



MINISTRY OF ECONOMY

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Ro Lalabalavu House, 370 Victoria Parade, Suva

16 November, 2017

The Chairperson
Public Accounts Committee
Parliament of Fiji
PO Box 2353
Government Buildings
SUVA

Dear Sir

Re: Responses to the 2014 Performance Audit Report Volume 1

Reference is made to your letter dated 1st November 2017 on the aforementioned.

Enclosed herewith is the responses/clarification to the issues raised.

Should you need any further clarification(s), please do not hesitate to contact the undersigned.

Thank you

A handwritten signature in black ink, appearing to read 'Pankaj Singh'.

Pankaj Singh
for **Permanent Secretary for Economy**

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Response to the 2014 Performance Audit Report

1.0 Scope of Performance Audit

The Performance Audit undertaken by the Office of the Auditor General (OAG) in 2014 focuses on two main areas namely:

- (i) Determinants of public borrowing needs; and
- (ii) Public Debt Reporting

MOE Response

MOE as part of reforms have put in place an array of measures to enhance debt management operations. These measures include:

- **Realignment of the Debt Management Office to comprise of Front, Middle and Back office.** Institutional strengthening and capacity building within the Debt Management Unit has been undertaken to ensure adherence to international best practices in public debt management. In a nutshell, the Debt Management Office has been reorganized with 3 sub-offices, with the Front Office being responsible of Portfolio Management, Middle office for Risk Management, Compliance & Reporting and Back Office to be in charge of Settlement & Accounting. The new structure is now in place and operational.
- **From a liability management perspective, Government has ensured that the redemption profile remains smooth and a reasonable average time to maturity of debt that will mitigate any refinancing risk.** Government is also actively exploring options to refinance existing debt if offered more competitive interest rates and tenor. The focus is not only on the level of Debt but also on the composition and overall debt portfolio. As at the end of July 2017 with portfolio mix was 70/30 (+/-) and **Average Term to Maturity** of 7.3 years compared with 6 years as benchmark.

2.0 Determinants of Public Borrowing

The existing legal framework in Fiji provides a clear authority to the Minister of Economy to borrow and undertake other debt management operation. There is a cohesive, coordinated and a collaborative annual budget process that involves a significant amount of information and planning that finally established the quantum of borrowing required for the fiscal year.

- All borrowings are approved through the Parliamentary process. Borrowing at the whole of Government is centralized, with powers delegated to the Minister of Economy and the implementation of the borrowing program by the Ministry of Economy.

- Borrowing Ceiling and Deficit gap is integrated in the Budget statements that is table and endorsed in Parliament during the tabling of the National Budget.
- Government always ensures that borrowings are within the stipulated ceilings and the composition of domestic and external loan are honored.
- The assertion by OAG that domestic interest debt servicing for 2009 and domestic principal repayments 2012 needs to be clarified. For 2009, a key point to note is that the actual debt servicing made was within the aggregate debt servicing budgetary allocation. Specifically, the actual domestic interest payments was higher as there was an upward push in the interest rate which consequentially attributed to high interest payment. This was met from within the aggregate budgetary provision for debt servicing. In respect to 2012, the underpinning reason for actual principal repayment exceeding forecasts was due to Government exercising the Call option which effectively meant redeeming Bonds which carries a higher interest rate. Government has the option to call bonds which ranges from 1 to 3 years with remaining maturity if it deems cost savings can be realized. The estimated savings for the early redemption was around just over \$7.0 million
- **Contingent Liability:**

(i) Fiji Sports Council

Government in 1995 approved a guarantee in relation to a loan funding of \$4.3 million raised for Fiji Sports Council (FSC) to be sourced from the Fiji National Provident Fund (FNPF) and be repaid in 15 years at 8.5 per cent interest. Following the cabinet decision in 2005, Government agreed to repay the loan of \$4.3 million loan. In essence, Government paid \$3.5 million and FSC paid \$0.8 million.

(iii) Fiji Sugar Cane Growers Fund (FSCGF)

This was an arrangement made between Government and the Fiji Development Bank (FDB) and the loan agreement was signed on 26 January 2005. The SCGF, as part of the Sugar Cane Rehabilitation Program, advanced the sum of \$26.8 million dollars to assist in the rehabilitation of sugar cane farms affected by the drought in 1998/1999. With tight financial situation, the Government then requested FDB to pay the sum of \$25.2 million on its behalf, being monies owed to the SCGF. Government has fully repaid the loan to FDB in 2015 as per Cabinet Decision in 2004.

The MOE conducts financial analysis on guaranteed entities which includes information relating to debt exposure, liquidity ratios, cashflow position, maturity profile and current and future soundness. The Ministry conducts regular site visits which includes detailed discussion with management on its plans to repay debt on timely basis and strategic decisions relating to improving the overall business performance.

3.0 Public Debt Reporting

Public debt and contingent liabilities of government are adequately reported as required under the Financial Management Act 2004 (FMA). The accuracy and reliability of the reporting of public debt and contingent liability is enhanced by the auditing of records of borrowings. In terms of reporting and adherence to international benchmark, the MOE wishes to state the following:

- Fijian Government has an unblemished record for debt repayment and the country has no history of default or restructure.
- Debt sustainability and ensuring that we operate within the medium term targets has been achieved. Debt as a proportion of GDP has been declining. It was hovering around 53.0 percent in 2006 and gradually declined to 45.5 percent by July 2017.
- Recently, the outlook looks positive with international Rating Agency, Moody's Investors Service has upgraded Fiji's local and foreign currency issuer ratings to Ba3 from B1 and changed the outlook to stable from positive. The notable factors that is driving the rating upgrade and stable outlook are:
 - (1) The strengthening in Fiji's institutional framework and policy effectiveness, aided by political stability which will support economic growth; and
 - (2) The engagement with international financial institutions will continue to enhance government debt affordability and overall fiscal strength.These ratings further demonstrate that Government is well-positioned to absorb any unexpected shocks as it has a strong balance sheet.

4.0 Summary

Government borrowing needs have been determined in view of long term sustainability and financial stability. Borrowing needs of government are identified through its structured annual budgetary process and its quantum determined by the magnitude of the annual budget deficit. Borrowing needs have been forecasted or planned as close as possible to annual budget strategies developed by Government to ensure public debt is kept at sustainable levels over the medium term.

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