ha from 1991-2000, 45.7 tonnes/ha from 2001-10, and 42.2 tonnes/ha from 2001-17. Production of sugar in 2018 was only 60% of the 2014 level and there was a further 10% fall in 2019. Fiji now ranks as one of the lowest among the world's big sugar producers.[16]

Milling productivity, measured as tonnes of sugar cane required per tonne of sugar, has also decreased continuously for the last 30 years and has basically gone nowhere in the last two decades.[17] (See Figure 3-5.)

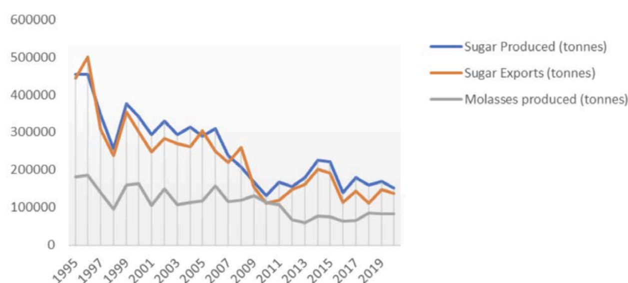
Figure 3-5: Fiji Sugar Milling Productivity[18]



Inefficiencies in the milling process were caused by obsolete and poorly-maintained equipment that frequently broke down, poor management and problems in labour relations, as well as poorer cane quality.[19]

This long-term decline further compounds the challenge of low productivity in the sugar industry and, hence, lack of price competitiveness in this commodity export. Coupled with the phasing out of preferential trade access to major export markets,[20] the result is a steady decline in the export volume of sugar over time. By 2020 it had fallen to FJ$90mn, a far cry from FJ$237mn in 2000.[21]

Figure 3-6: Fiji's Sugar and Molasses Production and Exports (in tonnes)



Source: Fiji Sugar Corporation's website, accessed Oct 2023

Like sugar, growth of Fiji's garment industry had also been driven by preferential trade agreements with Australia and New Zealand (the South Pacific Regional Trade and Economic Co-operation Agreement) and with the US (the Multifiber Arrangement). Since 2000, the garment industry has rapidly declined with the phasing out of trade preferences and tax concessions were phased out. The lack of productivity improvement and the consequent loss of competitiveness against cheaper and more productive manufacturing operations in Asia also hurt the industry.

Fiji's garment industry reached US$142mn in 2001[22], contributing to 30.8% [23]of the country's total exports and 12-13% of its GDP.[24] However, its total domestic export value has since plummeted to US$51.8mn in 2016 and dropped further to US$38.1mn in 2021.[25]

Fiji's poor export performance reflects more fundamentally the limited structural and industrial transformation. The manufacturing sectors associated with the declining sugar and garment industries translate into a shrinking share of the GDP, and it is now well surpassed by the agriculture sector. (See Figure 3-7.)

As the experiences of high-income and other upper middle-income countries have shown, the industry sector and in particular manufacturing, can play a critical role in helping a country move up the productivity ladder, and insert itself more beneficially into the global value chain. Globally, heavy manufacturing, which produces intermediate products for use by other industries, has been a catalyst in raising productivity levels and structurally transforming the rest of the economy. [26]

However, this is hampered by Fiji's fragmented and dispersed productive capacity. Like most countries[27], SMEs dominate Fiji's productive landscape in numbers, accounting for 95% of business establishments and about two thirds of total employment, but contribute only to 12% of the country's GDP.

Micro establishments, defined as having fewer than five employees, form the majority of SMEs in the country. As a matter of fact, the number of firms tapers dramatically as firm sizes increase. In the services and industry sectors, there are 606 medium-sized firms compared to 2,286 small firms and 5,146 micro firms. [28]

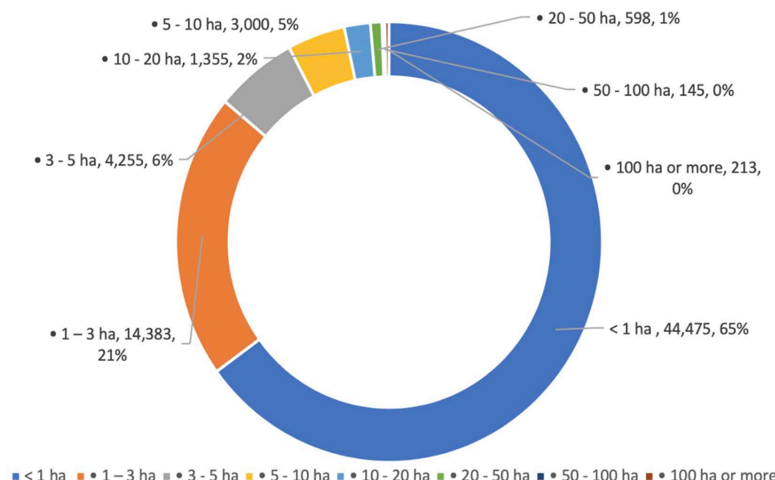
Similarly in agriculture, small farms, defined as those that are less than 5ha, dominate overwhelmingly making up 92% of the current total,[29] compared to 82.6% at the last count in 2009. The number of medium-sized farms that are 5-49 ha more than halved from 16.8% to 7.3% from 2009 to 2020, leaving an even smaller proportion (0.5%) of large farms that are 50ha or more in area. (See Figure 3-8.)

Figure 3-7: Selected Economic Indicators (2016-21)

	2016	2017	2018	2019	2020	2021
National accounts						
Current GDP at market price (FJD million)	10,327.3	11,065.0	11,650.6	11,842.6	9,709.8	8,895.9
Current GDP at market price (USD million)	4,930.2	5,353.5	5,581.4	5,481.7	4,477.0	4,296.2
GDP per capita at current market price (USD)	5,651.3	6,101.1	6,317.5	6,159.5	4,994.2	4,758.3
Real GDP (% change)	2.4	5.4	3.8	-0.6	-17.0	-5.1
GDP by economic activities at current basic prices (%):						
Agriculture, forestry and fishing	13.1	13.0	13.6	14.6	17.1	17.0
Mining and quarrying	1.0	0.8	0.7	0.8	1.3	1.3
Manufacturing	13.4	12.9	12.9	12.7	12.9	13.6
Electricity, gas, water supply, sewerage	2.4	2.5	2.4	2.2	2.2	2.4
Construction	3.1	3.2	3.4	3.6	3.5	2.5
Services	67.0	67.6	67.0	66.1	63.0	63.2

Source: WTO, "Fiji's Trade Policy Review, Report by the Secretariat," p.9

Figure 3-8: Breakdown of Agricultural Farms by Size (in ha)[30]



In theory, the productivity of SMEs and micro enterprises in particular is typically low compared with large enterprises, due to various reasons including lack of know-how, limited access to finance and market and scale efficiencies. The diminutive size of SMEs also impedes them from going global, and smaller firms end up being more focused on the domestic market.

Furthermore, a large number of the micro enterprises are engaged in what development economists have called the unsophisticated part of the product space, caught in a "low-product" trap producing raw materials such as agricultural produce, and offering low-value services such as small retailers and street vendors.

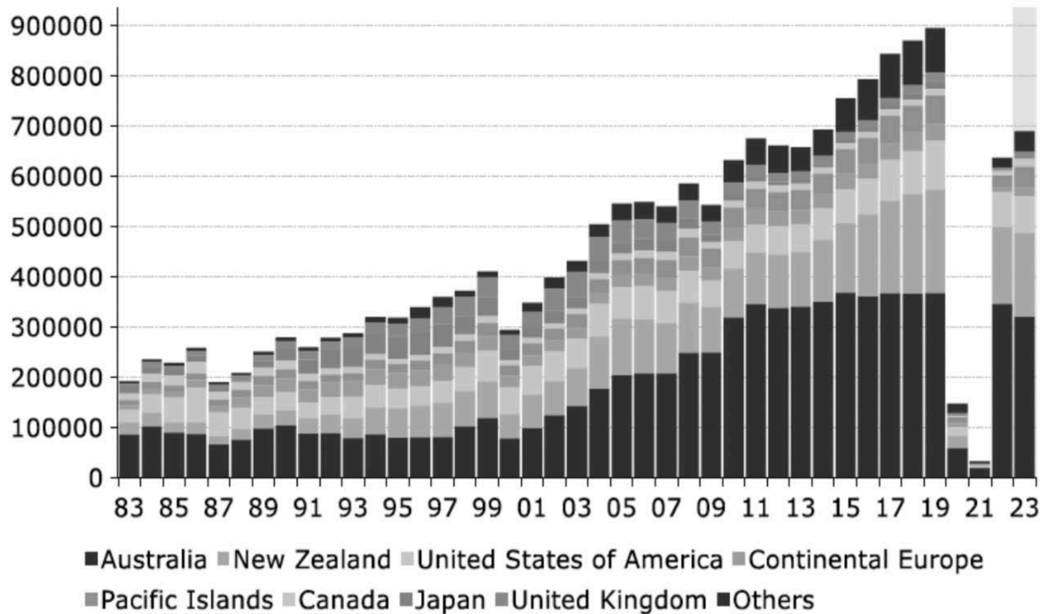
Services Exports

Fiji's large trade deficit is mitigated to some extent by its service exports. Nonetheless, it cannot cover the deep shortfall in merchandise trade, leaving the country with an ever-growing overall trade deficit. In 2022, the deficit in traded goods widened further due to reinvigorated demand for imports accompanied by elevated commodity prices.

To be clear, tourism (and its related sectors) is the largest contributor to GDP and foreign exchange earnings is the primary driver for the positive services trade balance. After collapsing from 2020-22 because of the pandemic and lockdown, the sector bounced back strongly in 2022 and 2023.

Figure 3-9: Fiji's Trade Balance—Goods and Services[31]

Figure 3-10: Visitor Arrivals by Country



Source: ANZ Research, "Fiji: Balancing the Economy," October 2023.

However, ANZ Research expects[32] Fiji to hit peak visitorship with a record total of 940,000 visitors in 2023.

Tourism is running at full tilt and with limited investment in hotel room inventory over the last decade, Fiji does not have much capacity to accommodate more visitors in the next few peak seasons. This will cap the upside to tourism's contribution to the economy until new capacity becomes available.

More importantly, the majority of visitors from key markets will cut back on discretionary spending, including overseas holidays, as interest rates and inflation remain sustained in their home economies. Savings and pent-up demand over Covid-19 lockdowns has been spent. In any event, the massive bump in the number of tourists arriving in 2022 and 2023 is unlikely to be repeated in 2024.

Structurally, tourism is also highly vulnerable to external and internal developments which limits the generation and sustainable growth of value add. The number of visitors dropped in 2000 due to the coup. It also fell between 2008-09 due to the global financial crisis. And 2020 and 2021 delivered the most dramatic boom-and-bust episode we have ever witnessed.

The vulnerability of tourism is exacerbated by concentration in origin markets (Australia, New Zealand), purpose of visit (75% for holiday, 3.9% for business in 2017) and tourist areas (concentrated in Viti Levu).[33]

Besides the direct vulnerability of tourism, various industries associated with it have suffered as well. All other sectors participating in tourism have lower than national average productivity, especially the wholesale and retail industry which has many micro enterprises and employs many people, but low productivity levels— only 49% of that of the services sector average. The low productivity level is due to the fact that there are many low value-added micro enterprises employing[34]

many people (eg retail shops selling clothes, arts and crafts items, and souvenirs) catering to tourists.

Another reason for the various industries' low productivity is the absence of strong linkages among the industries that are involved in tourism. For example, only 48% of fresh produce needed in hotels is supplied locally. Several studies have estimated that the extent of foreign exchange leakage (a measure of the amount spent to import goods and services to meet the needs of foreign visitors) is as much as 60%,[35] which curbs the multiplier effects that could be realised with higher value-added retention. From the view of the UN Conference on Trade and Development's (UNCTAD) (see Chapter 2), this limits the ability to raise the "rate of GDP growth consistent with external financial sustainability and in the process create additional space to adopt policies and programmes that support sustainable development."[36] The dominance of foreign investments and the inability of local providers to compete have resulted in low value-added capture.[37]

These trends call for bold industrial policies to ensure that domestic integration is just if not more important than international economic integration. In the case of Fiji, reliance on imports derived from booming exports of services, dilutes not only the potential boost in domestic demand, it also weakens what could be an even more favourable trade outcome if local goods and services took a larger portion of the tourism dollar. It also dampens the overall benefit of integrating into a global value chain in terms of balance of payments. From a policy perspective, this means that policymakers need to work with private sector actors along the value/supply chain and devise effective ways to harness backward and forward linkages, supporting local embeddedness, and enhancing value addition.[38]

According to the Asian Productivity Organisation's Fiji National Productivity Master Plan 2021-2036, it is only when such a cluster approach is taken that the economics of agglomeration be realised: raising the productivity of constituent industries, increasing the quantity and quality of locally sourced products and services, and reducing foreign exchange leakages.

It is beyond the scope of this paper to have the necessary discussion on how to raise the productive capacity of its key economic actors and sectors.[39] The purpose here is to reiterate the urgency of raising the productive capacity of the country and by doing so improve its trade performance, which in turn will lift the external constraints on growth that is aligned with debt and external sustainability. (See Chapter 2 on UNCTAD's Debt Sustainability Framework.)

Primary Income Account

Fiji's primary income account is also stubbornly negative reflecting the far greater claims by foreigners on their Fijian investments and assets than Fiji's claims against the rest of the world. Reinvested earnings paid abroad[40] have been getting larger year-on-year from 2014 to 2019, reflecting the increasing share of the economy by foreigners. While this trend was temporarily interrupted by the pandemic, it will likely resume given the sizeable non-resident ownership of Fijian assets and investments.

Figure 3-11: Primary Income Balance[41]

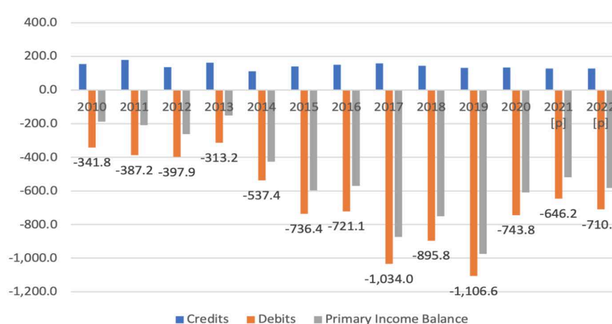
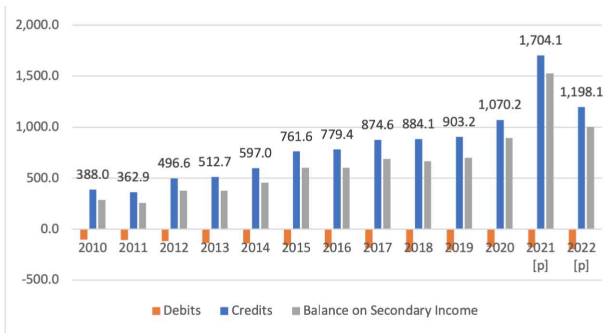


Figure 3-12: Secondary Income Balance[42]



Not Secondary At All

Personal remittances dominate Fiji's secondary income account reaching more than a billion (FJ$1.03bn) by 2022 about 9.3% of its economy.[43] In the period 2014-2019, before COVID, it constituted only about 5.25% on average.

Looking at figures below, remittances has been growing resolutely over the decades and accelerated over the COVID years playing a critical contribution in maintaining consumption and domestic demand.[44]

Remittances are a key source of national income and act as non-government social safety nets, helping to pay for schooling, food, housing and healthcare, and supporting families during emergencies. During the Covid-19 pandemic, remittances outperformed foreign direct investment and official development assistance (ODA) as a source of income.

The inflows from remittances also maintained foreign exchange reserves and were a lifeline to communities when regular income was disrupted.

