

Proactive Release

Date: 10 January 2022

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

Title	Reference
<i>Responding to the Short-Term Economic Impacts of COVID-19 in Fiji</i>	CAB-21-MIN-0439 ERS-21-MIN-0037

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the OIA). Where this is the case, the relevant sections of the OIA 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 OIA redaction codes:

- 6(a): to avoid prejudicing the international relations of the New Zealand Government;
- 6(b)(i): to protect the passing of information from another government on a confidential basis;
- 6(b)(i): to protect the passing of information from an international organisation on a confidential basis;
- 9(2)(g)(i): to protect the free and frank expression of opinions by departments.



Cabinet

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.

Report of the Cabinet External Relations and Security Committee: Period Ended 29 October 2021

On 1 November 2021, Cabinet made the following decisions on the work of the Cabinet External Relations and Security Committee for the period ended 29 October 2021:

ERS-21-MIN-0037 **Responding to the Short-Term Economic Impacts of
COVID-19 in Fiji** CONFIRMED
Portfolio: Foreign Affairs

Michael Webster
Secretary of the Cabinet



Cabinet External Relations and Security Committee

Minute of Decision

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

Portfolio **Foreign Affairs**

On 26 October 2021, the Cabinet External Relations and Security Committee:

1 s6(a)

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3 **agreed** that NZ\$40 million from within existing International Development Cooperation (IDC) programme resources be allocated to 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, s6(b)(i)

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 Kris Faafoi
Hon Peeni Henare

Officials present from:

Office of the Prime Minister
Department of the Prime Minister and Cabinet
Officials Committee for ERS

Restricted

Office of the Minister of Foreign Affairs

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 provide a further NZ\$40 million in budget support to Fiji. This third tranche of support would bring the total level of Aotearoa New Zealand's COVID-19 fiscal crisis budget support for Fiji to NZ\$83 million.
- 2 The funding for this proposal is from within the existing International Development Cooperation (IDC) appropriation and no new funding is sought. The amount of this activity exceeds my financial delegation and therefore requires Cabinet approval.

Relation to government priorities

- 3 s6(a)
It is a NZ\$600 million export market and our largest commercial relationship in the Pacific. s6(a)
Fiji hosts the Pacific's most important regional institutions and is the current Chair of the Pacific Islands Forum.
- 4 s6(a)
- 5
- 6 By supporting economic and social resilience in Fiji, this funding would align with the approach set out in recent cabinet papers 'New Zealand's Pacific Engagement: From Reset to Resilience' and 'New Zealand's Pacific Engagement: Moving from COVID-19 Response to Recovery and Longer Term Resilience', which Cabinet approved on 4 October.'
- 7 These papers set out Aotearoa New Zealand's approach to engagement with the Pacific. s6(a)

Executive Summary

Aotearoa New Zealand's Economic Response in the Pacific

- 8 Eighteen months into the COVID-19 pandemic the severe economic disruption across the Pacific continues, particularly in tourism-dependent economies. Though many Pacific countries have been spared the health impacts of COVID-19, the pandemic is causing an unprecedented economic and fiscal crisis. The decline is erasing years of progress and creating new vulnerabilities. Large amounts of external financial support – including NZ\$215.6 million from Aotearoa New Zealand – has so far averted a major crisis; however significant risks remain.
- 9 Recovery will depend on borders re-opening, the resumption of tourism, and the ability of Pacific health systems to keep out COVID-19 or respond to further outbreaks, as well as the success of economic recovery packages. Aotearoa New Zealand will need to continue to work closely with key partners to ensure that all countries in the region are supported. The implications of this on the IDC Programme, and how this fits with existing commitments, are under active consideration.

Fiji's economic position s6(a)

- 10 Fiji began 2021 as a global COVID-19 success story, having eradicated the virus in April 2020. Since a border incursion in April of this year, there have been over 50,000 cases reported and over 600 deaths. Fiji has adopted a 'mitigation' health response strategy in Central and Western Divisions, which encompass Suva and Nadi/Lautoka. This strategy focuses on managing the worst effects of the disease and vaccinating the population as rapidly as possible. COVID-19 has recently been detected in the maritime islands, requiring a complex response to outbreaks in remote locations with limited healthcare infrastructure.
- 11 Despite vaccinations progressing well (over 96% of the 18+ years eligible population have received their first dose), s6(b)(i)
- 12 The outbreak is deepening the economic recession, with Fiji already one of the worst-affected economies in the Pacific. Tourism, accounting for around 38% of the economy, has collapsed. Fiji's National Budget in July revised gross domestic product (GDP) growth to -4.1% in 2021 on top of the 15.7% contraction in 2020.
- 13 The budget deficit is projected to reach 16.2% of GDP. Although the government can borrow externally, there will still be a significant unfunded fiscal gap (approximately FJ\$1.6 billion). Government debt is projected to reach 91.6% of GDP compared to approximately 48% pre-COVID-19, s6(a)
- 14 s6(a)

The 2021-2022 cyclone season is also fast approaching.

