At the crossroads

The phrase 'We are in unchartered territory' resonates with Prime Ministers, Premiers, Presidents, Finance Ministers, Finance Secretaries and CEOs, other high-level government officials and the ordinary residents of Forum island countries (FICs). For the past eight months, the lives of ordinary people in the FICs are characterised with questions and guesses of how long more would the current emergency restrictions continue for, and how the unforeseen changes brought about by the impact of the pandemic and the lockdown will have on their daily routine in islands free of COVID-19. In short, these people are experiencing the economic downturn which are and will undoubtedly affect some people's ability to fund pig or cattle-farm ownership, root-crop or sugar farming nor guarantee livelihood, food security and nutrition in the region.

The new normal for most FICs are now experiencing a shrinkage to their main source of income from families working overseas – the magic remittances. According to the World Bank, the remittance inflows to FICs are projected to drop by about 13 percent as a result of economic recession caused by COVID-19. Remittances are a main source of foreign exchange for countries like Fiji, Kiribati, Samoa, Tonga, and Tuvalu – where for Tonga, remittances represent some 37.6 percent of the GDP (2019), the highest proportion in the world. Reduced remittances from abroad are affecting the purchasing power of countries and of communities.

When the Pacific Forum Ministers for Finance and Economic met in August, Ministers acknowledged that the rapidly changing socio-economic situation of FICs are further stressing the already heavy indebtedness and high exposure to climate disasters. These realities are widely shared on the websites, virtual webinars of some of the FICs, the international and regional inter-governmental, financing, and non-profit institutions who quickly responded to the pandemic with a series of immediate and medium-term programmes to support small states and others to respond to COVID-19, and even the social media where the current health and macro-economic concerns, lack of social protection and services that shapes many people's lives and beliefs are exposing some of these realities.

At the time of writing, the United Nations had just concluded its high-level event to mark the UN's 75th anniversary, and to adopt a forward-looking political declaration on: "The future we want, the United Nations we need: reaffirming our collective commitment to multilateralism" where some of the leaders including the Pacific raised one of the most critical issue and priorities for small economies, i.e. debt relief and debt sustainability for the economies of the Small Island Developing States (SIDS) and including those in the Pacific. According to the World Bank, the pandemic struck at a time when the growth rate in developing countries was at its lowest level in the past decade, fiscal and current account deficits were high, and countries had little room for manoeuvrability. A collapse in commodity prices and exports, plunge in income from tourism, sharp drop in remittances and massive capital outflows have caused *economic* disruption in many SIDS.

Recent studies have re-surfaced the reality that the world was already in a fragile place prior to COVID19 and the past decade reflected the largest, fastest and most broad-based accumulation of debt in over 50 years. Global debt in this period rose from 60 percent of GDP to 170 percent of GDP and includes private debt. (Source: IMF, Kose and others (2020), and World Bank.), with China contracting the largest amount. The public debt is at distressing levels in most of the Pacific Islands Forum countries, with the Federated States of Micronesia, Kiribati, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu classified either under the risk of moderate to high debt distress.[2]

As I noted the above down, they remind me of the 1990s when dramatic changes occurred within the Pacific, stimulated both by long-term international or regional trends such as globalisation, deteriorating terms of trade, mounting external debt, economic recession, and non-sustainable development policies, and by more short-term developments such as the financial crisis in Asia that resulted with the security and stability of several FICs having declined. The 1990s trend was marked by growing unemployment, poverty, social disintegration and widening differences between household incomes. Associated with these challenges had been alleged abuses of power or public office, mismanagement of national resources, corrupt practices by public officers, and growing tensions between traditional leaders and communities and between central and local governments.

And so with the widespread disillusion of the public with the quality of governance, it became a significant trigger of reforms in the Pacific and in 1997, the Pacific Island Forum leaders adopted the eight principles of accountability to guide governance reforms in each country.[1] The Pacific Islands Forum Secretariat conducted stock-take surveys of its member countries to determine their capacity to implement these accountability principles. The surveys revealed three main weaknesses in the quality of governance: (i) **Weak legislatures**: A generally weak culture of accountability and transparency prevails in most Pacific Island countries largely because of a weak legislature and very few public corporations or government agencies had complied with their accountability or reporting requirements and Parliament had weak oversight role; (ii) **Weak regulatory framework for prompt accountability:** Laws that stipulate the responsibility of public institutions and officers to government and parliament were often ambiguous or absent and there were few sanctions against non-compliance that it made public officials vulnerable to temptation, bribery or misuse of public money and assets; and (iii) **Weak judiciaries:** Throughout the region, judicial services had a considerable backlog of cases to be heard. Corruption cases took years to go through the judicial process and often are weakened by insufficient evidence. A weak judicial service has economic ramifications: property rights cannot be effectively guaranteed, contracts cannot be expeditiously enforced, and law and order cannot be effectively maintained.

Noting the above findings of 1997, the 2000 Biketawa Declaration which recalled Forum Leaders' 1995 Vision Statement, the Forum Economic Action Plan Eight Principles of Good Governance and the 1997 Aitutaki Declaration and twenty-three years down the line, the region is again faced with very similar challenges that shocks the small economies and many more unknowns and questions whereby elements of the three findings of the 1997 survey are **worth revisiting today** as members reprioritise and reform.