They remain, however, private financial flows, typically used more for consumption than for investment. This results in challenges harnessing their full potential for investments related to sustainable development and structural transformation.[45] Furthermore, substantial labour outmigration, especially of skilled workers, can also be a drag on economic growth and dent long-term development prospects.[46]

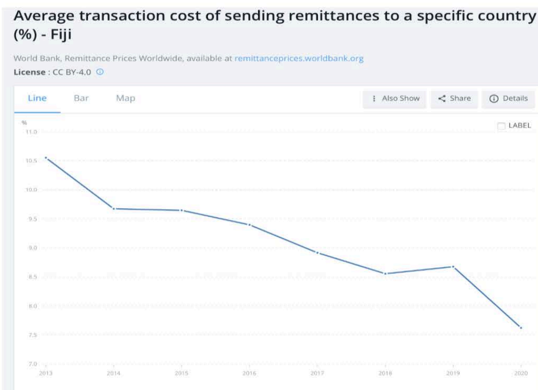
Remitting in the Pacific is also expensive, and while the cost of doing so has come down slowly for Fiji over the decade, it is still above the 5% per transaction target in the"G20 Plan to Facilitate Remittance Flows", and well above that of the UN's target of less than 3% by 2030. From 2009-22, the average remittance transaction cost for Fiji was 10.2%.[47]

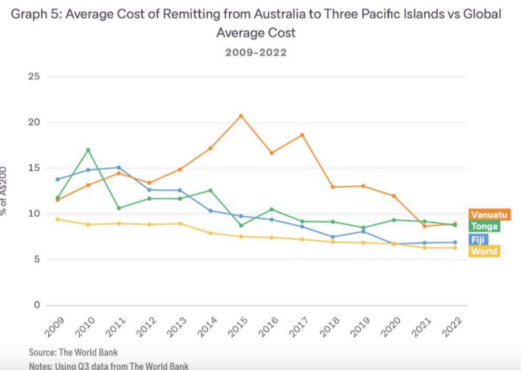
A lot more could be done, as outlined by Collins to reduce the costs of remitting especially by the countries from which they are coming from. Australia, New Zealand and the US account for 60% of these transfers.[48]

Figure 3-13: Personal Remittances in US$ and as a percentage of GDP

Source: World Bank, https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=FJ

Figure 3-14: Comparative Costs of Remittances to Fiji



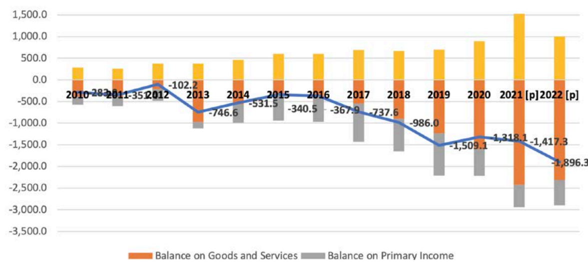


Sources: World Bank and J. Collins, "Reducing Remittances Costs in the Pacific Islands."

Adding Up To A Deficit

As can be observed in Figure 3-15, Fiji has started running significant current account deficits since 2013, amounting to FJ$746.6mn. While this narrowed from 2014-17, by 2018 it had picked up rapidly, and shot up to reach FJ$1.9bn. Needless to say Covid-19, played a big role in this, as the main service export of tourism came to a sudden stop.

Figure 3-15: Current Account Balance[49]



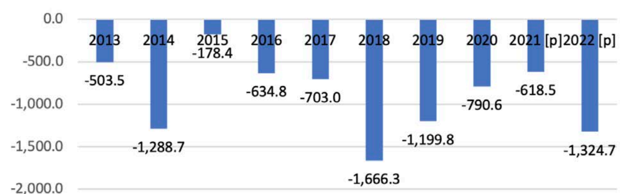
Between 2014-17, while the current account deficits were being trimmed, Fiji saw its high growth rate and best performing period in recent history. Exports were strong and the trade deficit was getting smaller, however investment income sent abroad to foreigners in the form of reinvested earnings also grew, leaving the current account in an overall deficit position.

All in all, given the yawning deficits in the trade and primary accounts, which cannot be wholly plugged by the sizeable inflows of remittances, Fiji inevitably runs a large and persistent current account deficit, which makes the country a net debtor and borrower vis-à-vis the rest of the world.

Neither a Lender Nor Net Borrower Be

This is reflected in the financial account of Fiji's balance of payment, which shows the extent the country has relied on external financing to sustain its current account deficits[50] (see Figure 3-16). The financial account balance showed an estimated net borrowing of FJ$1.32bn in 2022, of which FJ$256.4mn of foreign direct investment flowed in to purchase local "equity and investment fund shares" and FJ$989mn of external loans.[51]

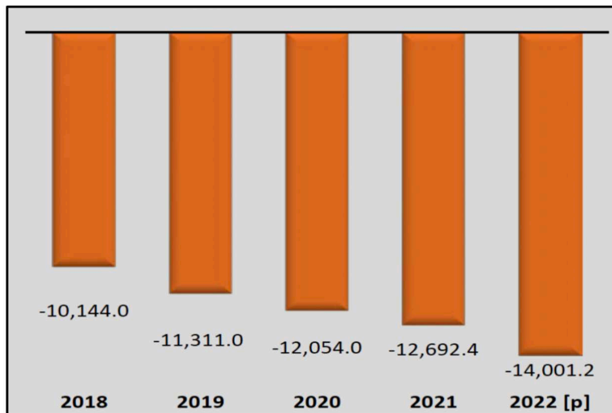
Figure 3-16: Financial Account—Net Lending (+) vs Borrowing (-) (F$, in mn)



Source: FBoS

This in turn is captured in Fiji's net international investment position, which has been in negative territory, hitting a whopping FJ$14bn in 2022—representing far greater foreign claims on Fiji than its claims on the rest of the world. (See Figure 3-17.)

Figure 3-17: Net International Investments Position (FJ$)



Source: FBoS, Release No: 20, 2023, International Investment Position Annual 2022. 31st March 2023, p. 1

This is due to the ever-increasing external financing, primarily in the form of foreign direct investment and loans relied upon by Fiji to pay for its chronic current account deficits. As a result, Fiji's international liabilities has been growing steadily over the decade and by the end of 2022 it was valued at FJ$19bn. The recent 9% increase from 2021 was driven by, as in previous years, direct investment and loans under other investments.[52] As it stands, it is now more than one and a half times larger than the size of the economy in 2022. (See Figure 3-18.)

External Debt: A Drag on Growth

The recent spike in international/external liabilities, jumping from 127% of GDP in 2019 to 178% in 2022, was driven more specifically by a significant rise in external official debt. As such, Fiji's total external debt, which includes both the public and private sectors, appears to have reached an all-time high of FJ$6.03bn in 2022, which is about 55.6% of its GDP.[53] The IMF projects that this will remain elevated at around 54% in the medium term.[54]

This has undermined the country's capacity to meet its external debt obligations according to measures used in such assessments. Fiji's external debt is now larger than its exports and will continue to be so in the foreseeable future, as shown in the external debt-to-exports ratio numbers in Figure 3-19. Similarly, debt servicing will also increase commensurately.

From this perspective, worsening export performance stemming from external or domestic reasons, higher interest rates, and a strengthening dollar would exacerbate its external debt sustainability.

Furthermore, Clements et al.[55] found in low-income countries, a threshold of 105% in their external debt stock-to-export ratio, beyond which lies a proven association with low growth.

Figure 3-18: Fiji's International Liabilities (F$, in mn)[56]

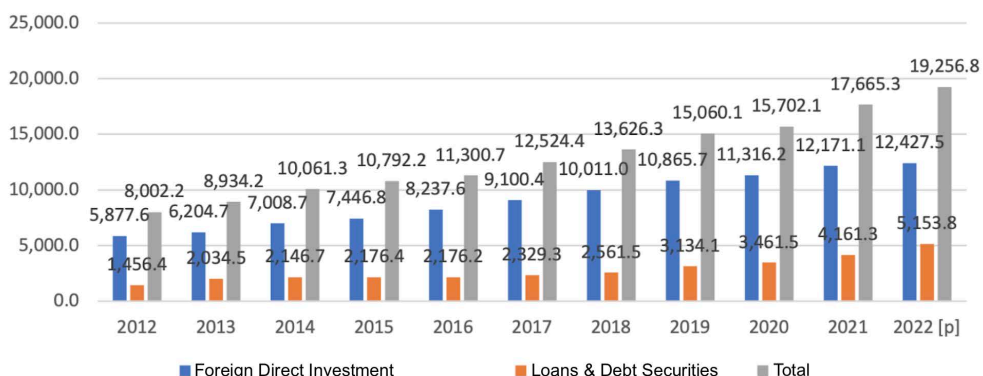


Figure 3-19: Selected Fiji's External Debt Sustainability Ratios , 2018-28 (in percentage of GDP unless otherwise indicated)

	Actual				Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline: External debt*	**27.0**	**31.4**	**43.3**	**52.5**	**55.6**	**54.2**	**54.3**	**54.6**	**54.5**	**54.1**	**53.9**
External debt-to-exports ratio (in percent)	56.6	65.3	157.1	192.1	114.4	108.0	108.8	108.8	107.9	107.3	107.1
External debt service-to-exports ratio (in percent)	20.7	20.0	64.7	45.4	27.2	30.9	28.6	28.6	28.5	28.7	28.8

Source: IMF, "Fiji's Article IV Consultation," June 2023, p. 45

While the recent increase in official public external debt may be more concessionary according to the IMF[57], the bulk of it, is not. According to Fiji's latest budget supplement, "29.2% of external [public] debt is concessional while the remaining 70.8% are non-concessional loans"[58] (see Chapter 2 for more information). Furthermore, they are also subject to variable interest rates, which will increase the level of debt interest payments in this current higher and longer interest rate environment. Public external debt is also overwhelmingly denominated in US dollars at 78%. As such, debt servicing will also increase as the US dollar strengthens and interest rates remain higher for longer.

According to Makun,[59] higher external debt has a more deleterious impact on growth than domestic debt in Fiji, "perhaps due to the fact the external debt is not only in foreign currency, which is usually in US dollar but also due to the exchange rate volatility." As a matter of fact, the author showed in his model that an upsurge in external debt has a more detrimental effect on growth than a similar size decrease in external debt. "Specifically, a 1 percent increase in debt levels has over eight times more adverse impact on growth than a similar magnitude effect of reducing debt," he noted. Additionally, he also found that when overall public debt levels in Fiji exceed 62% of GDP, it starts to become a drag on growth.

This is not to say that there is no role and room for public debt. In theory, when external borrowings are efficiently used to finance income-generating domestic investments and infrastructure developments to stimulate private sector participation, economic growth will be enhanced in the long run. The revenue base will also increase, which would improve the country's ability to service its debt obligations both domestic and external without crowding out private investment. On the other hand, when proceeds from borrowing are not productively invested, it would have an adverse effect on countries' economic growth.[60] Furthermore, the literature on debt and growth suggests that while borrowing can provide the funds for development, there seems to be a tipping point, beyond which it can backfire, leading to slower growth. The challenge for policymakers is to find that sweet spot where the benefits of borrowing outweigh the risks.

Conclusion

High external and public debt, persistent current account deficits and deepening international liabilities do not bode well for business confidence and point to an increasingly fragile economy that casts doubts about Fiji's credit worthiness and growth potential.

This exposes the country's already vulnerable economy to the real threat of numerous shocks, which will make recovery harder and undermine the low growth rate even further, leading to a loss of confidence in the country. The effect would be greater downward pressure on its currency, further labour out-migration, lower level of investment in the private sector, and more challenging access to credit.

The situation is at a critical juncture, where fostering robust economic growth is not just

an aspiration but an imperative. The data underscores a clear trajectory: enhancing exports and bolstering productivity stand out as viable levers to invigorate the economy and help contain the mounting debt challenge. However, realising these goals hinges on the ability to catalyse further productive investment. Fiji's policymakers are therefore tasked with a delicate balancing act—cultivating an environment conducive to economic expansion while navigating a sustainable path out of debt.

Some Policy Considerations

To enhance and improve its external financial sustainability, which can be achieved by ensuring that the growth in exports exceeds the average cost of net liabilities (including external debt), here are some broad policy options:

- A comprehensive industrial policy, including adequate incentives and investments to support the growth and productivity of various industries and particularly those that are able to enhance Fiji's export performance.
- Light manufacturing should be diversified niche high-value, non-commoditised products, e.g. premium sports and fashion apparel, and skincare products catering to the high-end segment of the market, which makes premium pricing possible.
- Conduct further research and study into diversification of manufacturing sub-sectors, to identify where the new growth opportunities are.
- Agricultural productivity must be stepped up to drive growth. Higher productivity will have to come from modernisation, diversification, and commercialisation of the sector.
- The entire sugar value chain, from farm to factory to market, needs to be scrutinised to pinpoint the areas where costs can be reduced; farming and milling methods modernised; large-scale commercialisation effected; and more value-add created.
- Seize the potential to expand production of other primary sector outputs for high-margin, niche markets, especially where Fiji has a competitive or comparative advantage.
- Maximise and prolong the benefits of tourism, which will involve expansion through diversifying the source of visitors and types of visits, and growing domestic and international linkages.
- Continuous skilling and re-skilling of the workforce is critical, especially to meet the needs of new industries that emerge in the course of restructuring.
- Remittances remain a critical input into the Fijian economy, however there are a number of key issues. Remittances need to be better utilised for productive purposes, and a balance needs to be struck with the impact of lost labour productivity and supply from out-migration. Reducing remittance cost remains a priority issue.
- Reduce the cost of net external liabilities, especially with regards to public external debt. See recommendations in Chapters 1 and 2.

ENDNOTES

1 OECD definition
2 For a comprehensive survey of various papers and studies on the relationship between debt and growth, see Jack Salmon, "The Impact of Public Debt on Economic Growth," Cato Journal, (Fall 2021).
3 Mehmet Caner, Thomas Grennes and Fritzi Koehler-Geib, "Finding the Tipping Point—When Sovereign Debt Turns Bad," Policy Research Working Paper 5391, World Bank Group, July 2010.
4 Ibid.
5 Various authors have taken different historic time periods to demonstrate the nature of Fiji's economic growth. This author has taken a narrower focus looking at growth trends over the last 13 years or so bearing in mind that 2020-23 are exceptional given the impact of Covid,while still having adequate data to observe patterns and trends. To provide context and explanation, earlier time periods and their interpretations by academics and economists have been included
6 Reserve Bank of Fiji, GDP data accessed in Nov2023. https://www.rbf.gov.fj/statistics/economic-and-financial-statistics/.
7 Reserve Bank of Fiji, GDP data accessed in Nov2023. https://www.rbf.gov.fj/statistics/economic-and-financial-statistics/
8 Ibid. See also Sunil Kumar and Biman C. Prasad, "Fiji's economic woes: a nation in search of development progress," Pacific Economic Bulletin 17, no 1. May 2002.
9 A. Haroon Akram-Lodhi and Ardeshir Sepehri, "Fiji's economy: the challenge of the future," supra, p. 78.
10 Sunil Kumar and Biman C. Prasad, "Fiji's economic woes: a nation in search of development progress,"supra, p. 4.
11 According to Kumar and Prasad, "Fiji's GDP growth rate over the past 31 years (1970-2001) has been very low.... equivalent to a 2.6%average annual growth rate for this period." When combined with more updated data, the average annual growth rate from 1970-2023, inched up to a still-low 2.9%. Looking at a more recent time period (2014-19), Gounder points out, "earlier hopes that a 'new normal' of GDP growth of around 5% per annum had been established have faded." "Fiji economic survey: Low growth the new normal?" by Neelesh Gounder, in Asia and the Pacific Policy Studies 7, August 8, 2020.
12 "It would appear, as observed by the Asian Development Bank when analysing its growth prospects in the early 2000s, that Fiji remains 'trapped on a low growth path'".
13 Kumar and Prasad, "Fiji's economic woes," supra. Gounder, "Fiji: Low Growth" supra.
14 Asian Development Bank (ADB), "Country Classification: Fiji," November 2021.
15 Created by author using FBoS data.
16 According to data from the UN Food and Agriculture Organization, Fiji's sugar yield, i.e., sugar produced per area of sugar cane harvested, was 413,299 hg/ha (4.13 tons/ha) in 2017. This was much lower compared with the world's top three sugar producers, Brazil at 744,818 hg/ha (74.4 tons/ha); India at 697,355 hg/ha (69.7 tons/ha); and PR China at 761,517 hg/ha (76.1 tons/ha).
17 FBoS, "Economic Survey Agriculture, Forestry and Fishing Industries 2020", November 2022, p. 18.
18 Created by author with data from FBoS
19 Asian Productivity Organisation, "Fiji National Productivity Master Plan 2021-2036", 2019, p. 31
20 With the EU—Fiji's key export market—implementing reforms to the sugar regime, preferential treatments have gradually been phased out. "In September 2017, the EU terminated the application of country-specific quotas for sugar exports from ACP (Africa, Caribbean and Pacific) countries. Fiji's declining share of the EU's sugar imports fell further to 1.6% in 2021." WTO, "Report by the Secretariat: Trade Policy Review, Fiji." WT/TPR/S/444, May 24, 2023, p. 55.
21 FBoS, "Economic Survey 2020", supra, p. 18.
22 P. Narayan and Biman C. Prasad, "Fiji's sugar, tourism and garment industries: a survey of performance, problems and potentials," Fijian Studies: A Journal of Contemporary Fiji, 2003.–
23 "Country: Fiji", Apparel Resources, accessed on 25 November 2023, http://apparelresources.com/country/fiji/
24 Narayan and Prasad, "Fiji's sugar, tourism and garment industries," supra.
25 WTO, "Report by the Secretariat: Trade Policy Review, Fiji." WT/TPR/S/444, May 24, 2023.
26 "The Atlas of Economic Complexity," Harvard Growth Lab.
27 APEC Policy Support Unit, "Overview of the SME Sector in the APEC Region: Key Issues on Market Access and Internationalization,"APEC Secretariat, April 2020. See also Michael T. Schaper, "The Missing (Small) Businesses of Southeast Asia," ISEAS Perspective 2020, no. 79 (July 22, 2020).
28 Asian Productivity Organisation, "Fiji National Productivity Master Plan 2021-2036," 2019.
29 Ministry of Agriculture and UN Food and Agriculture Organization, "2020 Fiji Agriculture Census Descriptive Analysis Report," 2020.
30 Created by author with data from "2020 Fiji Agriculture Census Descriptive Analysis Report".
31 Author's calculations with data from FBoS.
32 ANZ Research, "Fiji: Balancing the Economy," October 2023.

