

# Proactive Release

Date: 1 June 2021

The following Cabinet paper and related Cabinet minute have been proactively released by the Minister of Foreign Affairs:

***Responding to the Short-Term Economic Impacts of  
COVID-19 in Fiji  
(CAB-21-MIN-0122 refers)***

Some parts of this information release could not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to redaction codes:

- 6(a): to avoid prejudicing the international relations of the New Zealand Government;
- 6(b): to protect the passing of information from another government on a confidential basis;
- 9(2)(f)(iv): to protect the confidentiality of advice tendered by Ministers of the Crown and officials; and
- 9(2)(g)(i): to protect the free and frank expression of opinions by departments.



# Cabinet External Relations and Security Committee

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Responding to the Short-Term Economic Impacts of COVID-19 in Fiji

**Portfolio** Foreign Affairs

On 13 April 2021, the Cabinet External Relations and Security Committee (ERS):

- 1 s6(a)
- 2 s9(2)(g)(i)
- 3 **agreed** that NZ\$40 million from within existing aid programme resources be redirected to provide additional budget support to the Government of Fiji, within the current financial year;
- 4 **agreed** that the funding be provided to the Government of Fiji as budget support;
- 5 s9(2)(f)(iv)

Janine Harvey  
Committee Secretary

**Present:**

Rt Hon Jacinda Ardern (Chair)  
Hon Grant Robertson  
Hon Kelvin Davis  
Hon Andrew Little  
Hon David Parker  
Hon Nanaia Mahuta  
Hon Poto Williams  
Hon Damien O'Connor  
Hon Kris Faafoi  
Hon Peeni Henare  
Hon Dr David Clark

**Officials present from:**

Office of the Prime Minister  
Officials Committee for ERS  
Ministry of Foreign Affairs and Trade

**Hard-copy distribution:**

Minister of Foreign Affairs



# Cabinet External Relations and Security Committee

## Summary

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### Responding to the Short-Term Economic Impacts of COVID-19 in Fiji

**Portfolio** Foreign Affairs

**Purpose** This paper seeks approval to allocate \$40 million from within the existing aid programme to provide budget support to Fiji.

**Previous Decisions** None.

**Proposal** While Fiji has been successful in eliminating COVID-19 domestically, the pandemic has had an unprecedented impact on the economy. <sup>s9(2)(g)(i)</sup>

The Minister of Foreign Affairs has agreed to a further round of budget support for Pacific countries. The attached **Annex** describes the overall impacts and New Zealand's economic response.

New Zealand provided \$4.4 million towards Fiji's initial COVID-19 response. Agreement is now sought to provide a further \$40 million from within existing aid resources. <sup>s9(2)(g)(i)</sup>

<sup>s9(2)(f)(iv)</sup>

**Impact Analysis** Not required.

**Financial Implications** The funding will be drawn from a reprioritisation of the Official Development Assistance allocation.

**Legislative Implications** None.

**Timing Issues** The funding will be disbursed this financial year.

**Communications** Following approval and agreement with the Government of Fiji, the Minister of Foreign Affairs will announce this support. A communications plan has been developed.

**Consultation** Paper prepared by MFAT. DPMC, Pacific Peoples and Treasury were consulted.

The Minister of Foreign Affairs indicates that the Prime Minister, Minister of Finance, Minister for Māori Crown Relations: Te Arawhiti, Minister of Health, Minister for Trade and Export Growth, Minister of Defence, Minister for Emergency Management, Minister of Commerce and Consumer Affairs and Minister for Pacific Peoples were consulted.