At this historical and critical juncture, we are faced with new times that calls for new thinking and a culture transformation on how we do things, on how we do business as governments and private sector and to look to our neighbour and say "who is missing". Is it the young people, is it the women, which women are involved and who's not involved – do we have everyone on the call or in the room?

[1] The Forum's Eight Principles of Accountability.

The need for structural reforms are evident that such will support the diversification of the region's economies as well as enhance the competitiveness of the region's small economies in the medium-long term. Some reprioritisation is happening with the consultations and with the development of the 2050 Strategy and of existing support is needed.

The IMF guidance on national policy options for securing fiscal sustainability amidst the pandemic recognise that policy measures which governments have historically taken in response to crises have been both budgetary and extra-budgetary, with the latter accounting for a majority of the average increase in public debt (IMF, 2012)). In the international sphere, advocates lament that efforts to address historical debt challenges at this level remains piecemeal with little appetite among key actors, including private creditors and some debtors (Balibek et al (2020)).

According to the World Bank Group, Kose et al (2020) in their cresting wave of debt report highlight that investors are more likely to accept increased debts and deficits if governments introduce mechanisms and institutions today that will restore fiscal sustainability tomorrow. In this vein, the World Bank economists suggest that governments focus on: (i) **robust macroeconomic policies**; (ii) **good governance** where spending is prudent and expenditures are to improve productivity and outputs; (iii) **efficient regulation, supervision** and proactively monitoring to manage risks; and (iv) last but not least - **sound debt management and transparency** to ensure debts can be repaid tomorrow; keep borrowing costs in check; have a framework to ensure sound management of monetary and fiscal risks.

There are other options as recommended by Jeremy Bulow from the regulatory perspective (Bulow et al. (2020) adds:

- ✓ More transparency on debt data and debt contracts
- ✓ Realistic economic forecasts that incorporate increased risks
- ✓ New legislation to support orderly restructurings for example the introduction of pari-pasu and collective action clauses (CACs). These allow for quicker and more efficient creditor agreement and avoid creditor holdouts.

The IMF advice (Balibek et al. (2020)):

- ➢ Invest in understanding implications of changes in macro and financial conditions on budget, and in identifying and quantifying major contingent liabilities and potential to crystalise.
- ➢ Consequences of all extra-budgetary and off-budget measures should be assessed, tracked and managed, and transparency reported, and
- ➢ Extra budgetary expenditure and off budget fiscal operations should include sunset clauses or strategy to integrate into budget (above line expenditure)

The international community have responded with options of suspension of debt service payments for IDA countries by the G-20, debt-servicing reprieve by the IMF to 29 poorest and most vulnerable countries, liquidity injecting measures of the IMF and enhanced lending facilities by the World Bank and other developmental institutions. It is expected that **the recovery will be slow** and whilst these options provide some breathing space these options must be complemented to tackle the long-term impact and recovery process in the coming years.

The United Nations has been a leader in calls for international relief efforts at the international level to address the pandemic and to assist with fiscal burdens. The measures proposed would lend to securing fiscal sustainability (UN (2020)).

- ❖ With reference to the G20 Debt Service Suspension Initiative (DSSI), suspend debt service payments for all vulnerable countries to provide countries with fiscal space to respond to crisis.
- ❖ Include debt to International Financial Institutions in the DSSI
- ❖ Private creditors must join the moratorium to avoid the public sector bailing out to private creditors
- ❖ Progress an international debt workout mechanism for more orderly debt restructuring

At national level, countries urgently need a **well-designed debt relief package** through sovereign debt restructuring, to deal with potentially unsustainable debt, which if unaddressed would impose heavy social, political and economic adjustment costs and hamper their ability to build economic resilience and for economies to recover stronger from the pandemic and climate disaster crises.

The world is well aware that the COVID-free islands of the Pacific are not free from the painful economic impacts of the pandemic. The burden of debt relief must be urgently and responsibly handled with solutions for implementation, with governments leading initiatives with creditors and debtors, partners on a bilateral and multilateral basis. Innovative debt instruments such as climate for debt swaps, health for debt swaps, must be explored on a case-to-case basis to support economic recovery opportunities for the region's small economies in collaboration with the international financial institutions and development partners.

Emerging stronger requires difficult conversations with **genuine regional collaboration and solidarity, and international cooperation and partnerships** are now more critical than ever. Better **coordination**, stronger **cooperation** and **commitment** and **care** that the COVID-19 free islands of the Blue Pacific Continent are reprioritising their limited resources to address the economic, social and environmental dimensions of the responses at every level to generate efficiencies and cost savings. The Blue Pacific Continent has to make some hard decisions as to its options which are few but critical for its people and economies to overcome the pandemic and build forward better.

The countries can collectively commit to implementing strategies to limit extra-budgetary measures, given historical evidence, and potential benefits including improved investor sentiment. To advance these international efforts, the Blue Pacific countries could explore where there is room for **consensus** and present their requests through the international channels at the UN and other platforms, for brokering agreement and to explore opportunities for collaboration to improve management of contingent liabilities, as well as minimise cost of borrowings subject to risk and mobilise broad-based debt restructurings to avoid mass debt defaults.

At the crossroads, the imperatives are to regroup, reprioritise and together mobilise assistance and cooperation. The COVID-19 has brought the region, and the world together. Let us keep moving together.

Amelia Kinahoi-Siamomua
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Amelia Kinahoi Siamomua is a development economist and an international civil servant. She is Tonga's candidate for the position of Secretary General of the Pacific Islands Forum.