33 Asian Productivity Organisation, “Productivity Master Plan,” supra.
34 The dominant wholesale and retail industry, which has the highest contribution to GDP of 11.9% among the services industries but an even higher share of employment of 17.3%. See “Productivity Master Plan,” supra, p.40 and WTO’s “Trade Policy Review: Fiji” supra.
35 Asian Productivity Organisation, “Productivity Master Plan”, supra, p. 40
36 See Chapter 2 of this report.
37 Asian Productivity Organisation, “Productivity Master Plan,” supra
38 UNCTAD, “The Least Developed Countries Report 2019,” November 19, 2019.
39 Several policy options and useful recommendations can be found in “Productivity Master Plan” (supra) by the Asian Productivity Organisation.
40 FBoS, “Release No.25, 2023. Balance of Payments Statistics Annual 2022,” March 31, 2023, p. 7. According FBoS, “Compensation to Employees” abroad is a very small component of the primary income debits.
41 Author’s calculations.
42 Author’s calculations.
43 Author’s calculation based on statistics from “Balance of Payments 2022” by FBoS, supra, p. 7.
44 “Remittances have been Fiji’s largest foreign exchange earner: PM,” Xinhua, June 5, 2023, https://english.news.cn/20230605/44b832e1f04742c9804310b3696ca5b6/c.html
45 (UNCTAD, 2012)
46 Nonetheless, according to UNCTAD, remittances together with export performance can improve the country’s external financial sustainability. See UNCTAD, “Sustainable Development Finance Assessment (SDFA) Framework: Linking debt sustainability to the achievement of the 2030 Agenda.” November 2022.
47 Jessica Collins, “Reducing Remittance Costs In The Pacific Islands,” Lowy Institute, October 8, 2023.
48 Collins, “Reducing Remittance Costs,” supra.
49 Author’s calculations.
50 According to balance of payments accounting principles, current, capital and financial accounts should sum to zero. However there are gaps and omissions in the available data; as such,net borrowing figures under Fiji’s financial account have been used for the calculations.
51 FBoS, “Release No.78, 2023. Balance of Payments Statistics June Quarter 2023,” October 11, 2023, p. 8.
52 FBoS, “International Investments Position Annual 2022,” March 31, 2023.
53 There are multiple datasets for GDP and other macroeconomic figures, issued by Fijian authorities including FBoS, the Ministries of Economy and Finance, and RBF, as well as global bodies like the IMF and World Bank. They are not always the same although proximate, and estimates are made at times. The authors are explicit about the sources so that they can be cross referenced and verified easily when required. In this case, estimates provided by the IMF in its Article IV Consultation in June 2023 have been used. The authors are also reliant on IMF and World Bank data for external debt figures as only public external debt figures from the Fijian sources could be found, and not disaggregated and up-to-date figures for private external debt.
54 There are multiple datasets for GDP and other macroeconomic figures, issued by Fijian authorities including FBoS, the Ministries of Economy and Finance, and RBF, as well as global bodies like the IMF and World Bank. They are not always the same although proximate, and estimates are made at times. The authors are explicit about the sources so that they can be cross referenced and verified easily when required. In this case, estimates provided by the IMF in its Article IV Consultation in June 2023 have been used. The authors are also reliant on IMF and World Bank data for external debt figures as only public external debt figures from the Fijian sources could be found, and not disaggregated and up-to-date figures for private external debt.
55 B. J. Clements, R. Bhattacharya, and T. Q. Nguyen, ‘‘External debt, public investment, and growth in low-income countries,’’ IMF Working Paper 03/249, December 1, 2003.
56 Author calculations based on dataset from FBoS’s “International Investment Position Annual 2022.” Note that Foreign direct investment here is the same as equity and investment fund shares.
57 IMF, “Fiji Article IV Consultation,” supra, p. 33.
58 Ministry of Finance, “Economic and Fiscal Update Supplement to the 2023-2024 Budget Address,” June 30, 2023, p. 38.
59 Keshmeer Makun, “External debt and economic growth in Pacific Island countries: A linear and nonlinear analysis of Fiji Islands,” The Journal of Economic Asymmetries 23, (June 2021), p. 11.
60 M. A. A. Mohamed, “The Impact of External Debts on Economic Growth: An Empirical Assessment of Sudan: 1978-2001”, Eastern Africa Social Science Research Review 21, no. 2 (2005), pp. 53-66. See also S. Sen, K.M. Kasibhatla and D. B. Stewart, “Debt overhang and economic growth–the Asian and the Latin American experiences,” Economic Systems 31, no. 1 (2007), pp. 3-11.

CHAPTER 4: DEBT MANAGEMENT GOVERNANCE

In 2020, a public expenditure and financial accountability (PEFA)[1] 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.[2] 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,[3] 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.[4] 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[5] on auditing public debt by the INTOSAI[6] 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.[7] 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, sub-section 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.[8] 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.[9] 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[10] 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[11] 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)[12] and budget supplement.[13] 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.[14]

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.[15]

When it comes to the execution, Fiji's Debt Management Unit leads as the implementing agency of the MTDS.[16] The stated objectives are to minimise the cost of government debt and support the development of the domestic debt market.[17] 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,[18] 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,[19] 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.[20] 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.[21]

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 managementand[22] 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)[23] government debt stock and servicing[24] and contingent liabilities,[25] 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.[26]

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.[27]

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.[28] These debt management operations however must be approved by the minister and be consistent with the debt management strategy.[29]

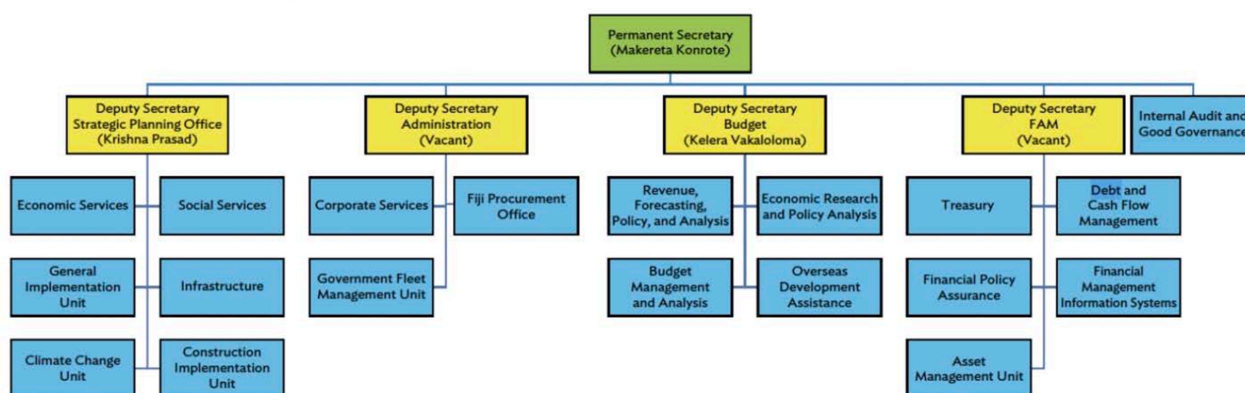
iv) The Auditor-General

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



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[30] 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.

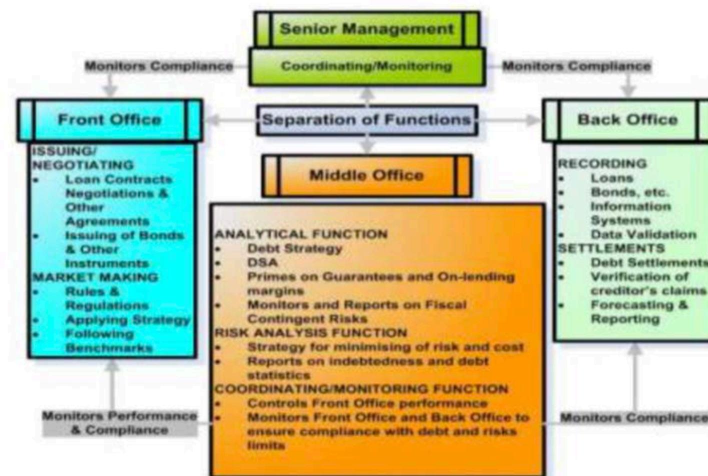
Figure 4-3: DMO Executive and Operational Roles and Functions

Executive Debt Management	→	**Direction and Organization**
Policy Function	→	Strategy
Regulatory Function	→	Structure
Resourcing Function	→	Staffing and Systems
Operational Debt Management	→	**Debt Dynamics and Practice**
Controlling/coordinating/monitoring	→	Control, coordinate and, monitor
BACK OFFICE		
Recording Function	→	Debt data and statistics
Operating/monitoring functions	→	Debt operations settlement and monitoring
MIDDLE OFFICE		
Analytical Function	→	Analysis and financial strategy
Risk analysis function	→	Minimise cost and risk
FRONT OFFICE		
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[31], 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.

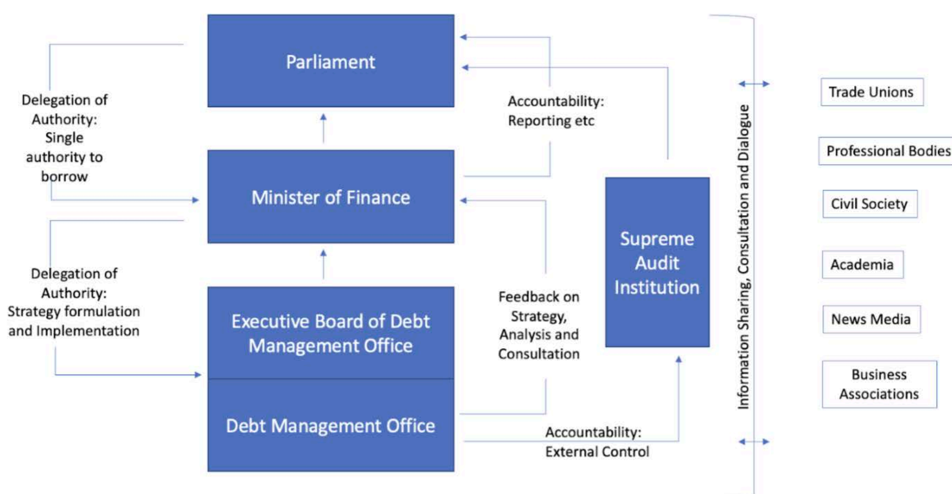
From a legal standpoint, affirming the active involvement of citizens in decision-making processes is crucial in promoting social cohesion and inclusivity. Transparency is closely linked to accountability, and without access to information, it is difficult to hold governments accountable for their borrowing 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.

CHAPTER 5: CLIMATE ACTION FINANCING AND DEBT SUSTAINABILITY

Fiji, like other debt-burdened developing countries, is at a crossroads between dealing with climate change, fiscal health and economic development. On the one hand, they face certain climate risks and the economic havoc they wreak. Not attending adequately to these risks places Fiji in a vicious circle in which greater climate vulnerability raises the cost of debt— especially if it chooses to borrow from the markets—and diminishes the fiscal space for investment in climate resilience.

As financial markets increasingly price in climate risks and global warming accelerates, the risk premia of countries such as Fiji, if it does nothing, is likely to increase even further. On the other hand, the country is already deep in debt, and greatly expanding borrowings for climate action could risk the health of public finances further, bringing with it all the potential ramifications highlighted in the earlier chapters.

Fiji is no stranger to the devastations of climate change, which have upended and continue to threaten all aspects of life on the island, from the environment to the economy to her cultures and traditions. The country's critical infrastructure such as electricity and water stations, hospitals and schools are frequently damaged by extreme weather events. Its vital ecosystems and natural resources, including its coral reefs, coasts and catchments, on which key sectors of its economy depend, are facing further loss and degradation. As pointedly underscored by the government, "climate change is the single greatest threat to the country's national security."[1]

To enhance its capacity to withstand these climate hazards, Fiji conducted a vulnerability assessment in 2017 which led to the identification of 125 interventions, such as preserving key ecosystems, risk-informed land use and climate proofing its infrastructure.

Counting the Costs

These interventions do not come cheap. According to the government's climate vulnerability assessment,[2] FJ$9.3bn (almost the entirety of Fiji's GDP) of investments, plus another FJ$220-500mn of recurring operational and maintenance costs will be required over the next 10 years[3] in order to build up Fiji's resilience against climate change and natural hazards.

Figure 5-1: Costs of Strengthening Fiji's Climate Resilience By Sector

Summary of identified sectoral needs over the next 10 years to strengthen resilience of Fiji

	INVESTMENT NEEDS (F$ million)			RECURRENT COSTS (F$ million)		
Sector	**Planned**	**New**	**Total**	**Planned**	**New**	**Total**
Housing/land use	63	152	215			
Hazard Management	n.a.	2,106	2,106			
Transport	3,098	1,591	4,689			
Energy	271	175	446			
Water	685	447	1,132		175-440	
Health/education	5	568	573			
Environment	55	22	77			
Agriculture	11	3	14			
Fisheries	6	14	20			
Social Protection				47	4	51
GRAND TOTAL	**4,194**	**5,078**	**9,272**			**226-491**

Source: Climate Vulnerability Assessment: Making Fiji Climate Resilient, p.27.

The report noted: "The proposed investments amount to approximately FJ$900mn per year for the short term and FJ$954mn per year for the medium term.[4] The highest yearly investments are required for, inter alia, the transport sector (FJ$469mn, which is 92% of the 2017 transport sector budget), water sector (FJ$113mn, about 49% of the water sector budget), and health/education sectors (FJ$57mn)."[5]

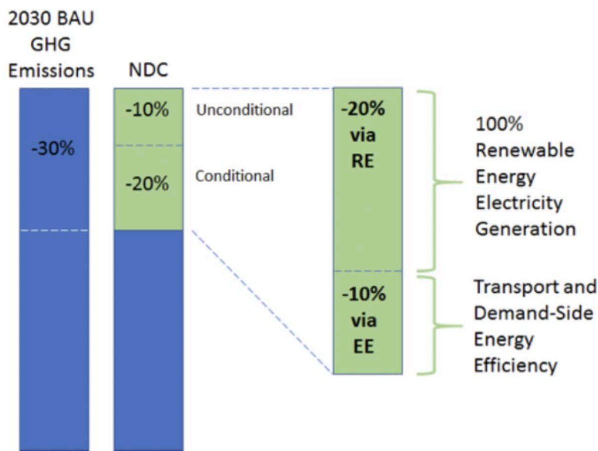
Figure 5-1 shows the substantial financial commitment needed to effectively address the impacts of climate change in Fiji, spanning various critical sectors.

