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How to fund rehab?

T.K. JAYARAMAN

As communications are improving during last two weeks, the nation is getting the updated cost estimates of devastation inflicted by severe Tropical Cyclone (TC) Winston.

Beyond financial terms, we have the poignant words of Prime Minister expressing the grief of the nation:

“A couple of weeks ago, I was talking about the economy, the Fijian economy, that has been going up, has been growing ... All that went down the drain in 24 hours when Winston came.”

Damage is widespread. About 350,000 people out of total population of 850,000 are affected. Loss of lives is around 45 with injuries to 130. There are reports of total destruction of 3360 houses and partial damages to around 5800 houses. Agriculture output is expected to decline with sugar industry losing around FJ\$83 million.

With the estimate of FJ\$2 billion worth of productive assets including roads, bridges and jetties, Winston has destroyed the GDP base equivalent to 25 percent of annual GDP. This figure would be revised once the survey of damages is completed by March 22.

Humanitarian aid

Fiji's traditional donors, Australia and New Zealand again proved they are the most generous of all donors with food and provisions for temporary accommodation and medical help. Asian Development Bank, once described as family doctor by a former president Fujioka rushed in with grant of US\$2 million (FJ\$4.2 million).

Business houses and citizens are making handsome donations. Since most of the assistance is designed towards meeting immediate needs of the affected population, the daunting task of reconstruction and rehabilitation remains.

Some options

Fiji needs resources in terms of millions. Fiji has been floating domestic bonds for funds ranging from FJ\$15 million to FJ\$30 million, under two categories of bonds: Infrastructure Bonds and Viti Bonds. The resources thus raised so far can also be redirected to the emerging priority needs of re-construction in the cyclone affected islands.

It is also possible that government can re-direct the funds already obtained under the third International Bond of US\$200 million (FJ\$ 430.9 million) towards cyclone reconstruction. Further, government may seek approval of ADB for utilizing the loan proceeds from approved projects to fund Winston relief and rehabilitation expenditure. For example, Section 3.04 of the Loan Agreement for Transport Infrastructure Investment Sector Project (Loan: US\$100 million) enables such re-direction of funds.

There are other options too: This includes stepping up domestic borrowing, which is presently around 33 percent of GDP. It is free from exchange rate risk: the country owes itself kind of debt, not to others externally. Further, thanks to ample excess liquidity in the banking system, we have a low interest rate environment, the benchmark interest rate being at 0.5 percent.

The latest Staff Report for the 2015 Article IV Consultation Mission highlights the need for withdrawal of excess liquidity in the banking system. Based on the latest data, the liquidity margin in September was FJ\$439 million (5.4 percent of deposits). The present level of liquidity is likely to rise following substantial remittances from anxious overseas residents of Fijian origin.

Taking advantage of ample liquidity, Government may consider floating a special series of Winston Cyclone Reconstruction Bonds of say FJ\$30 million to start with. A special incentive to investors can also be announced by making them income tax free.

Overseas borrowing

Fiji's external debt level is low: 15 percent of GDP, total debt being 48 percent. The S&P credit rating is B+, since May 2015. It was also announced soon after the cyclone that the favorable rating continues.

The best option is to seek sizeable loan assistance from ADB from its Special Funds resources under Disaster Response Facility and Global Environment facility. The latest Cyclone Pam road Reconstruction Project loan to Vanuatu in November 2015 with the objectives to "restore socioeconomic activities to precyclone levels" with loan components of "reconstruction of transport infrastructure and climate-disaster- proofing" can serve as a model.

Being an upper middle income country, Fiji unlike Vanuatu, is not eligible for the concessional rate of 1 percent per annum.

The rate of interest to Fiji would be equal to the sum of prevailing six monthly LIBOR (London Interbank Offered Rate) and 0.60 percent. The LIBOR rate presently is 0.7 percent. The rate is variable one. Since world economic conditions are likely to be recessionary, LIBOR would continue to remain low. ADB may also consider piggybacked technical assistance grants free of interest rate for advising on cyclone proof residential dwellings.

What happened on Sunday February 20 indeed amounts to a “Greek tragedy”.

Though the definition of Greek tragedy as a literary work would say how a main character of outstanding personal qualities falls to disaster by circumstances which he cannot control, commentators would comfort us that such plays have a meaningful ending.

The TC Winston has a clear message.

With stress on high technical standards of cyclone proof building and roads as part of reconstruction, Fiji should move on towards greater glory.

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Professor Jayaraman teaches at FNU, Nasinu Campus.

His website is : www.tkjayaraman.com