15 s6(a)

Fiji's external finance outlook

16 s6(b)(i), s6(b)(ii)

The scale of potential need for financing is beyond the ability of one partner, such as Aotearoa New Zealand, to address alone.

17 Over the last 18 months, bilateral donors and IFIs have delivered large amounts of funding. Alongside Aotearoa New Zealand's earlier NZ\$40 million in grant funding (approved by Cabinet on 19 April 2021 [CAB-21-MIN-0122], Australia has provided AU\$83.5 million in grant funding, while the Asian Development (US\$200 million), Asian Infrastructure Investment Bank (US\$50 million), Japan (US\$100 million), and the World Bank (US\$135 million) have all provided concessionary loan financing. s6(b)(i), s6(b)(ii)

The International Monetary Fund's (IMF's) recent decision to increase the allocation of Special Drawing Rights will also benefit Fiji, including the strengthening of its foreign exchange reserves. The IMF is scheduled to undertake a debt sustainability assessment in Fiji in early October.

Aotearoa New Zealand has been a responsive partner throughout the pandemic

18 Aotearoa New Zealand has already supported Fiji to mitigate the pandemic effects on Fiji's most vulnerable (Annex One). s6(a)

Support includes, but is not limited to, NZ\$4.4 million in early 2020 for health preparedness and support, NZ\$40 million in emergency fiscal crisis financing approved by Cabinet on 19 April 2021 [CAB-21-MIN-0122], vaccines, personnel support, as well as NZ\$22 million in operational funding and support to civil society partners.

19 A large amount of this NZ\$22 million package has been delivered through local civil society organisations (CSOs). The initiatives have delivered food security, social protection and livelihood support with an estimated reach of over 50,000 beneficiaries from vulnerable, economically disadvantaged and at-risk households. See Annex Two for an assessment of this support.

20 s6(a)

21 We are therefore proposing to support Fiji in responding to the short-term economic impacts of COVID-19 with a further NZ\$40 million in grant funding from within existing IDC resources.

22 The proposed funding will be delivered as Budget Support, i.e. a direct payment to the Government of Fiji. As a mechanism, Budget Support enables the receiving government to align the support to its own strategies and programmes and provides it with the flexibility to apply it where it can respond directly to the needs of its own people. It is

relatively easy to deliver in a timely manner, particularly when borders are closed.
s6(a)

- 23 We propose that this payment be tagged to areas directly supporting the most vulnerable communities impacted by COVID-19, including the provision of social support payments, s6(b)(i)

Background

- 24 The economies of many Pacific countries have been severely affected by the 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. In addition, Fiji and Papua New Guinea's effects have been compounded by widespread COVID-19 outbreaks. The scale of the disruption is eradicating years of progress in economic development and poverty reduction.
- 25 Across the region, there is an immediate risk of fiscal crises. Government revenues have fallen dramatically and are unlikely to recover in the near term. Several countries are exceeding their target debt-to-GDP ratios and are at a high risk of debt distress after borrowing extensively from external sources. Unless governments are able to obtain additional financing, they will be forced to materially raise tax rates, or undertake substantial reductions in expenditure on basic services, support to the vulnerable, and public sector employment.
- 26 Pacific island countries have requested emergency general budget support contributions for responding to the impacts of COVID-19. During the recent Pacific Islands Forum Economic Ministers' Meeting, Pacific Island Countries recognised the challenging economic outlook and noted the importance of the region actively looking for solutions using its collective strength to advocate for its own interests internationally. The Forum also highlighted concerns around regional debt sustainability¹.
- 27 s6(a)
- 28 The Cabinet paper 'New Zealand's Pacific Engagement: Moving from COVID-19 Response to Recovery and Longer Term Resilience' set out five resilience pillars as the narrative tool that we will use to articulate our approach to development cooperation in the Pacific to a broad audience. These pillars are economic and fiscal resilience; climate change and disaster resilience; governance resilience; social resilience; and intergenerational and cultural resilience. Taking a resilient development approach will target investments that strengthens the environment, economy, and societies to withstand shocks and manage crises while protecting future well-being. This paper makes clear that alongside long-term investment in resilience, we will also need to

¹ Pacific Islands Forum Secretariat. 2021 Forum Economic Ministers Meeting. Outcomes. Virtual Meeting. 13-14 July 2021.
Pacific Islands Forum Secretariat. 2021 Forum Economic Ministers Meeting. Opening remarks by the Secretary General Henry Puna
Virtual Meeting. 13-14 July 2021.

provide short term support to deal with the immediate impacts of COVID-19. One such example is fiscal crisis financing.