More Money Needed

Aside from its adaptation plans, Fiji has also embraced ambitious climate mitigation targets and goals. According to its National Climate Change Policy (NCCP),[6] Fiji aspires to achieve net zero annual GHG emissions by 2050. In line with this objective, 100% of national electricity production should be derived from renewable energy sources by 2030, its transport sector de-carbonised, and its natural carbon sinks and reservoirs enhanced.

These mitigation targets were reiterated and additional indicators developed in Fiji's updated Nationally Determined Contribution (NDC) 2020 document, which was submitted to the UN Framework Convention on Climate Change (UNFCCC) secretariat. To make progress toward net zero emissions by 2050, it will reduce by 30% the business-as-usual (BAU) CO_2 emissions from the energy sector by 2030. This is to be achieved by reaching close to 100% renewable energy power generation by 2030,[7] which will account for two-thirds of the 30% target. The remaining third will be met by energy efficiency improvements across other sectors of the economy, including the transport, industry and demand-side sub sectors, among them the reduction of domestic maritime shipping emissions by 40%. (See Figure 5-2.)

Figure 5-2: Fiji's NDC Emission Reduction Targets



Source: Fiji NDC Implementation Roadmap 2017-2030. p.14

In terms of financing, the previous government stated that of the 30% reduction in BAU baseline CO2 emissions,[8] 10% will be achieved unconditionally using existing resources, while the remaining 20% will be realised "conditionally", meaning that external financing will be required.[9]

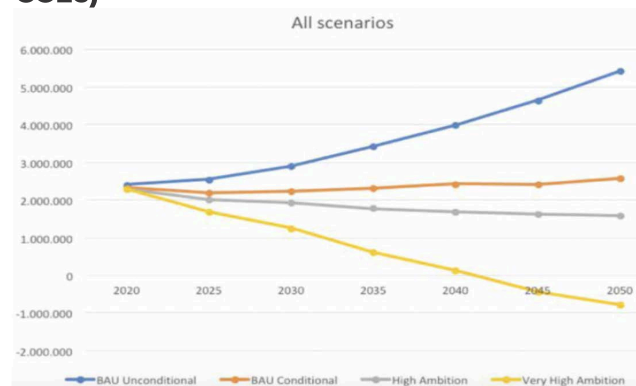
Concretely, to get to the 2030 mitigation targets alone will cost Fiji US$2.9bn, according to government estimates.[10] Needless to say, "this is an exorbitant financial challenge compounded by competing adaptation and disaster risk challenges... all of which are exacerbated by the Covid-19 economic crisis"[11] and its aftermath on fiscal and debt sustainability.

Achieving the far more ambitious economy-wide net zero emissions by 2050 as espoused in Fiji's NCCP, will invariably cost even more. The pathways to arrive at net zero have been mapped out earlier in Fiji's Low Emission Development Strategy (LEDS) issued in 2018.[12] The strategy estimates Fiji's emissions would more than double under the BAU "unconditional" scenario, drop by 31% under the "high ambition" scenario, and will only reach net negative emissions under the "very high ambition" scenario.[13] (See Figure 5-3.)

In the most ambitious scenario under LEDS, Fiji reaches net zero emissions by 2041. This would be achieved through a complete transformation of Fiji's energy sector into one based on a wide variety of on-grid and off-grid renewable energy generation. Specific policy actions include capacity building for renewable energy and smart grid technology; complete transition of Fiji's land transport system to hybrid-electric and electric vehicles; full methane capture and utilisation for organic waste reduction and recycling programmes; and extensive afforestation measures to offset the increase in emissions caused by population and economic growth.

Getting to net zero emissions by 2050 will entail significant financial resources, including massively tapping on external and international sources of funds. According to LEDS estimates, to get to an electric vehicles penetration rate of 70-100% under the "high ambition" and "very high ambition" scenarios will cost the country approximately between US$5.2bn-7.3bn.[14] The mitigation action of replacing its domestic fleet of aircrafts with more efficient ones will cost between US$500mn-600mn.[15] As for adopting renewable energy sources such as solar with storage, biomass, geothermal, hydro and wind installations, the costs are USD$4.3bn to US$13.1bn, based on the two more ambitious

Figure 5-3: Total Net Emissions for Fiji under four LEDS Scenarios (in metric tonnes CO2e)



Source: Fiji Low Emission Development Strategy (LEDS) 2018-2050. p.5 t Emissions for Fiji under four LEDS Scenarios (in metric tonnes CO2e).png

scenarios.[16] Yet another mitigation action of reducing emissions from deforestation by 80% (under the "very high ambition" pathway) is projected to lead to an income loss of US$48m.[17] This could cost the country even more as this will also have a direct impact on Fiji's trade performance. Wood and wood fuel make up the second largest category of exports at 8.9% of the total, valued at US$95.7mn in 2021.[18] To be clear, the LEDS cost estimates are cumulative, over a range of implementation timeframes from 2018 to 2050.

Implications for Debt Sustainability

Clearly the combined bill for both climate mitigation and adaptation actions is eye watering, threatening to strain public finances even further. Given the lack of fiscal space as pointed out by the current government and the unprecedented debt burden, climate action spending and investments can pose a real risk to debt sustainability.

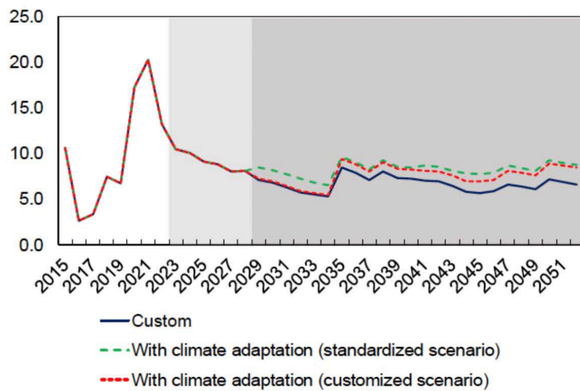
Figures 5-4 and 5-5 are IMF simulations of Fiji's long-term debt sustainability, and are not well articulated and explained in its Article IV consultation report for the country. They do not appear to be about the effects of climate disasters but rather, the financial and debt implications of heightened public spending on mitigation and adaptation measures. It is also not clear which cost estimates the IMF used for its climate spending projections to derive the government gross financing needs and consequent relationship to public debt.

Nonetheless, it is illustratively useful as they clearly show that the very steep cost estimates

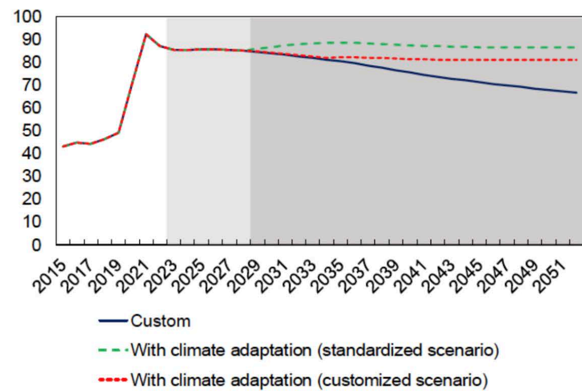
Figure 5-4: Fiji's Long-Term Debt Sustainability With Climate Change Adaptation

Climate Change: Adaptation

GFN-to-GDP ratio



Total public debt-to-GDP ratio

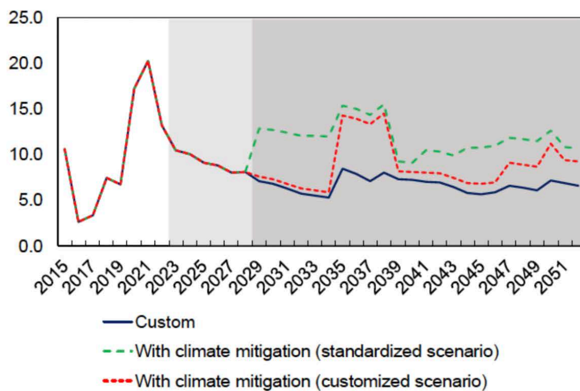


Source: IMF, "Republic of Fiji: 2023 Article IV Consultation," p. 43

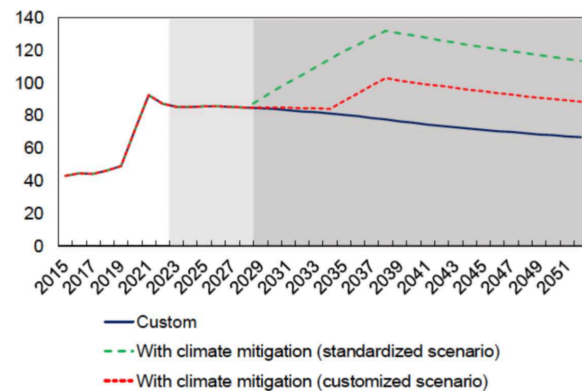
Figure 5-5: Fiji's Long-Term Debt Sustainability With Climate Change Mitigation

Climate Change: Mitigation

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Source: IMF "Republic of Fiji: 2023 Article IV Consultation," p. 43

outlined by the various climate policy papers and strategies mentioned earlier, will invariably lead to a far higher debt-to-GDP ratio than the elevated levels today, making it technically unsustainable as it trends significantly higher over time.

Need For a Climate Finance Strategy

From a debt sustainability and management standpoint, it is critical that these climate actions are assessed on how it might add to the debt burden and further strain public coffers. The need for prioritisation and sequencing of actions is now even more pressing given the current state of its public finances. While some groundwork has gone into evaluating how these proposed measures could tangibly reduce and avert the costs of climate disasters, more country specific data and analyses will be needed in justifying and prioritising new investments and asset maintenance for climate action.

As the government noted in its National Adaptation Plan (NAP) in 2018, "there is a need to produce a comprehensive financing strategy…The requirement is for the financial plan to be specific to Fiji…such as highlighting which financial mechanisms exist under the UNFCCC and which can be used to finance NAP processes. This strategy should estimate the total cost of actions in the NAP process to an acceptable level, and….It should provide insight into how these costs will be borne across time and which are likely to be on-going costs."[19]

Belying its rubric, Fiji's National Climate Finance Strategy,[20] intended as a blueprint to Fiji meeting its net zero emission 2050 goals, missed an opportunity to address this central question on how climate actions should be optimally financed, and for developing a framework to prioritise these enumerated actions to deliver the most bang for the buck.

A country's climate finance strategy should in the prioritisation process[21] take on board the economic considerations of these climate actions. It is essential to integrate a "development case" approach to discern which climate actions are financially viable and economically impactful. At the same time, it should account for the economic repercussions of inaction—the costs that accrue when these vital measures are deferred or ignored. Furthermore, there is a need to strike a balance between investing in climate adaptation and mitigation vis-à-vis other policy priorities, such as fiscal and debt sustainability, when operationalising these climate action plans. The climate finance strategy, apart from identifying the most appropriate sources of financing, should also consider the fiscal tools and financial incentives that can be employed to meet these costs over the long term.

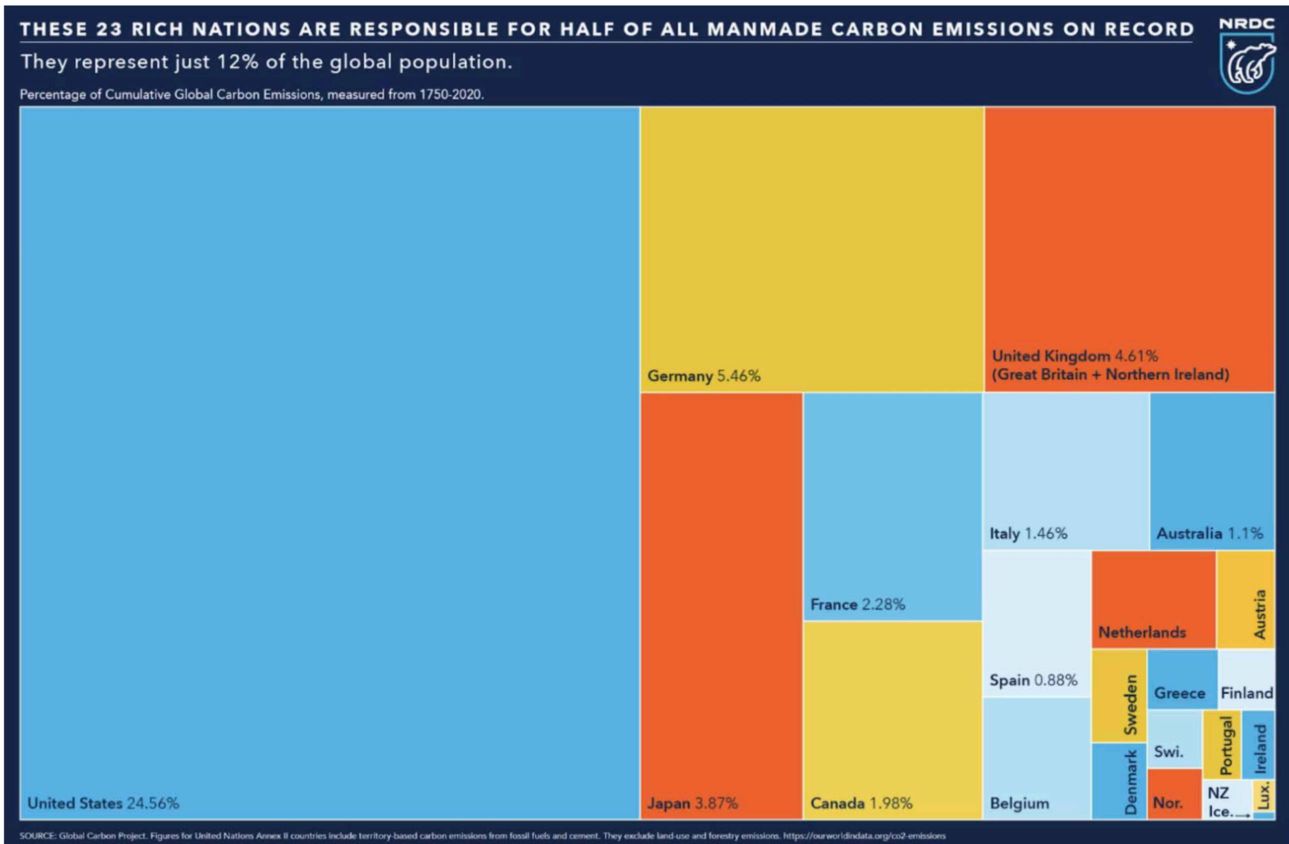
Understanding the full economic impact of these actions, including the implications for development, fiscal health, and debt sustainability, is crucial for informed decision-making in climate action planning.

Given the profound economic and financial costs of climate action, a centrepiece of the climate finance strategy should be greater advocacy for more non-debt creating grants and highly concessional funding, to be made available especially to Small Island Development States (SIDS) on the bases of equity, international cooperation and the realisation of globally agreed sustainable development goals (SDGs).

Who Pays?

Fiji's desired leadership in climate action is laudable. As chair of COP23, Fiji has sought to galvanise the rest of the world through its own exemplary actions. This is despite the fact that Fiji like most SIDS have done virtually nothing in precipitating and contributing to anthropogenic climate change, responsible for no more than 0.006%[22] of global greenhouse gas (GHG) emissions. Yet, it will be in the frontline of suffering the worst consequences of rising temperatures.