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**The Minister of Foreign Affairs recommends that the Committee:**

- 1 s6(a)
- 2 s9(2)(g)(i)
- 3 agree that NZ\$40 million from within existing aid programme resources be redirected to provide additional budget support to the Government of Fiji, within the current financial year;
- 4 agree that the funding be provided to the Government of Fiji as budget support;
- 5 s9(2)(f)(iv)

Janine Harvey  
Committee Secretary

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**Hard-copy distribution:**

Cabinet External Relations and Security Committee  
Minister for Pacific Peoples



# Cabinet

## Minute of Decision

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### Report of the Cabinet External Relations and Security Committee: Period Ended 16 April 2021

On 19 April 2021, Cabinet made the following decisions on the work of the Cabinet External Relations and Security Committee for the period ended 16 April 2021.

Out of scope

ERS-21-MIN-0009 **Responding to the Short-Term Economic Impacts of  
COVID-19 in Fiji**  
Portfolio: Foreign Affairs

CONFIRMED

Out of scope

Michael Webster  
Secretary of the Cabinet

## **Responding to the Short-Term Economic Impacts of COVID-19 in Fiji**

### **Proposal**

- 1 Fiji has been severely impacted by COVID-19. This proposal seeks approval to allocate NZ\$40 million from within the existing aid programme to provide budget support to Fiji.
- 2 The funding for this proposal is from within the existing aid programme appropriation and no new funding is sought for this fiscal year. The amount of this activity exceeds my financial delegation and therefore requires Cabinet approval.

### **Relation to government priorities**

- 3 This proposal recognises that Fiji is one of New Zealand's most strategically important and influential Pacific partners. It is a \$600 million export market and our largest commercial relationship in the Pacific. s6(a).  
And Fiji hosts the Pacific's most important regional institutions.
- 4 Moreover, Fiji has an increasingly prominent voice on the world stage, s6(a)

- 5 s6(a)

### **Executive Summary**

#### **New Zealand's Economic Response in the Pacific**

- 6 Despite the successes in keeping COVID-19 out in many parts of the Pacific, the pandemic is causing an unprecedented economic and fiscal crisis. It is amplifying existing challenges and creating new and urgent issues that need addressing. We expect severe economic disruption across the Pacific, particularly in tourism-dependent economies. The economic decline will likely erase several years of progress in economic development and poverty reduction. Without large amounts of external financial support, there is the real potential for major economic and fiscal crises.
- 7 Since the beginning of the pandemic, New Zealand has been responding to the economic situation in the Pacific, including with direct budget support of NZ\$62 million in 2020. A year on, the economic impacts continue to be severe and I have therefore agreed to a second round of budget support for those countries most affected, including Fiji. s6(a)

s6(a)

All of this budget support is from within existing programme resources and will be disbursed this financial year.

- 8 My decisions on which countries to support, and the quantum of financing, have been determined by: (i) the economic impacts of COVID-19 (especially on tourism flows); (ii) the potential for a fiscal crisis; (iii) the amount of financing provided by other like-minded partners; s6(a) ; and (v) the availability of development programme resources for quick disbursement. The attached annex further describes the overall impacts and New Zealand's economic response.

- 9 s9(2)(f)(iv)

- 10 New Zealand alone will not be able to support the full fiscal deficit of Pacific countries. Instead New Zealand will continue to work closely with key partners such as the Asian Development Bank, the International Monetary Fund, the World Bank, and Australia to ensure that all countries in the region are supported.

#### **COVID-19 has devastated Fiji's economy and government finances**

- 11 Through an excellent public health response and robust border restrictions, Fiji has been successful in eliminating COVID-19 domestically. But the pandemic's ongoing impacts are being felt widely across Fiji's society and economy.
- 12 Tourism, accounting for around 38 percent of the economy, has collapsed. Tourist visitor numbers have reduced from 75,000 a month in 2019, to essentially nil during the pandemic. The Government has reported that 115,000 workers, a third of Fiji's workforce, have lost their jobs or had hours cut.
- 13 International financial institutions (IFIs) expect Fiji will suffer one of the largest declines in GDP of any Asia-Pacific economy – around 20 percent, compared to 6.1 percent for the Pacific as a whole.
- 14 Tax revenue has reduced significantly. The government has forecast a budget deficit of FJ\$2 billion (NZ\$1.37 billion or 20 percent of GDP) in financial year (FY) 2021 (ends 31 July). To finance the deficit, the government has rapidly increased its borrowing from multilateral and bilateral creditors, resulting in a sharp increase in Fiji's debt-to-GDP ratio (forecast to reach 83 percent in FY2021).