- 29 Since the beginning of the pandemic, Aotearoa 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.
- 30 Working alongside other partners, Aotearoa New Zealand's first phase of COVID-19 budget support to Pacific, approved in March 2020, was initially directed towards healthcare strengthening as the pandemic was starting to take hold globally. Since the design and implementation of this earlier package, the disruptive economic effects of COVID-19 have persisted, particularly for tourism dependent economies. Pacific countries are dealing with much more protracted collapses in economic activity and revenue than was first forecast. Many countries face worsening budget deficits, are managing high debt levels, and have low cash reserves. Aotearoa New Zealand's more recent packages of support, including the reprioritisation of NZ\$120 million in Official Development Assistance that I announced in May 2021, has been directed towards support for households and businesses, including support for the most vulnerable communities impacted by COVID-19.
- 31 Across the region however, the economic recovery of countries will be uneven. There remains uncertainty regarding tourism recoveries, the speed and distribution of vaccine roll-outs, fisheries and logging revenue, the sustainability of remittances, and the scale and timing of commitments from other donors. In several respects the outlook is worsening, with renewed outbreaks, delays to border openings, and uneven vaccine roll-outs representing significant downside risks.
- 32 Further to the NZ\$120 million in economic support for the Pacific that I announced in May 2021, an additional NZ\$30 million has been provided to the Cook Islands, which has seen similar falls in GDP to that of Fiji.
- 33 Cabinet is also today considering a package of further economic support for the Cook Islands. This recognises New Zealand's constitutional obligations to the Cook Islands, s6(a) The recent suspension of tourism in the Cook Islands, following the move to Alert Level 4 in Aotearoa New Zealand, means that cash reserves are vulnerable in the short term once again and will require support. Capital for infrastructure investment is also being sought, to generate economic recovery in the medium term.
- 34 s6(a)

MFAT is continuing to monitor the economic situation in the region, in coordination with Australia, the IMF and international development banks.

Analysis

s6(a)

35 s6(a)

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

39 Fiji is one of the worst-affected economies in the Pacific. The economy is estimated to have contracted by 15.7% in 2020, compared to 6.1% for the Pacific as a whole. The economy was already suffering setbacks from three major tropical cyclones which hit Fiji in 2020 (Harold, Yasa) and early 2021 (Ana), causing significant damage and loss of life. The current COVID-19 outbreak has deepened the economic recession.

40 One of the foundations of the economy, tourism – a sector accounting for up to 38% of the economy and up to one third of all jobs – has effectively collapsed. Tourist visitor numbers have reduced from 75,000 a month in 2019, to essentially nil.
s6(a)

41 Fiji's National Budget, announced in July 2021, revised Fiji's GDP growth down to negative 4.1% in 2021 on the assumption that tourism will not resume to any significant degree this year. s6(a)

42 The government-forecast economic growth of around 6% for 2022 is contingent on the resumption of tourist activity s6(a)
s6(a)

s6(a)

- 43 s6(a) Tax revenue is estimated to have dropped by over 50% in comparison to pre-COVID-19 levels. s6(a)

As a result, the fiscal deficit is estimated to reach 16.2% of GDP for FY2022 (FJ\$1.6 billion), up from a revised deficit of 11.5% in the last fiscal year (FJ\$1.1 billion). s6(a)

Government debt is projected to be about 91.6% of GDP by the end of the financial year, up from 79.2% in the previous year. s6(a)

- 44 s6(a)

Fiji's response

- 45 The Government is continuing to pursue long-term structural adjustments to diversify the economy and reduce the high dependence on tourism. Reforms are being directed towards improving the ease of doing business to attract private sector investment and foreign direct investment, enhancing access to finance, reducing tax rates and streamlining tax administration to support economic growth and stability.
- 46 In the agricultural sector, the Government has recognised there are opportunities to support large-scale commercialisation to compete in the export market and to be able to effectively meet the demand from the local tourism industry. In resource-based sectors like forestry and fisheries, there is the potential for greater value addition. The manufacturing sector is also growing in Fiji with potential for further expansion and entry into new manufacturing activities. The Government is providing support for the adoption of new and better technology and expertise which will allow cost reduction and enhance competitiveness. The 2021/22 Budget introduced a number of policies and financial support towards economic diversification in these sectors.
- 47 Aotearoa New Zealand is supporting these reforms via the IDC Programme.