Figure 5-6: Wealthy Nations' Share of Global Carbon Emissions



Source: Rich, Polluting Nations Still Owe the Developing World

On the other hand, wealthy, developed countries, particularly the US and western European nations, have emitted the lion's share of greenhouse gases that led to the climate crisis (see Figure 5-6). In fact, just 23 developed countries are responsible for half of all historic CO2 emissions.[23]

Even today, the world's richest 10%—which includes much of the developed countries' middle classes—continue to account for 50% of emissions. The biggest dent to emissions therefore could be easily made by reducing their consumption substantially and quickly.

Figure 5-7: Global Income Groups and Associated Emissions

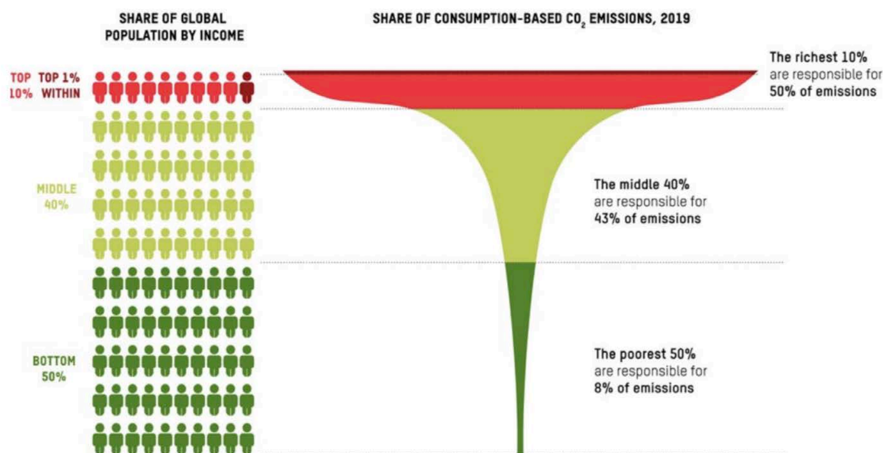


Figure 1.1 Global income groups and associated consumption emissions in 2019. Source: Oxfam and SEI.

Source: Oxfam International, "Climate Equality: A Planet for the 99%," p. 8

Climate Justice and Equity

Many developing countries face the uphill tasks of fulfilling the basic economic and social necessities of their citizens and managing the dire impacts of climate change. These countries, due to limited resources, will find it difficult to transition from a fossil fuel-dependent framework to more sustainable alternatives. It is not just a matter of capability but of justice that developed nations, which have historically contributed the most to this crisis, step up. They have a clear responsibility to financially support those who are now bearing the brunt of climate change.

This duty is not just moral; it is a commitment made under international agreements like the UNFCCC and the Paris Agreement, which endorse the principle of "common but differentiated responsibilities and respective capabilities" of individual countries when it comes to addressing climate change.

Despite this, there is a persistent shortfall in both the ambition and political determination among developed nations to settle their "climate debt" and to honour their pledged climate finance commitments.

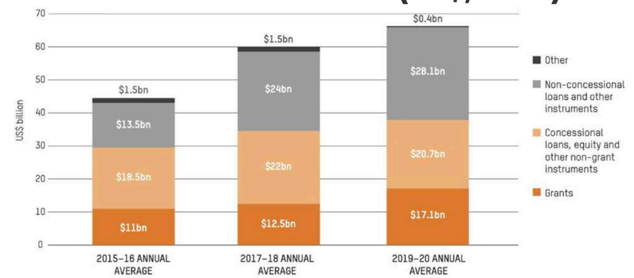
In 2009, wealthy developed countries committed to collectively mobilise US$100bn a year by 2020 to help developing countries cut their emissions and adapt to climate impacts. But they have so far failed to respect that pledge. In 2020 rich nations reportedly mobilised US$83.3bn of climate finance, according to contested data published in 2022 by the OECD.[24] Oxfam, in its Climate Finance Shadow Report 2023, reported that the real value of rich countries' climate finance in 2020 was just US$24.5bn.[25] The official inflated figure of US$83bn was reached by overstating climate benefits and taking loans at their face value, according to the Oxfam report.

Unless much more non-debt creating finance is made available to climate-vulnerable developing countries, they will be forced to rely on expensive, unsustainable loans to finance their response.

And this they have done: taking on more loans and borrowings for climate actions. For some of the regions and countries most affected by the climate crisis and least able to finance their own needs, the proportion of loans is particularly concerning.

Oxfam's Climate Finance Shadow Report found that just about 17% of reported public climate finance was provided as grants, about a third as concessional loans, and a "staggering" 42% as commercial, non-concessional loans that heighten the risk of debt distress in recipient countries. Over half of all climate finance allocated to least developed countries (LDCs) were provided as loans; for SIDS, this figure is more than one third.

Figure 5-8: Instrument Split of Public Climate Finance in 2016-20 (US$, in bn)

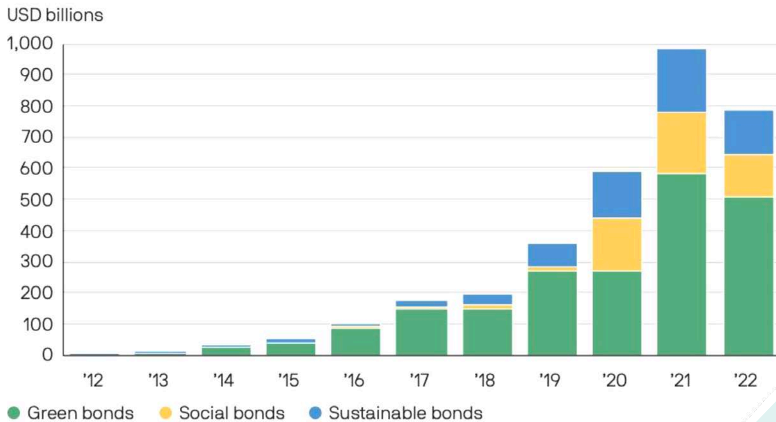


Source: Oxfam, "Climate Finance Shadow Report 2023," p.17

However, many countries are already over-indebted and may not be able to take on any more loans. The debt crisis must be resolved to meet the climate challenge, and a larger share of climate finance should be disbursed as grants. To make matters worse, countries with higher climate risks, particularly low-income states and SIDS, are paying higher rates of interest to access finance.

This is not helped by the push to get developing countries to issue more green bonds or other climate related bonds. Such instruments have been touted as "one of the most important financial breakthroughs in the domain of sustainable finance during the last 15 years".[26]

Figure 5-9: Global Sustainable, Social and Green Bond Issuance



Source: Vincent Juvyns, "Green bonds: Is doing good compatible with doing well in fixed income?", JPMorgan Asset Management. Feb 2023, p. 1

Supporters point to the growing demand and market for such bonds by investors (Figure 5-9) and see an opportunity for developing countries to tap capital markets for financing their climate goals and objectives.

Green Bonds

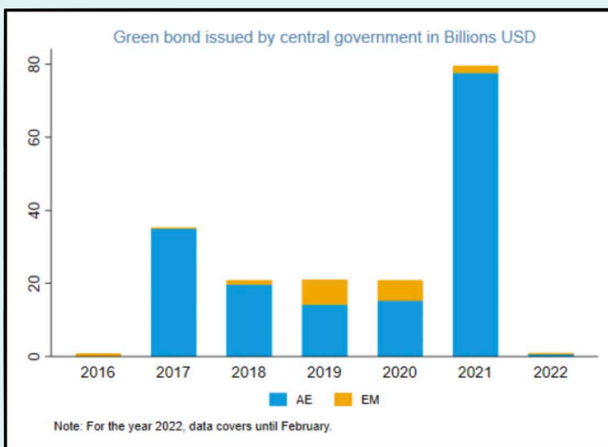
While the first green bond was issued in 2007, it only really took off in the last couple of years. However, sovereign issuances, especially those by developing countries, is only a sliver of the whole green bond market. In this regard, Fiji is exceptional by being the first developing country to have issued a green bond in 2017.

Nonetheless, this sovereign green bond market remains dominated by developed countries issuers. (See Figure 5-10.)

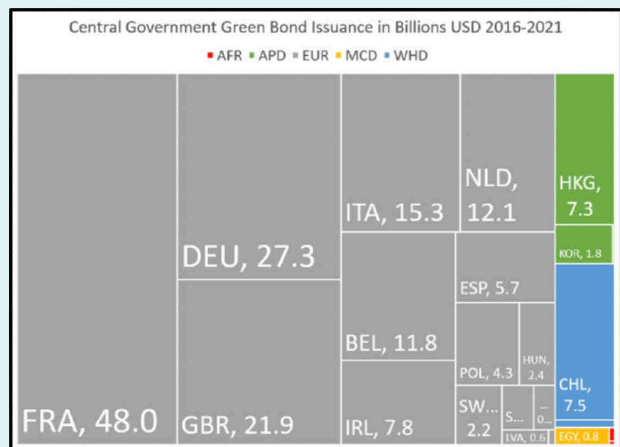
Geographically, the cumulative issuance from 2016-21 is mostly concentrated in European countries (US$161bn), followed by Asia Pacific countries (US$9bn), western hemisphere countries (US$8bn), the Middle East and Central Asian countries (less than US$1bn), and African countries (less than US$1bn). France has issued nearly US$48bn for green projects and is the largest issuer as of February 2022.[27]

Figure 5-10: Green Bonds Issued by Central Government (US$, in bn)

1. Across years



2. Cumulative from 2016-2021



Source: IMF Staff Climate Note 2022/004, p. 4.

“Greenium” and The Costs of Green Bonds

One of the reasons for the enthusiasm around green bonds is their supposed price premium, or “greeniums”; in other words, issuers are able to borrow at a lower cost of capital when compared to a non-green bond. Green bonds are often structured similarly to traditional “plain vanilla” bonds, but with a “use of proceeds” clause stating that the funds would be utilised for green investments. In theory, it is assumed that investors are willing to pay a higher price for green bonds out of concern for the environment.

First, the literature on sovereign green bond greenium is limited. And based on the limited research, the empirical evidence for greenium appears to be ambivalent at best. A study showed that the greenium is negative in the primary market but slightly positive (0.5 basis points or bps) in the secondary market.[28] The IMF found that the greenium of five- and 10-year European sovereign green bonds are marginal, at around 3 to 5 bps.[29]

In short there is no discernible difference in pricing between a green and regular bond as concluded by other studies.[30] That said, one research paper found a “number of studies in favour of the existence of a small greenium, especially for green bonds that are government issued, investment grade, and follow defined green bond governance and reporting procedures.”[31]

Nonetheless, in a study on US municipal green bonds, researchers concluded that not only was the greenium not accrued as promised, the cost of such issuance could even be more expensive than regular bonds. Not least because investment banks tend to charge slightly more when they help to issue green bonds, as they may be more challenging to underwrite compared to conventional “vanilla” bonds. The researchers found that “borrowing costs are on average approximately 10% higher for green securities than almost identical non-green securities. The combination of equivalent yield and higher transaction costs is not consistent with the existence of greenium.”[32]

Green bonds also require more disclosure and tracking for the use of proceeds. For example, if a green bond issuer wants certification from the Climate Bonds Initiative (an outfit promoting financing for climate action), it needs documentation to show that it meets the Climate Bonds Standard and engagement with verifiers is needed. For the sovereign issuer this means orchestrating a whole range of government departments and bureaucracies. They also have to connect every dollar raised from the debt capital markets with the sustainability impact promised in the bond contract. And they have to pay third-party auditors and assurers to verify that the funds raised have been used for its climate purposes. While this leads to greater transparency and accountability, it also means more public money and resources will also have to be expended, on top of the debt servicing.

Finally there is also the cost of reputational damage to the sovereign issuer if the green project financed by the green bonds fails or is perceived as greenwashing (falsely claiming that the financed investment is green). This could also end up affecting its sovereign credit risk rating.

Therefore, from an issuer's point of view, a greenium is almost a necessity to offset the inherently more costly green bond issuance, and ensure compliance with the need for external review, regular reporting and impact assessments.

At the same time, insofar that some European issuers have enjoyed some greenium in the past, they are now complaining that it has now all but disappeared.[33] European public debt managers are now questioning the logic of issuing more green bonds, given their inherent costs and investors' increasing reluctance to pay a higher price for them.[34]

Ironically, the recent growth in the green bond markets itself may be responsible for driving down its initial greenium. With an expanded pipeline of public and private green bonds, they are no longer the novelty they once were, and investors are able to choose among those which are more competitively priced.[35]

Finally the sovereign green bond will also contain all the attendant risks and costs of a traditional bond such as:

- Foreign currency risks when these bonds are not issued in local currency and largely held by non-residents.
- High costs of borrowing especially for an emerging market with an unfavourable credit risk rating and under the current climate of high interest rates.
- Making the sovereign debt restructuring process much more complicated and expensive in the event of a default.
- Added constraint on macroeconomic policy space as sovereign issuers have to be more mindful of market sentiment and perceptions.

Fiji's Sustainable Bond Framework

The Fijian government published a sustainable bond framework[36] to demonstrate how it intends to select, finance and/or refinance "eligible projects" that will deliver focused environmental and social benefits in alignment with the UNSDGs, as well as the plethora of national climate action plans outlined above. The Fijian Sustainable Bond Framework is designed to align with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines published by the International Capital Market Association (ICMA).[37]

In particular, the current iteration of Fiji's framework will support blue, green, social, sustainability and SDG bond issuances, depending on how the proceeds will be exclusively used to finance or refinance expenditures into these thematic areas. The exact classification of the bonds into the various thematic areas (green, blue, social, sustainability or SDG) will be determined by the Fijian government based on its primary objectives for the underlying projects. The government has up to two years after the issuance of a bond to fully allocate proceeds from that bond.

More generally, while there seems to be strong demand for climate-friendly bonds from investors—especially those with an ESG (environmental, social and governance) focus—there is little evidence of a significant price advantage for green bonds, as their pricing still largely reflects credit risk and liquidity.[38]

Fiji's Green and Blue Bonds

In October 2017, the Fijian government issued[39] a FJ$100mn (roughly US$50mn) Sovereign Green Bond. The World Bank's International Finance Corporation (IFC) provided technical assistance to the government in issuing the bond. Proceeds from the bond were earmarked for several "climate friendly" projects in the areas of renewable energy and

Figure 5-11: Summary of Fiji Sovereign Green Bond Issuance

Fiji Green Bond Issue No.	Tender Start Date	Tender End Date	Settlement Date	Total Amount Offered	Maturity Date		Total Bids Submitted		Total Successful Bids	
					5-year	13-year	5-year	13-year	5-year	13-year
2017-2018/1	25-Oct-17	31-Oct-17	1-Nov-17	40 million	1-Nov-22	1-Nov-30	60.10 million	27.61 million	20 million	20 million
2017-2018/1 R	26-Dec-17	27-Dec-17	28-Dec-17	20 million		1-Nov-30		31.50 million		20 million
2017-2018/1 R1	18-Jun-18	19-Jun-18	20-Jun-18	20 million		1-Nov-30		26.62 million		26.62 million
2017-2018/1 R2	16-Jul-18	17-Jul-18	18-Jul-18	13 million		1-Nov-30		16.60 million		13.38 million

Source: Fiji Sovereign Green Bond Impact Report 2018, p.6

energy efficiency, clean and resilient transport, and air pollution reduction, among others.

The bond was broken-down into two instruments, a five-year and 13-year tenure (both of which were sold at par), which pay coupons of 4% and 6.3% respectively. In this regard, there appears to be little difference from the interests paid on regular bonds of similar durations issued by the government in 2017. (See Chapter 2.)

At the same time, the government had to engage the services of external auditor and assurer to verify that the proceeds will indeed and have been channelled to realise the stated purpose of the green bonds.[40] As part of the process, Fiji also committed to annual reporting on the use of the bond's proceeds on green qualifying projects.[41]

More recently under the new government, Fiji issued its first blue bond to raise funds from the international capital market for its climate adaptation actions.

According to a government concept note: "Fiji's first sovereign Blue Bond will be issued on 8 November 2023. Referred to as the Fiji Sovereign Blue Bond ('FSBB'), the FSBB has been structured with funding support from the Government of United Kingdom's Blue Planet Fund and technical support from the United Nations Development Programme (UNDP) in collaboration with the United Capital Development Fund (UNCDF)."