#### **The outlook is challenging; s9(2)(g)(i)**

- 15 s9(2)(g)(i)

16 s9(2)(g)(i)

17 s9(2)(g)(i)

18 s9(2)(g)(i)

**Fiji has accessed US\$500 million of financing to date**

19 A priority for Fiji is accessing financial assistance to cover impending deficits, primarily with finance from IFIs and bilateral sources. The scale of potential need for short-term crisis financing is unprecedented and well beyond the ability of one partner to address alone. s6(b)(i)

20 However, Fiji is approaching the limits of funding availability. s9(2)(g)(i)

**New Zealand responded early to Fiji's needs, but more is required**

21 New Zealand was responsive to Fiji in the early stages of the pandemic, providing NZ\$4.4 million towards Fiji's initial COVID-19 response. s6(a)

22 We are therefore proposing to support Fiji in responding to the short-term economic impacts of COVID-19 with NZ\$40 million from within existing aid resources. Our proposed scale of support was determined by an assessment of: (i) the economic impacts of COVID-19; (ii) the potential for a fiscal crisis; (iii) the amount of financing provided by other like-minded partners; s6(a) ; (v) the compounding impacts of the three tropical cyclones that have hit Fiji in the past year; and (vi) the availability of development programme resources for quick disbursement.



### **The proposed funding will be delivered as budget support**

- 23 Budget support is a direct payment to the Government of Fiji. As a mechanism, it engenders trust with the receiving government, and enables a government to respond directly to the needs of its own people. It is relatively easy to deliver in a timely manner, particularly when borders are closed. It is appropriate where we have sufficient trust in the financial management systems of the partner in question, as is the case in Fiji.
- 24 We are considering targeting our budget support to maintaining the Government of Fiji's social welfare programme s9(2)(g)(i)

### **Ongoing support for Fiji's recovery and return to resilience will be required**

- 25 While this funding addresses a short-term fiscal need, more support will be required as the extent of the economic impact of COVID-19 becomes clearer, and as the Fiji economy moves into a recovery phase. The aid programme will continue to be responsive to supporting the economic recovery of Fiji and the rest of the Pacific.
- 26 s9(2)(f)(iv)

### **Background**

- 27 The economies of many Pacific Island countries have been severely affected by the COVID-19 pandemic. The hardest hit have been those countries with a high reliance on tourism, like the Cook Islands, Fiji, Niue, Samoa, Tonga, and Vanuatu, and trade-reliant countries, like Papua New Guinea and Solomon Islands. s9(2)(g)(i)
- 28 s6(a)
- 29 s6(a)

- 30 Since the beginning of the pandemic, New Zealand has been responding to the economic situation in the Pacific, including with direct budget support to mitigate the risks of a fiscal crisis. s6(a)

All of this budget support is from within existing programme resources and will be disbursed this financial year. s9(2)(f)(iv)

## Analysis

s6(a)

### **The economic impact of COVID-19 on Fiji has been unprecedented**

- 35 The economic impact of COVID-19 on the Fiji economy has been unprecedented, s9(2)(g)(i) The International Monetary Fund expects Fiji will suffer one of the largest declines in GDP of any Asia-Pacific economy – around 20 percent compared to 6.1 percent for the Pacific as a whole, largely as a result of declines in tourism. The economy has suffered further setbacks by three major tropical cyclones which hit Fiji in 2020 (Harold, Yasa) and early 2021 (Ana), causing significant damage and loss of life.
- 36 The impacts on the Government's fiscal position have also been significant. s9(2)(g)(i) Compared with financial year FY2020, total government revenue in FY2021 is expected to be 33 percent lower (with value-added tax collections down by 8 percent and custom duties down by 44 percent), while expenditure is projected to increase by 3.9 percent.