Other donor partners

² "The COVID-19 pandemic will disproportionately impact the most vulnerable and marginalised groups, including women, children, older people, young people, persons with disabilities, LGBTQI+, single and women-headed households, and poor households". UNDP. 2020. Socio-Economic Impact Assessment of COVID-19 in Fiji. Suva.

- 48 Bilateral donors and International Finance Institutions have delivered large amounts of funding to Fiji over the past 18 months. Alongside Aotearoa New Zealand's earlier NZ\$40 million in grant funding (approved by Cabinet on 19 April 2021 [CAB-21-MIN-0122]), Australia has provided AU\$83.5 million in grant funding, while the Asian Development Bank (US\$200 million), Asian Infrastructure Investment Bank (US\$50 million), Japan (US\$100 million), and the World Bank (US\$135 million) have all provided concessionary loan financing. s6(b)(i)

Aotearoa New Zealand has been responsive to Fiji's needs since the beginning of COVID-19

- 49 Significant Aotearoa New Zealand resource has already been allocated to support Fiji to respond to health risks, poverty issues and fiscal stress. This includes NZ\$40 million in budget support, NZ\$22 million in operational funding and support to civil society partners. The support packages have been designed to address food security and provide support to Fiji's most vulnerable individuals.
- 50 Aotearoa New Zealand has also deployed personnel to Fiji from the New Zealand Medical Assistance Team (NZMAT) alongside Australia. The current NZMAT rotation ended on 14 August.
- 51 Aotearoa New Zealand recently funded the delivery of 100,000 doses of AstraZeneca to Fiji and has provided NZ\$2 million to support Fiji's vaccine roll-out. Fiji has also benefitted from our support to COVAX Advance Market Commitment (AMC). s6(b)(i)

Fiji has formally requested Pfizer from Aotearoa New Zealand's domestic portfolio s6(b)(i)

On 23 August 2021, Cabinet approved a proposal to s9(2)(b)(ii) of Aotearoa New Zealand's doses of Pfizer to Fiji [CAB-21-MIN-0334], targeting delivery in early Quarter Four.

- 52 A full list of Aotearoa New Zealand's support to Fiji can be found in Annex One of this paper.

Further COVID-19 financial support

- 53 This proposal is for a third tranche of fiscal crisis financing in order to respond to Fiji's immediate and serious needs. The proposal will offset some of the substantial additional debt that the Government of Fiji will require to bridge its projected fiscal gap, s6(a)
- 54 The proposal complements a wider package of support Aotearoa New Zealand is offering Fiji to manage the impacts of COVID-19, including support for medium-term economic reform and diversification of the economy s6(a)
- 55 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 Aotearoa New Zealand's IDC programme resources for the current triennium.

- 56 The proposed scale of support was determined by an assessment of: s6(a)
s6(a)

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

- 57 s9(2)(g)(i)

Though economic support has been provided for a number of countries in the Pacific, the region's economic outlook remains negative, and there are significant downside risks. s9(2)(g)(i)
s9(2)(g)(i)

- 58 s9(2)(g)(i)

- 59 The implications of potential additional economic support for the IDC programme, and how this fits with existing commitments, are under active consideration. MFAT will continue to provide advice and assessments to Ministers on the support required for the region.

Direct budget support as the best means of delivery

- 60 Our financing will be provided as direct budget support to the Government. s6(a) and will allow it to respond flexibly and rapidly to challenges in line with its own objectives and interests.

- 61 Budget support from Aotearoa New Zealand is provided in the form of grants, rather than loans. s6(a)

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

- 62 s6(b)(i)

s6(b)(i)

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Financial Implications

- 64 This proposal will cost NZ\$40 million and will be disbursed this financial year. The funding will be drawn from the Strategic Initiatives Development Fund (SIDF), of the International Development Cooperation (IDC) appropriation, and does not require new funding. MFAT does not anticipate exceeding the IDC threshold in the current financial year as a consequence of this funding decision.

Legislative Implications

- 65 There are no legislative implications from this proposal.

Human Rights

- 66 The budget support proposed in this paper will enhance Fiji's ability to self-implement human rights such as the right to social security, adequate standard of living, food security, housing, education, health, economic empowerment, and good governance. This is consistent with Aotearoa New Zealand's focus on human rights in development cooperation contributing to reducing inequality and enhancing well-being, stability, and security. Promoting human rights and social inclusion across the Pacific is integral to Aotearoa New Zealand's International Human Rights Action Plan, as well as our commitment in the 2030 Sustainable Development Goals to leave no one behind: kua tētahi e whakarērea.