It goes on to say that: "The 2023-2024 FSBB will focus on raising capital market finance to support projects in four priority sectors ranging from 'Coastal Protection', 'Sustainable Fisheries', 'Sustainable Towns and Cities', and 'Sustainable Waste Management', across 18 different projects. The selected projects have been carefully selected after comprehensive feasibility studies and are expected to yield multi-layered socio-economic benefits." The terms of Fiji's two notes can be found in Figure 5-12.

Figure 5-12: Terms of Fiji's Blue Bonds

ISIN	FJ1305037426	FJ1305037434
Tenor	3 Years	15 Years
Amount	$5,000,000	$15,000,000
Maturity	8-November-26	8-November-38
Interest Payments	8 May & 8 November in each year until maturity	
Coupon Rate	Fixed at 1.00%	Fixed at 4.20%

Source: Fiji Sovereign Blue Bond, Notice of Issuance

The coupon rates offered for the three- and 15-year blue bonds are hardly any different from that of the regular bonds offered domestically for similar tenors.[42] The bottom line is that these green and blue bonds[43] are not the least concessional, provide no materially significant (if any) greenium, and are far more onerous for the government in terms of managing the use of proceeds.

Conclusion

Given the intricate challenges presented in implementing climate initiatives and their broad implications, the government must formulate a robust climate finance strategy. This strategy needs to thoroughly evaluate all possible funding sources and financial mechanisms, carefully prioritising climate actions that align with the nation's development, climate resilience, and fiscal goals. Such a strategic framework is crucial to ensure that climate-related investments reinforce the nation's broader economic and environmental objectives.

In this regard, Fiji's climate finance strategy should include (and is not limited) to the following considerations:

- Identify the greatest existential and economic threat to Fiji and its people posed by climate change. Prioritise climate actions that will have the greatest impact on minimising known existential and economic impact, and managing known climate hazards and risks, so as to right-size and stagger the amount of financing required.

- In this respect, well-chosen climate adaptation investments, by having a positive impact on growth, or by preventing growth from being derailed by climate change, can potentially help an economy outgrow its debt, advancing not just climate resilience but also debt sustainability in the longer run.

- Sequence the implementation of climate actions and interventions and in the process iterate and refine the efficacy of these interventions so that its financing can be better managed and deliver more bang for the buck.

- Conduct a cost-benefit analysis for each of these climate actions that takes into explicit consideration its impact on economic growth and development, and fiscal and debt sustainability.

- Conduct a comprehensive survey of all financing sources for its climate actions and objectives, and weigh the pros and cons of each. It should also consider fiscal tools and incentives that can be employed to meet these costs over the long term.

- Continue to advocate for developed countries to live up to their responsibilities and international commitments to provide the necessary financing, in the form of grants, official development assistance, and highly concessional loans for climate action.

- Borrowing at market rates (in the form of commercial loans or bond issuances) should be subject to stringent scrutiny, especially by the government's debt management office and other relevant agencies, given how such borrowings deteriorates the public debt profile and dynamics—they tend to be expensive, denominated in foreign currencies, and impose costly penalties in the event of defaults. Thus, the benefits of climate actions funded by such commercial borrowings, should be clearly evaluated and articulated from the outset, and mechanisms put in place to ensure that they are in fact accrued. The borrower or issuer should strive to ensure the best possible terms in these loan and bond contracts, such as "hurricane clauses" for automatic debt service suspension, an

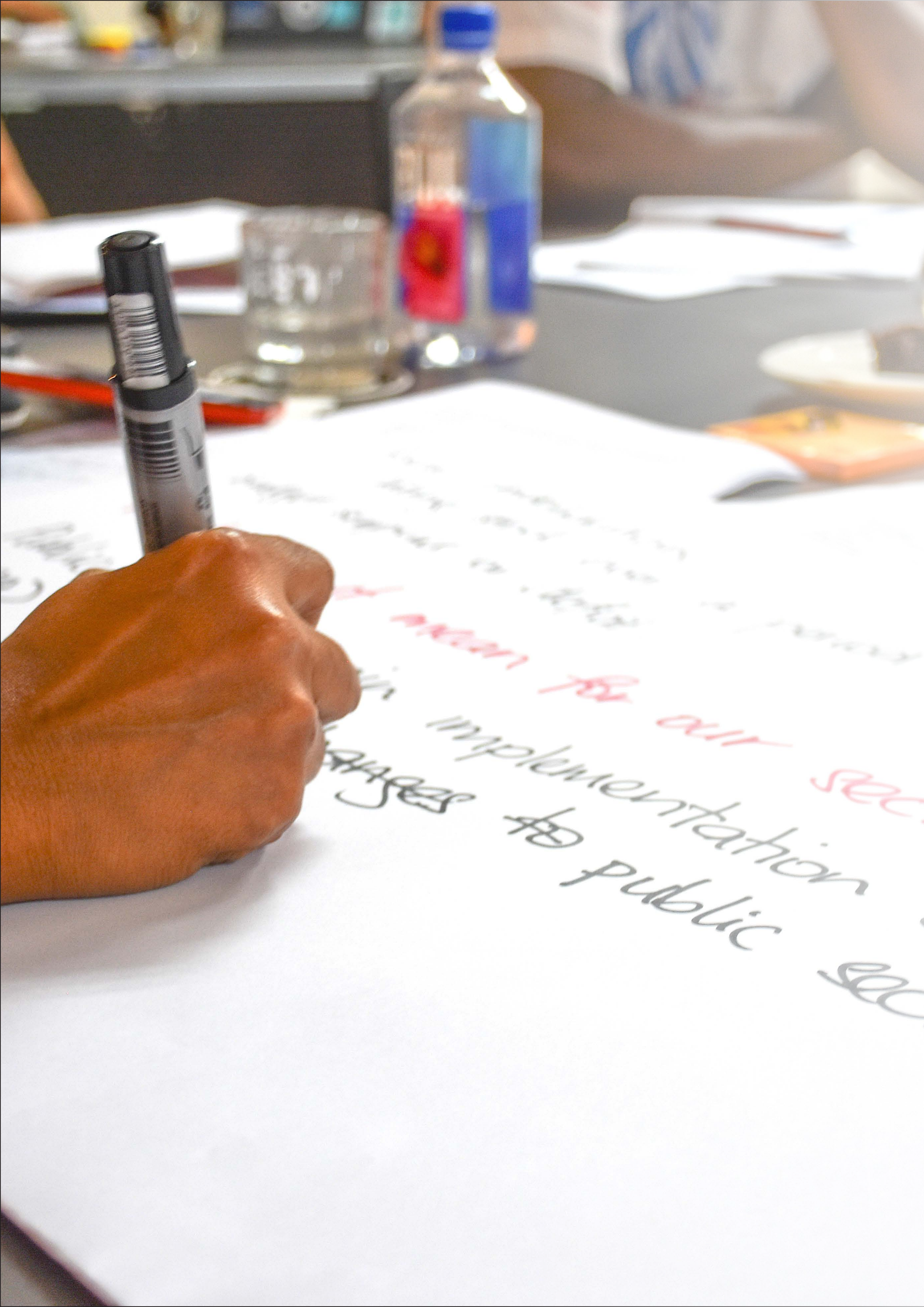
appropriate forum for dispute resolution, and agreed processes for restructuring in the event of a default.

- Identify climate actions that concomitantly deliver clear commercial and economic benefits. Private financing for such actions could be encouraged to reduce demands on the public purse.
- Establish an automatic mechanism for a debt payment moratorium and comprehensive restructuring in the wake of external catastrophic shocks.
- Review debt sustainability frameworks to incorporate climate vulnerabilities and risk and impact assessments.

ENDNOTES

1 Ministry of Economy, “Republic of Fiji National Climate Change Policy 2018-2030,” 2019, p. 52.
2 Government of Fiji, “Climate Vulnerability Assessment: Making Fiji Climate Resilient,” with technical assistance from the World Bank, May 26, 2022.
3 Ibid., p. 27.
4 Over FJ$5bn of these investments is in addition to the funds already earmarked in existing plans, which will need to be raised.
5 Government of Fiji, “Climate Vulnerability Assessment.” supra, p .27.
6 Ministry of Economy, “National Climate Change Policy,” supra.
7 This has now been postponed to 2036.
8 Baseline emissions in 2013 were estimated to be 1,500kt CO2e.
9 See the four low emissions scenarios and associated actions and financing required articulated in the Ministry of Economy’s “Low Emission Development Strategy 2018-2050,” (LEDS) 2018.
10 Government of Fiji, “Fiji’s Updated Nationally Determined Contribution 2020.” (NDC) See also Ministry of Economy, “Fiji NDC Implementation Roadmap 2017-2030,” for a breakdown of the costs.
11 Government of Fiji, “Updated NDC,” supra, p. 15.
12 Ministry of Economy, “LEDS 2018-2050, supra.
13 Ministry of Economy, “LEDS 2018-2050, supra.
14 Ministry of Economy, “Annex A: List of Prioritised Action With High Level Costing and Timeline,” in “LEDS 2018-2050,” p. 221.
15 Ibid. p. 223.
16 Ibid., p. 219-220. Author’s calculation.
17 Ibid., p. 224.
18 Observatory of Economic Complexity, “Fiji,” accessed on December, 13 2023, https://oec.world/en/profile/country/fji?depthSelector1=HS2Depth
19 Government of Fiji, “Republic of Fiji National Adaptation Plan,” 2018, p. 90.
20 Ministry of Economy, “Fiji National Climate Finance Strategy,” (NCFS) 2022, p. 1. The NCFS lays out Fiji’s main investment priorities for cultivating a climate-resilient, low-carbon economy from 2022 to 2029, and will be the climate finance blueprint for the Fijian government and its development partners.
21 Government of Fiji, “National Adaptation Plan,” 2018, supra, p. 36.
22 Ministry of Economy, “NCFS,” p. 6.
23 Courtney Lindwall, “Rich Polluting Nations Still Owe the Developing World,” Natural Resources Defence Council, January 22, 2022, https://www.nrdc.org/stories/rich-polluting-nations-still-owe-developing-world#:~:text=There%27s%20no%20denying%20it%3A%20Wealthy,of%20all%20historical%20CO2%20emissions
24 Kate Abnett, “Rich countries failed to meet their climate funding goal,” Reuters, July 29, 2022, https://www.reuters.com/business/environment/rich-countries-failed-meet-their-climate-funding-goal-2022-07-29/
25 B. Zagema et al, “Climate Finance Shadow Report 2023: Assessing The Delivery Of The $100 Billion Commitment,” Oxfam International, June 5, 2023, https://policy-practice.oxfam.org/resources/climate-finance-shadow-report-2023-621500/
26 S. Ando et al, “Sovereign Climate Debt Instruments: An Overview of the Green and Catastrophe Bond Markets,” Staff Climate Note 2022/004, IMF, July 7, 2022, p. 1.
27 S. Ando et al, “Sovereign Climate Debt Instruments: An Overview of the Green and Catastrophe Bond Markets,” IMF Staff Climate Note 2022/004. IMF 2022.
28 K. Thomas Liaw, “Survey of Green Bond Pricing and Investment Performance,” J. Risk Financial Manag. 2020, 13(9), 193. Aug 2020.???
29 S. Ando et al, “Sovereign Climate Debt Instruments,” supra.
30 Jochen M. Schmittmann and Yun Gao, “Green Bond Pricing and Greenwashing under Asymmetric Information,” IMF Working Paper WP/22/246, December 2022, p. 5.
31 Schmittmann and Gao, “Green Bond Pricing and Greenwashing,”supra, p. 5.
32 D. Larcker and E. M. Watts, “Where’s the greemium?,” Journal of Accounting and Economics 69, (2-3), 2020, p. 4.
33 “Recently, we have seen greeniums come down,” said Jens Bindslev Agerholm, principal portfolio manager at Danmarks National bank, which issues debt for the Danish government. “Not many years back, we saw greeniums in general at 2bp-4bp, but recently many green bonds have been trading at a greenium of 0bp-1bp. Reported in “Greeniums dwindle for SSA and swell for FIG issuers,” by Global Capital, November 23, 2023.
34 Julian Lewis and Luke Acton, “Sovereign debt issuers call for higher greenium,” Global Capital, November 16, 2023. See also “Sovereigns gripe about decline of greenium,” International Finance Review, November 25, 2023. https://www.ifre.com/story/4254255/sovereigns-gripe-over-decline-of-greenium-z5phdd-

nk0h, accessed on 25 Nov 2023.
35 “With over $800bn of sustainable bond supply per annum since 2021, green bonds no longer have the rarity value which they had in the early years when the market was less established,” said Sanaa Mehra, EMEA head of sustainable debt capital markets at Citigroup in London. Reported in “Greeniums dwindle for SSA and swell for FIG issuers,” by Gaia Freydefont and Atanas Dinov, Global Capital 23 Nov 2023
36 Ministry of Economy, “Fijian Sustainable Bond Framework 2022,” 2022.
37 ICMA, “Green Bond Principles” 2021, https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/ Green-Bond-Principles-June-2021-140621.pdf
38 M. Baker et al, “Financing the Response to Climate Change: the Pricing and Ownership of US Green Bonds,” National Bureau of Economics Research, Working Paper No. 25194, October 2018.
39 Green Finance Platform, “Fiji has Issued a USD 50 Million Green Bond,” 2017, https://www.greenfinanceplatform.org/policies-and-regulations/fiji-has-issued-usd-50-million-green-bond?page=7
40 See “Republic Of Fiji Green Bond: Second-Party Opinion By Sustainalytics,” October 17, 2017, and “Fiji Sovereign Green Bond Impact Report 2018,” Ministry of Economy.
41 See Fiji Sovereign Green Bond Impact Reports 2018-2020.
42 As a matter of fact, FIBs (ISINs: FJ1266452655, FJ1266452671, FJ1307654335) of similar durations issued in May and Nov 2023 have a slightly lower coupon rate than the FSBB. See bond price list data 30 November 2023 from the RBF.
43 There was no mention of this sovereign blue bond issuance in the government’s annual borrowing plans for fiscal year 2023/24.


for our
implementation
to public

CHAPTER 6: CONSOLIDATED RECOMMENDATIONS

Chapter 1 - Fiji's Debt Profile and Dynamics

Reaching almost the size of its entire economy at its peak, Fiji's unprecedented public debt has become the most pressing economic issue of the day. Like many developing countries, its debt skyrocketed and its economy virtually collapsed due to the Covid-19 pandemic. It is now stuck with very elevated debt levels, which, if poorly managed, will continue to drain limited fiscal resources, amplify its susceptibility to shocks, and weaken macroeconomic variables and in turn business outlook.

Fiji needs to redouble its effort in ensuring its debt burden is on a sustainable path and reduce the cost of debt servicing. Effective management of its public debt is vital in ensuring its economic resilience and long term development.

Proposals to Reduce Debt Burden

Ensure lowest possible cost of borrowing

- Given its inherent vulnerabilities, Fiji should maintain its classification as an IBRD-IDA "Blend" country and as a group B country of the Asian Development Bank (ADB), despite also being a middle income country, in order to access concessional finance and not be prematurely graduated from this classification.

- Fiji should prioritise concessional finance for its economic development and climate adaptation and mitigation needs. External borrowing on non-concessional and commercial terms exposes the country to the vagaries of the market and its associated risks including volatile market sentiments, sudden reversals in capital flows, high interest rates and exchange rate changes that could exacerbate the country's debt standing.

- Despite the official character of its public external debt only 29% or about FJ$1bn out of its FJ$3.66bn of this debt is deemed to be concessional in nature according to the government.[1] It will be beneficial to review each of these loans to ascertain whether the benefits are indeed accrued and if better terms could be sought.