37 The fiscal deficit is expected to increase to the equivalent of 20 percent of GDP (NZ\$1.37 billion) in FY2021 from 8 percent in FY2020. Government debt is projected to increase from the equivalent of 49 percent of GDP at the end of FY2019 to 66 percent at the end of FY2020 and 83 percent the end of FY2021 – s9(2)(g)(i)

38 s9(2)(g)(i)

### **With the potential for more serious additional challenges as the economic impacts continue**

39 The contraction in GDP, stemming largely from declines in tourism, has had a profound impact on household incomes. Unemployment is expected to surpass 30 percent as the tourism sector and related industries contract. s9(2)(g)(i)

40 s6(a)

### **The Government of Fiji has taken steps to mitigate the impacts**

41 At the onset of the pandemic the Government of Fiji moved quickly to mitigate the worst of the impact; s9(2)(g)(i)

42 The government announced a COVID-19 budget on 23 March 2020 that included a FJ\$1 billion (NZ\$685 million) response and stimulus package, aimed at protecting public health, supporting the economy, and ensuring food security. The package supported health sector investments, lump sum payments through the Fiji National Provident Fund, tax and tariff reductions, and loan repayment holidays.<sup>2</sup>

43 The second stimulus package of FJ\$2.0 billion (NZ\$1.37 billion) was announced as part of the FY2021 budget on 17 July 2020. The stimulus consisted of tax and tariff cuts including the reduction of import excise duties on over 1,600 items. The budget also included cuts to tourism-related taxes (the service turnover tax, environmental tax, and departure tax) as well as FJ\$100 million for unemployment assistance and a subsidy to Fiji Airways of FJ\$60 million to incentivise the first 150,000 tourists in FY2022.<sup>3</sup>

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<sup>1</sup> s9(2)(g)(i)

<sup>2</sup> Government of Fiji.. March 2020. *Economic and Fiscal Update Supplement to the COVID-19 Response Budget Address*. Suva.

<sup>3</sup> Government of Fiji. Ministry of Economy. July 2020. *Economic and Fiscal Update Supplement to the 2020-2021 Budget Address*. Suva.

44 s6(b)(i)

**And other development partners have responded swiftly and substantially**

45 Bilateral donors and IFIs have responded rapidly and with large amounts of funding, delivered as a mix of grants and loans. Fiji has accessed approximately US\$500 million so far, the majority via concessional loans s6(b)(i)

46 s6(b)(i)

47 However, Fiji is approaching the limits of funding availability. s9(2)(g)(i)

48 s6(a)

**New Zealand has also supported Fiji's initial COVID-19 response**

49 New Zealand was responsive to Fiji in the early stages of the pandemic, providing NZ\$4.4 million towards Fiji's initial COVID-19 response.

50 This funding was primarily used to support public health measures, including the procurement and supply of oxygen concentrators and consumables, funding towards isolation and treatment units, and facilities for the safe disposal of personal protective equipment.

51 s6(a)

52 Vaccine access is a priority for Fiji s9(2)(g)(i)

Fiji stands to benefit from New Zealand's contributions to the COVAX AMC (totalling NZ\$17 million) and Cabinet's recent

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<sup>4</sup> s6(b)(i)

commitment of NZ\$75 million, drawn from Official Development Assistance, to support Pacific vaccine access.

53 s6(a), s6(b)(i)

### **A second tranche of COVID-19 financial support**

54 This proposal is for a short-term emergency response to Fiji's immediate and serious needs. s9(2)(g)(i)

55 s9(2)(g)(i)

It also complements a wider package of support New Zealand is offering Fiji to manage the impacts of COVID-19 and to create a pathway to recovery.