Consultation

- 67 The Treasury have been consulted and are comfortable with the proposed approach.

Communications

- 68 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

- 69 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 Aotearoa New Zealand.

Recommendations

- 70 The Minister of Foreign Affairs recommends that the Committee:

1 s6(a)

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- 3 **Agrees** that NZ\$40 million from within existing IDC programme resources be allocated to 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, s6(a)

Authorised for lodgement

Hon Nanaia Mahuta

Minister of Foreign Affairs

Annex 1: Aotearoa New Zealand Response to the Fiji COVID-19 outbreak

Aotearoa New Zealand has provided the following assistance to Fiji since mid-April 2021:

Economic

- **NZ\$40 million Official Development Assistance emergency budget** support in May 2021 as part of the Government's wider Pacific COVID economic assistance package. This is partly tagged for social support (e.g. welfare payments).

COVID-19 operations support and poverty alleviation

- **NZ\$10 million** was approved in June 2021 to support Fiji's response and recovery over the medium-term (comprising NZ\$5 million for the Fiji Government to deliver COVID operations, and NZ\$5 million for local civil society organisations to mitigate poverty in vulnerable communities). To date this has delivered:
 - **Emergency response vehicles** and ambulances including:
 - four rental vehicles for immediate use by emergency first responders
 - local procurement of four fully equipped ambulances
 - logistics and freight support to deliver four specialised Land Cruiser ambulances and medical supplies donated by St John New Zealand.
 - 500 locally-made **privacy screens** for use in isolation facilities.
 - 50 **Pulse Oximeters** for Fiji hospitals to improve monitoring of blood oxygen levels.
 - Funding for the **recruitment of 190 Fiji graduate nurses** (for an initial period of three months) from tertiary institutions in Fiji to support the Fiji Ministry of Health.
 - Six Fijian civil society organisations are delivering **food security, social protection and livelihood support** for over 50,000 beneficiaries from vulnerable, economically disadvantaged and at-risk households who stand to be most affected by the social and economic impacts of the pandemic.
 - Oxygen support to the Fiji Ministry of Health via CureKids New Zealand.
- A further **NZ\$12 million** package for medium term support approved in August 2021, to be divided as follows:
 - NZ\$7 million for responding to ongoing equipment and supply needs, and requests from the Fiji Ministry of Health. This includes supporting ongoing oxygen provision and testing capacity, as well as ensuring a consistent supply of PPE.
 - NZ\$4 million to meet urgent and essential operational costs to enable the implementation of Fiji's mitigation and containment strategies. This will include funding for technical assistance, surge support for Government operations, and support for monitoring of community isolation cases.
 - NZ\$1 million contribution to the International Red Cross Global Appeal for COVID-19 tagged to support the Fiji Red Cross Society's National Response Plan focused on vaccine roll out, risk communications, blood donations and training of volunteers for home-based care.

Immediate humanitarian and medical response

- The short term deployment to Fiji in late June 2021 of two Aotearoa New Zealand medical personnel embedded in a **joint Medical Assistance Team (MAT)** with Australia, including an NZDF public health clinician. A second team of four New Zealanders arrived on 17 July, including a nurse, anaesthetist, logistician, and a MFAT liaison officer.
- NZ\$541,000 for 40 additional **Fisher & Paykel Airvo high flow oxygen machines** and consumables.
- NZ\$700,000 of emergency funding through the NZ High Commission provided to Fijian agencies and Civil Society Organisations to distribute locally-sourced **Personal Protective Equipment (PPE), psycho-social counselling support, food ration kits, sanitation supplies** and support to frontline workers.
- 23 tonnes of **PPE equipment** deployed directly from Aotearoa New Zealand valued at NZ\$792,000.
- 500 kits tailored to the needs of **mothers and their new-borns**.
- One additional **PCR testing machine** and testing supplies to expand Fiji's testing capacity.
- The NZDF has shared Aotearoa New Zealand **MIQ operational protocols and policies** to support Republic of Fiji Military Forces (RFMF) management of isolation facilities.
- **Communication support** to translate public immunisation information into Fijian and Hindi languages.

Vaccines

- Delivery of **100,000 doses of AstraZeneca** to Fiji on 3 August, in cooperation with the Spanish Government.
- Vaccine commitment of **500,000 doses of AstraZeneca** from Aotearoa New Zealand's allocation (with a target of delivery Q3 2021).
- NZ\$2 million to support Fiji's **vaccine roll-out**.

Annex 2 is withheld in full under sections 6(a) and 6(b)(i) of the OIA

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