- One of the key challenges for Fiji is mobilising new concessional financing for climate-related investments. Fiji was the first developing country to issue a green bond of US$50mn.[2] The coupon terms of the bond issued in domestic currency were five years at 4% per annum and 13 years at 6.3% with respective maturities of 2022 and 2030.[3] The government was required to make two biannual payments on 1 May and Nov 1 every year until maturity. The

previous government also announced in 2022 it was planning to issue a blue bond with the aim of raising US$50mn.[4] It is important to note the cost implications associated with debt instruments of this nature. There are concerns that these bonds tend to be more expensive to issue than conventional bonds,[5] as is the case of Fiji's green bond as noted by the OECD.[6] Governments and international organisations usually provide subsidies to meet the costs associated with issuances, including consulting and verification of green credentials.[7]

- Research has shown that there is little to no "greenium," to such bonds, while subject to the same risks as a conventional bond such as costly restructuring in a default and volatile market sentiments, especially if it is tapping on the international capital markets. Reputational risk from market sentiment could also worsen a country's macroeconomic variables, leading to capital flight and exacerbating its debt problem.

- As such, to keep the external debt composition as benign as possible, the government should stick to less risky terms with the lowest cost, and with conditionalities that do not run contrary to nationally-determined economic priorities, and respect the country's policy space and autonomy.

- With regard to domestic debt, apart from reducing its issuances of short-term bonds (treasury bills) in favour of long-term bonds, the government could consider bond buybacks and bond switches to reduce the pressure on its resources, especially before significant debt payments are due. This is among the proposals in the Government's "Medium Term Debt Management Strategy 2021-2023" and "Medium Term Fiscal Strategy 2024-2026" to manage the debt burden.
- In practical terms, it would be similar to the arrangement in which Fiji replaced its global bond for concessional finance from the ADB and World Bank in 2020, and consideration can be given for such options so as to reduce the debt burden in the medium term.

- As such, the Reserve Bank of Fiji can consider purchasing domestic government bonds from primary and secondary markets, especially when the government is faced with high pending debt payment obligations. Central banks in some developing countries, such as Indonesia and Philippines, took this route to support the financing needs of the government and reduce the debt servicing pressures amid the economic crisis caused by the pandemic.[8] Indonesia eventually passed the Financial Sector Development and Strengthening Law this year requiring its central bank to purchase government bonds in the primary market during crises in the future.[9] While there are concerns around independence of the central bank and the powers given to the president under the law, this option should be exercised under only defined instances and in accordance with the principles of good governance, particularly transparency and accountability.[10]

- Given the significance of contingent liabilities to overall debt sustainability, the performance of state-owned enterprises should be monitored. In addition, risk assessments should be made regularly and communicated to stakeholders and parliament as part of the government's public debt reporting.

Build in debt pauses or suspension mechanisms in all its borrowing

Automatic debt pauses or suspension mechanisms

- The government could consider negotiating clauses in all its borrowing transactions triggering automatic debt suspension when the country is hit with exogenous shocks including pandemics,

natural calamities, political upheaval, civil war among others. The value of having such buffers in place was demonstrated during the Covid-19 pandemic, where several low-income countries were hit hard economically and struggled with heavy debt repayments, before the G20's Debt Service Suspension Initiative was launched to provide reprieve.

Natural disaster clauses

- These were adopted by both Grenada and Barbados in their debt restructurings in 2013 and 2015 respectively. There is increasing global support for inclusion of such clauses in debt contracts, including from the World Bank, which recently announced that it will include these clauses in its loan programmes for climate-vulnerable countries.[11] While they are designed to allow more fiscal space for countries to adequately respond to climate shocks,[12] they are limited to only specified natural disasters and typically have high monetary thresholds which have to be met before they can be triggered.

- Therefore, for Small Island Developing States like Fiji, the value in debt moratoriums cannot be overstated and natural disaster clauses are only a bare minimum. The key issue for Fiji would be to design clauses which provide sufficient fiscal space for the country to respond to a range of possible shocks.

Chapter 2 - Fiscal and Debt Sustainability

The current government has taken the bitter pill of fiscal consolidation in order to put the brakes on the pace of debt accumulation and improve its sustainability.

The government and policymakers will have to find a balance between keeping the lid on fiscal deficits, while prudently pushing ahead with the necessary spending and investments to ensure growth does not sputter. It will continue to face difficult trade-offs between maintaining fiscal sustainability and investing in structural transformation, including productive investment, climate action and sustainable development goals (SDGs). For example, forgoing investments in sustainable transformations not only undermines development progress but could also amplify vulnerabilities—to disasters, other external shocks and ultimately debt sustainability—down the line.

To retain and expand fiscal space for SDG-related investments in this challenging context, multipronged policy action is needed, at both the national and global levels.

- Domestically it could rigorously include differentiating how debt financing is used, and prioritising borrowing for productive investments that can create durable economic growth and thereby more fiscal space.

- Where needed and when the debt burden becomes too onerous and debilitating, it may seek pre-emptive debt restructuring to free up fiscal space. It should acquaint itself with pre-emptive, maturity managing tools such as debt re-profiling operations or other liability management operations.

- It should also be familiar and knowledgeable about the processes and policies around domestic debt restructuring, given that the bulk of its public debt is domestic. It should have a contingency plan in place for such an eventuality, so that the problem is not aggravated by a lack of understanding and not knowing what to do in such a situation.

- Externally, it could work with bilateral and multilateral development partners to put in place instruments and tools to create fiscal space in a time of crisis. This could include the following:
    - Commitments from official development partners for a standby or sinking fund that could be activated and utilised by Fiji under certain conditions or risk events

    - All debt servicing including repayment, interest and charges are automatically suspended upon the national declaration of a crisis or emergency
    - Debt obligations could also be scaled back depending on Fiji's ability to pay, as state contingent debt instruments are being explored[13]

- Given that only about 28% of its external public debt is on concessional terms, the government should negotiate with its official creditors better credit terms, which includes lengthening average maturities or lowering borrowing costs, so that Fiji is not further hampered and delayed in trying to achieve its SDGs and climate objectives.

- The advocacy for better borrowing terms and debt relief measures with the support of development partners could be done regionally with other Pacific Island Countries, especially when neighbouring countries are also facing similar fiscal and national debt challenges.

- Finally, creating fiscal space, making trade-offs, and ensuring that borrowings are used for the right development priorities and objectives are ongoing judgment calls that the government would have to make in consultation with its constituencies and citizenry.

Chapter 3 - Growth, External Liabilities and Debt Sustainability

Broadly speaking, GDP growth has a direct bearing on debt sustainability. General government debt-to-GDP ratio measures the gross debt of the general government as a percentage of GDP. It is a key indicator for the sustainability of government finance.

The higher the ratio, the less likely a country will be able to repay its debt. A high debt-to-GDP ratio is undesirable for a country, as a higher ratio indicates a higher risk of default. This, in turn, may increase the risk of a default and reduce business confidence. On the other hand, a declining debt-to-GDP ratio over time is a well-accepted indication that a country's debt is on a more sustainable trajectory.

The situation is at a critical juncture where fostering robust economic growth is not just an aspiration but an imperative. The data underscores a clear trajectory: enhancing exports and bolstering productivity stand out as viable levers to invigorate the economy and help contain the mounting debt challenge. However, realising these goals hinges on the ability to catalyse further productive investment. Fiji's policymakers are therefore tasked with a delicate balancing act—cultivating an environment conducive to economic expansion while simultaneously navigating a sustainable path out of debt.

To enhance and improve its external financial sustainability, which can be achieved by ensuring that the growth in exports exceeds the average cost of net liabilities (including external debt), here are some broad policy options:

- A comprehensive industrial policy, including adequate incentives and investments to support the growth and productivity of various industries, particularly those that are able to enhance Fiji's export performance.

- Light manufacturing should be diversified niche high-value, non-commoditised products, eg premium-quality sports and fashion apparel, and skincare products catering to the high-end segment of the market, which makes premium pricing possible.

- Further research and study into diversification of manufacturing sub-sectors, to identify where the new growth opportunities are.

- Agricultural productivity must be stepped up to drive growth. Higher productivity will have to come from modernisation, diversification, and commercialisation of the sector.

- The entire sugar value chain, from farm to factory to market, needs to be scrutinised to pinpoint the areas where costs can be reduced; farming and milling methods modernised; large-scale commercialisation effected; and more value-add created.

- Seize the potential to expand production of other primary sector outputs for high-margin niche markets, especially where Fiji has a competitive advantage.

- Maximise and prolong the benefits of tourism, which will involve expansion through diversifying the source of visitors and types of visits, and growing domestic and international linkages.

- Continuous skilling and re-skilling of the workforce is critical, especially to meet the needs of new industries that emerge in the course of restructuring.

- Remittances remain a critical input into the Fijian economy, however there are a number of key issues. Remittances need to be better utilised for productive purposes, and a balance needs to be struck with the impact of lost labour productivity from out-migration. Reducing remittance cost remains a priority issue.

- Reduce the cost of net external liabilities, especially with regards to public external debt. See recommendations for Chapters 1 and 2.

Chapter 4 - Debt Management and Good Governance

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 framework that prioritises social justice, realisation of SDGs, and development, should guide the pursuit of debt management and its sustainability.

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.[14]

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. Therefore, 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.

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.
- 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.

Adopt International Best Practice Systems

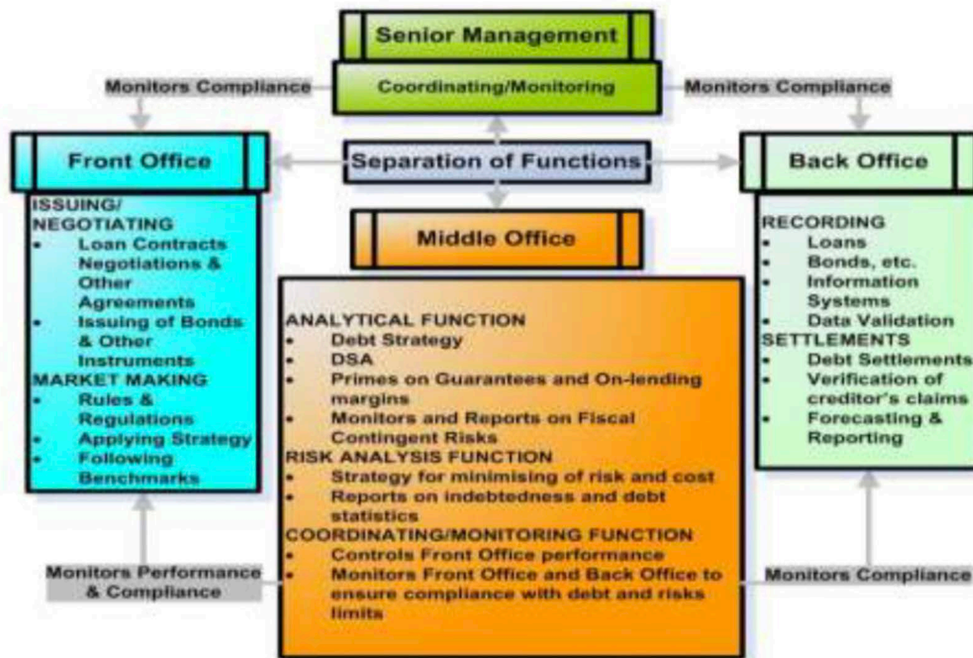
Figure 4-3: DMO Executive and Operational Roles and Functions

Executive Debt Management	→	**Direction and Organization**
Policy Function	→	Strategy
Regulatory Function	→	Structure
Resourcing Function	→	Staffing and Systems
Operational Debt Management	→	**Debt Dynamics and Practice**
Controlling/coordinating/monitoring	→	Control, coordinate and, monitor
BACK OFFICE		
Recording Function	→	Debt data and statistics
Operating/monitoring functions	→	Debt operations settlement and monitoring
MIDDLE OFFICE		
Analytical Function	→	Analysis and financial strategy
Risk analysis function	→	Minimise cost and risk
FRONT OFFICE		
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.

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

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



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

from the GUID 5250 issued by INTOSAI,[15] 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

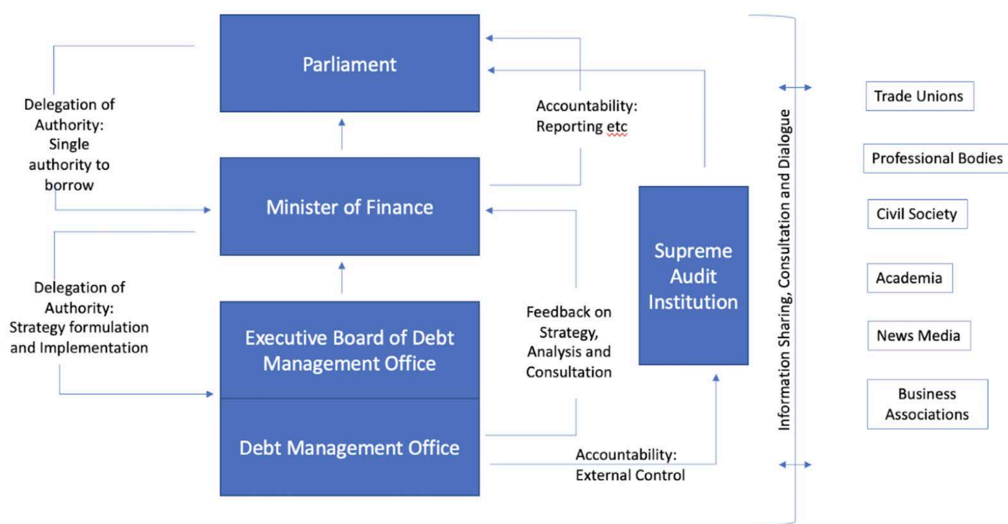
Political factors and institutional weaknesses can undermine accountability mechanisms. For instance, weak parliamentary oversight, insufficient independent audit institutions, and a lack of informed public debate about public debt can all obstruct debt transparency initiatives. Mechanisms allowing for 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

Chapter 5 - Climate Finance and Debt

Fiji, like other debt-burdened developing countries, is at a crossroads between dealing with climate change, fiscal health and economic development. On the one hand, they face certain climate risks and the economic havoc they wreak. Not attending adequately to these risks places Fiji in a vicious circle in which greater climate vulnerability raises the cost of debt— especially if it chooses to borrow from the markets—and diminishes the fiscal space for investment in climate resilience.

As financial markets increasingly price in climate risks and global warming accelerates, the risk premia of countries such as Fiji, if it does nothing, is likely to increase even further. On the other hand, the country is already deep in debt, and greatly expanding borrowings for climate action could risk the health of public finances further, bringing with it all the potential ramifications highlighted in the earlier chapters.

Given the intricate challenges presented in implementing climate initiatives and their broad implications, the government must formulate a robust climate finance strategy. This strategy needs to thoroughly evaluate all possible funding sources and financial mechanisms, carefully prioritising climate actions that align with the nation's development, climate resilience, and fiscal goals. Such a strategic framework is crucial to ensure that climate-related investments reinforce the nation's broader economic and environmental objectives.

In this regard, Fiji's climate finance strategy should include (and is not limited) to the following considerations:

- Identify the greatest existential and economic threat to Fiji and its people posed by climate change. Prioritise climate actions that will have the greatest impact on minimising known existential and economic impact, and managing known climate hazards and risks, so as to right size and stagger the amount of financing required.
- In this respect, well-chosen climate adaptation investments, by having a positive impact on growth, or by preventing growth from being derailed by climate change, can potentially help an economy outgrow its debt, advancing not just climate resilience but also debt sustainability in the longer run.
- Sequence the implementation of climate actions and interventions and in the process iterate and refine the efficacy of these interventions so that its financing can be better managed and deliver more bang for the buck.
- Conduct a cost-benefit analysis for each of these climate actions that takes into explicit consideration its impact on economic growth and development, and fiscal and debt sustainability.
- Conduct a comprehensive survey of all financing sources for its climate actions and objectives and weigh the pros and cons of each. It should also consider fiscal tools and incentives that can be employed to meet these costs over the long term.
- Continue to advocate for developed countries to live up to their responsibilities and international commitments to provide the necessary financing, in the form of grants, official development assistance, and highly concessional loans for climate action.
- Borrowing at market rates in the form of commercial loans or bond issuances should be subject to stringent scrutiny, especially by the government's debt management office and other relevant agencies, given how such borrowings deteriorate the public debt profile and dynamics—they tend to be expensive, denominated in foreign currencies, held by non-residents and impose costly

penalties in the event of defaults. Thus, the benefits of climate actions funded by such commercial borrowings should be clearly evaluated and articulated from the outset and mechanisms are put in place to ensure that they are in fact accrued. The borrower or issuer should strive to ensure the best possible terms in these loan and bond contracts, such as "hurricane clauses" for automatic debt service suspension, an appropriate forum for dispute resolution and agreed processes for restructuring in the event of a default.