56 In considering the potential quantum of budget support to Fiji, I have determined that NZ\$40 million represents an appropriately-sized contribution in light of the country's serious and immediate needs, and taking into account remaining aid programme resources for this triennium.

57 s9(2)(f)(iv)

Officials will be providing me with further advice on how the aid programme will continue to be reprioritised to support the economic recovery of Fiji and the rest of the Pacific.

### **Budget support as a means of delivery**

58 Our financing will be provided as direct budget support to the Government. This approach demonstrates our respect for the sovereignty and self-governance of Fiji, and will allow it to respond flexibly and rapidly to the challenges Fiji faces, in line with its own objectives and interests.

59 Budget support from New Zealand is provided in the form of grants, rather than loans. This is a key advantage of New Zealand's support for Fiji, s9(2)(g)(i)

. In addition, the low administrative requirements of budget support allow it to be disbursed rapidly, within the current financial year.

60 We are considering targeting our budget support to maintaining the Government's social welfare programme s9(2)(g)(i)

61 s9(2)(g)(i)

62 s6(b)(i)

63 Fiji has robust public financial management systems. s6(b)(i)

64 We will also require a commitment from the Government of Fiji to report on how they have used the funds we provide, and funds will be subject to standard reporting and audit procedures.

65 Pacific Island countries have also requested increasing the use of general budget support as an aid modality in responding to the impacts of COVID-19. The Communique from the recent Forum Economic Ministers' Meeting, along with the Ministers' Statement on COVID-19, called for increased budget support to the region<sup>6</sup>.

### Financial Implications

66 This proposal will cost NZ\$40 million and will be disbursed this financial year. The funding will be drawn from a reprioritisation of the Official Development Assistance (ODA) allocation, and does not require new funding. MFAT does not anticipate exceeding the ODA threshold in the current financial year as a consequence of this funding decision.

67 s9(2)(f)(iv)

68 The quantum of New Zealand's financing was determined by an assessment of: (i) the economic impacts of COVID-19; (ii) the potential for a fiscal crisis; (iii) the amount of financing provided by other like-minded partners; s6(a) (v) the compounding impacts of the three tropical cyclones that have hit Fiji in the past year; and (vi) the availability of development programme resources for quick disbursement.

69 s9(2)(f)(iv)

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<sup>5</sup> s6(b)(i)

<sup>6</sup> Pacific Islands Forum Secretariat. 2020 Forum Economic Ministers Meeting. Outcomes. Virtual Meeting. 11 – 12 August 2020.

<sup>6</sup> Pacific Islands Forum Secretariat. 2020 Forum Economic Ministers Meeting. Statement on the Economic and Social Impacts of COVID-19 on the Pacific. Virtual Meeting. 11 – 12 August 2020.

## Legislative Implications

70 There are no legislative implications from this proposal.

## Human Rights

71 There are no negative human rights implications arising from this proposal.

## Consultation

72 The Department of the Prime Minister and Cabinet, The Treasury, and the Ministry for Pacific Peoples have been consulted and are comfortable with the proposed approach.

## Communications

73 Following approvals and agreement with the Government of Fiji, I propose to make an announcement on this support, in line with a communications plan developed by officials.

## Proactive Release

74 I intend to proactively release this Cabinet paper following Cabinet consideration, subject to necessary redactions including to preserve our relations with the Government of Fiji, and any sensitive information shared with New Zealand.

## Recommendations

75 The Minister of Foreign Affairs recommends that the Committee:

1 s6(a)

2 s9(2)(g)(i)

3 **Agrees** that NZ\$40 million from within existing aid programme resources be redirected to provide additional budget support to the Government of Fiji, within the current financial year.

4 **Agrees** that the funding will be provided to the Government of Fiji as budget support.

5 s9(2)(f)(iv)

Authorised for lodgement

Hon Nanaia Mahuta

Minister of Foreign Affairs