- Identify climate actions that concomitantly deliver clear commercial and economic benefits. Private financing for such actions could be encouraged, and reduce demands on the public purse.
- Establish an automatic mechanism for a debt payment moratorium and comprehensive restructuring in the wake of external catastrophic shocks.
- Review debt sustainability frameworks to incorporate climate vulnerabilities and risk and impact assessments.

2300

ENDNOTES

1 Ministry of Finance, Economic and Fiscal Update Supplement to the 2023-2024 Budget Address," p. 38.
2 OECD, "Financing for a sustainable ocean economy and blue recovery," in Towards A blue recovery in Fiji: COVID-19 Appraisal Report (OECD Publishing, 2022), https://www.oecd-ilibrary.org/sites/54c8d06f-en/index.html?itemId=/content/component/54c8d06f-en. See also, Pacific Islands Forum and UN Development Programme (UNDP), "Green and blue bonds for the Pacific Region," 2022. https://www.undp.org/sites/g/files/zskgke326/files/2022-08/demystifying-green-and-blue-bonds-for-the-pacific.pdf
3 Reserve Bank of Fiji (RBF), "Fiji Sovereign Green Bond 2019 Update," 2020.
4 OECD, "Financing a sustainable ocean economy," p. 59. Current government issued sovereign blue bonds in November 2023 to raise FJ$20mn.
5 Ibid.
6 Jochen M. Schmittmann and Yun Gao, "Green bond pricing and greenwashing under asymmetric information," IMF, 2022. See also, OECD, "Financing a sustainable ocean economy," p. 59.
7 Ibid.
8 Bloomberg, "Bank Indonesia agrees to buy government debt to fund budget," Gulf Times, July 6, 2020, https://www.gulf-times.com/story/667515/bank-indonesia-agrees-to-buy-govt-debt-to-fund-budget. See also, Claire Jiao and Ditas B. Lopez, "Philippines joins EM central banks unorthodox bond-buying club," Bloomberg, August 12, 2020, https://www.bloomberg.com/news/articles/2020-08-12/philippine-central-bank-buys-almost-half-of-government-borrowing#xj4y7vzkg
9 Stefanno Sulaiman, "Indonesia expands central bank mandate to support stability, growth," Reuters, December 15, 2022, https://www.reuters.com/world/asia-pacific/indonesias-new-finance-laws-expand-central-banks-mandate-2022-12-15/
10 IMF, "Indonesia: 2023 Article IV Consultation," June 25, 2023, https://www.imf.org/en/Publications/CR/Issues/2023/06/22/Indonesia-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-535060
11 World Bank, "World bank group announces comprehensive toolkit to support countries after natural disasters," June 22, 2023, https://www.worldbank.org/en/news/factsheet/2023/06/22/comprehensive-toolkit-to-support-countries-after-natural-disasters
12 IMF, "State-Contingent Debt Instruments for Sovereigns," May 22, 2017, https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/05/19/pp032317state-contingent-debt-instruments-for-sovereigns
13 Inter-agency Task Force for Financing for Development, "Financing for Sustainable Report," (various years) United Nations. 2019 and 2020.
14 A. Roy and M. Williams, "Government Debt Management: A Guidance Note On The Legal Framework," Commonwealth Secretariat, 2010.
15 INTOSAI, "Guidance on the Audit of Public Debt," 2020. . See also "Audit of Public Debt Management" by IDI-WGDP.

BIBLIOGRAPHY

2023 Fiji Fiscal Review Committee. “Report of the Committee.” May 31, 2023. P. 18.

Abnett, Kate. “Rich countries failed to meet their climate funding goal.” Reuters. July 29, 2022.

ANZ Research. “Fiji: Balancing the Economy.” October 2023.

Apparel Resources. “Country: Fiji.” http://apparelresources.com/country/fiji/

APEC Policy Support Unit. “Overview of the SME Sector in the APEC Region: Key Issues on Market Access and Internationalization.” APEC Secretariat, April 2020.

Asian Development Bank (ADB), “Country Classification: Fiji.” November 2021.

———. “Public Financial Management Systems—Fiji Key Elements From A Financial Management Perspective.” P. 8.

Asian Productivity Organisation. “Fiji National Productivity Master Plan 2021-2036.” 2019.

Baker Malcom, Daniel Bergstresser, George Serafeim, Jeffrey Wurgler “Financing the Response to Climate Change: the Pricing and Ownership of US Green Bonds,” National Bureau of Economics Research, Working Paper No. 25194, October 2018.

Bloomberg. “Bank Indonesia agrees to buy government debt to fund budget.” Gulf Times, July 6, 2020.

Caner, Mehmet, Thomas Grennes and Fritzi Koehler-Geib. “Finding the Tipping Point—When Sovereign Debt Turns Bad.” Policy Research Working Paper 5391. World Bank Group. July 2010.

Clements, B. J., R. Bhattacharya, and T. Q. Nguyen. “External debt, public investment, and growth in low-income countries.” IMF Working Paper 2003. No. 249 (December). P. 25.

Collins, Jessica. “Reducing Remittance Costs In The Pacific Islands,” Lowy Institute Policy Brief, October 8, 2023.

Development Finance Corporate IDA and IBRD. “Republic of Fiji Eligibility for Blend Country Borrower Status.” World Bank Group. April 9, 2019.

Fiji Bureau of Statistics. “Balance of Payments Statistics Annual 2022.” March 31, 2023. P. 7.

———. “Balance of Payments Statistics June Quarter 2023.” October 11, 2023. P. 8.

———. “Economic Survey Agriculture, Forestry and Fishing Industries 2020.” November 2022. P. 18.

———. “International Investments Position Annual 2022.” Release No: 20, 2023. March 31, 2023. P. 1.

———. “Fiji’s Gross Domestic Product (GDP) 2022.” Release No: 59 2023. August 31, 2023. P. 13.

———. “Visitor Arrival Statistics.” Accessed January 29, 2024.

Freydefont, Gaia and Atanas Dinov. “Greeniums dwindle for SSA and swell for FIG issuers.” Global Capital. November 23, 2023.

Green Finance Platform. “Fiji has Issued a USD 50 Million Green Bond.” 2017.

———.“Sovereign debt issuers call for higher greenium.” Global Capital. November 16, 2023.

Gounder, Neelesh. “Fiji economic survey: Low growth the new normal? Asia and the Pacific Policy Studies 7, August 8, 2020. Crawford School of Public Policy, The Australian National University. Asia Pacific Press.

Government of Fiji. “2023-2024 National Budget Address: Rebuilding Our Future Together.” Delivered by Deputy Prime Minister Biman Prasad. June 30, 2023.

———. “Climate Vulnerability Assessment : Making Fiji Climate Resilient.” With technical assistance from the World Bank. May 26, 2022. P. 27.

———. “Constitution of the Republic of Fiji.” 2023.

———. “Fiji’s Updated Nationally Determined Contribution 2020.” 2020.

———. “Republic of Fiji National Adaptation Plan,” 2018. P. 90.

Haroon Akram-Lodhi, A. and Ardeshir Sepehri. “Fiji’s economy: the challenge of the future,” in Confronting Fiji Futures, ed. A. Haroon Akram-Lodhi, (ANU Press, 2016). P. 76.

Harvard Growth Lab. “The Atlas of Economic Complexity.”

Hawkins, P. and D. Prates. “Box 1: Key elements of the UNCTAD SDFA framework” in “An UNCTAD Sustainable Development Finance Assessment: The Case of Sri Lanka.” UNCTAD. April 2022. P. 19.

ICMA. “ICMA Green Bond Principles 2021: Voluntary Process Guidelines for Issuing Green Bonds.” June 2021.

IMF. “Indonesia: 2023 Article IV Consultation.” June 25, 2023.

———. “Republic of Fiji: 2023 Article IV Consultation.” June 28, 2023. Pp. 7, 35, 38, 40, 45, 50, 51.

———. “State-Contingent Debt Instruments for Sovereigns,” March 23, 2017.

———. “The Debt Sustainability Framework for Low-Income Countries.” July 13, 2018.

INTOSAI Development Initiative and Working Group on Public Debt. “Audit of Public Debt Management: A Handbook for Supreme Audit Institutions,” 2020.

Jiao, Claire and Ditas B. Lopez. “Philippines joins EM central banks unorthodox bond-buying club.” Bloomberg, August 12, 2020.

Kaya, Demet and Fayavar Hayati. “Fiji - Public Expenditure Review: Towards Fiscal Sustainability and Improved Spending Quality.” World Bank Group. April 2, 2023.

Khalfan, Ashfaq, Astrid Nilsson Lewis, Carlos Aguilar, Jacqueline Persson, Max Lawson, Nafkote Dabi, Safa Jayoussi, Sunil Acharya. “Climate Equality: A Planet for the 99%.” Oxfam International. 2023. P. 8

Kumar, Sunil and Biman C. Prasad. “Fiji’s economic woes: a nation in search of development progress.” Pacific Economic Bulletin 17. No. 1. May 2002. Crawford School of Public Policy, The Australian National University. Asia Pacific Press.

Larcker, David F. and Edward M. Watts. “Where’s the greemium?” Journal of Accounting and Economics 69, (2-3), 2020.

Lewis, Julian and Luke Acton. “Sovereigns gripe about decline of greenium.” International Finance Review, November 25, 2023.

Lima, Karina Patricio Ferreira Lima. “Reforming the IMF’s Sustainability Assessments towards achieving the UN’s Sustainable Development Goals (SDGs): A Crucial Post-Pandemic Recovery Agenda.” African Journal of International Economic Law 2, (Fall 2021).

Lindwall, Courtney. “Rich Polluting Nations Still Owe the Developing World.” Natural Resources Defence Council. Jan 22, 2022. https://www.nrdc.org/stories/rich-polluting-nations-still-owe-developing-world#:~:text=There%27s%20no%20denying%20it%3A%20Wealthy,of%20all%20historical%20CO2%20emissions

Lockwood, Keith. “An UNCTAD Sustainable Development Finance Assessment: The Case of Sri Lanka.” UNCTAD. April, 2022. P. 20.

MacAskill, S, E. Roca, B. Liu, R.A. Stewart and O. Sahin. “Is there a green premium in the green bond market? Systematic literature review revealing premium determinants.” Journal of Cleaner Production 280, (Part 2), January 20, 2021.

Ministry of Agriculture and UN Food and Agriculture Organization, “2020 Fiji Agriculture Census Descriptive Analysis Report,” 2020.

Ministry of Economy, “Fiji Low Emission Development Strategy 2018-2050.” 2018. Pp. 221, 223, 224, 219, 220.

———. “Annual Debt Report 2021-2022.” November 2022. P. 8.

———. “Economic and Fiscal Update Supplement to the 2022-2023 Budget Address.” July 15, 2022. P. 37.

———. “Fijian Government 2021-2022 Annual Debt Report.” June 2023. P. 2.

———. “Fiji National Climate Finance Strategy.”Pp. 1, 6.

———. “Fiji NDC Implementation Roadmap 2017-2030.” 2021.

———. “Fiji Sovereign Green Bond Impact Report 2018.” P. 6.

———. “Fijian Sustainable Bond Framework 2022.” 2022.

———. “Medium Term Debt Management Strategy Fiscal Years 2021-2023.” P. 19.

———. “Public Financial Management Improvement Plan 2020- –2025.” 2021.

———. “Republic of Fiji National Climate Change Policy 2018-2030.” 2019. P. 52.

Ministry of Finance, “Annual Borrowing Plan Fiscal Year 2023-2024,” August 2023. Pp. 4-6, 8.

———. “Annual Borrowing Plan Fiscal Year 2022-2023.” June 2023.

———. “Economic and Fiscal Update Supplement to the 2023-2024 Budget Address.” June 30, 2023. Pp. 6, 25, 28, 32-34, 38, 39, 42, 43.

———. “Medium Term Fiscal Strategy 2024-2026.” Strategic Planning, National Development and Statistics. February 17, 2023. Pp. 3, 13, 15.

Mohamed, Mutasim Ahmed Abdelmawla. “The Impact of External Debts on Economic Growth: An Empirical Assessment of the Sudan: 1978-2001.” Eastern Africa Social Science Research Review 21. No. 2 (2005).

Narayan, Paresh Kumar, and Biman C. Prasad, “Fiji’s sugar, tourism and garment industries: a survey of performance, problems and potentials.” in Fijian Studies: A Journal of Contemporary Fiji. 2003.

Observatory of Economic Complexity. “Fiji.” Accessed 13 December, 2023. https://oec.world/en/profile/country/fji?depthSelector1=HS2Depth

OECD. “Financing for a sustainable ocean economy and blue recovery.” Towards a Blue Recovery in Fiji: COVID-19 Appraisal Report. OECD Publishing. 2022. P. 59.

Pacific Islands Forum and UN Development Programme. “Demystifying Green and blue bonds for the

Pacific Region." July 2022.

Reserve Bank of Fiji. "Government Summary of Revenue and Expenditure." Accessed November 14, 2023.

—— —. "Fiji Sovereign Green Bond 2019 Update," 2020.

Roy, Arindam and Mike Williams. "Government Debt Management: A Guidance Note On The Legal Framework." Commonwealth Secretariat. 2010.

Sakai, Ando, Chenxu Fu, Francisco Roch, and Ursula Wiriadinata. "Sovereign Climate Debt Instruments: An Overview of the Green and Catastrophe Bond Markets." Staff Climate Note 2022/004. IMF. July 7, 2022.

Salmon, Jack. "The Impact of Public Debt on Economic Growth." Cato Journal (Fall 2021).

Schaper, Michael T. "The Missing (Small) Businesses of Southeast Asia." ISEAS Perspective 2020. No. 79. July 22, 2020.

Schmittmann, Jochen M. and Yun Gao, "Green bond pricing and greenwashing under asymmetric information," IMF, 2022. P. 5.

Sen, S., K.M. Kasibhatla, and D. B. Stewart. "Debt overhang and economic growth–the Asian and the Latin American experiences." Economic Systems 31. No. 1 (2007). Pp. 3-11.

Sulaiman, Stefanno. "Indonesia expands central bank mandate to support stability, growth." Reuters. December 15, 2022.

Tarte, Sandra. "Fiji emerges from 2016 undaunted by disaster." East Asia Forum. December 17, 2016.

UN Conference on Trade And Development. "Sustainable Development Finance Assessment (SDFA) Framework: Linking debt sustainability to the achievement of the 2030 Agenda." November 29, 2022. Pp. 4, 7, 13, 14.

———. "The Least Developed Countries Report 2019." November 19, 2019.

UN Inter-agency Task Force for Financing for Development. "Financing for Sustainable Development Report." (various years) 2019 and 2020.

Wheeler, Graeme. "Sound Practice in Government Debt Management." World Bank. April 2004.

World Bank. "Fiji Public Expenditure Review. Towards Fiscal Sustainability & Improved Spending Quality." " April 2, 2023. Pp. 6, 27.

———. "World Bank group announces comprehensive toolkit to support countries after natural disasters." June 22, 2023.

WTO. "Report by the Secretariat: Trade Policy Review, Fiji." WT/TPR/S/444. May 24, 2023. P. 9.

Xinhua. "Remittances have been Fiji's largest foreign exchange earner: PM." June 5, 2023. https://english.news.cn/20230605/44b832e1f04742c9804310b3696ca5b6/c.html

Zagema, Bertram, Jan Kowalzig, Lyndsay Walsh, Andrew Hattle, Christopher Roy, Hans Peter Dejgaard. "Climate Finance Shadow Report 2023: Assessing The Delivery Of The $100 Billion Commitment." Oxfam International, June 5, 2023. https://policy-practice.oxfam.org/resources/climate-finance-shadow-report-2023-621500/

TWN
Third World Network

www.tradepac/org