

# ON-LENDING POLICY



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Treasury Division  
Ministry of Economy  
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**Contents**

- 1.0 Abbreviations and Definitions .....3
- 2.0 Introduction.....4
- 3.0 Scope .....5
- 4.0 Purpose.....5
- 5.0 Legal Framework.....6
- 6.0 Structure of Government Loan Program.....6
- 7.0 General condition and processes .....6
  - 7.1 Requirements for loan submission under the Program .....6
  - 7.2 Assessment of submission.....7
  - 7.3 Cost Recovery Agreement.....8
  - 7.4 Monitoring .....8
- 8.0 Key terms and conditions of the loan .....8
  - 8.1 Interest Rate .....8
  - 8.2 Grace Period .....9
  - 8.3 Repayments Terms .....9
  - 8.4 Billing Process.....9
- 9.0 Event of Default .....9
- 10.0 Review of Policy .....10

## 1.0 Abbreviations and Definitions

<b>Beneficiary</b>	refers to parties receiving Government grant
<b>Borrower</b>	refers to Government owned entities
<b>Cost Recovery Agreement</b>	is an agreement entered between the Government and the Borrower to bind themselves for the repayment of all costs and fees associated with the loan.
<b>Donor Agency</b>	is a party donating grant funding to the Government
<b>External Creditors</b>	refers to overseas lending parties, either bilateral or multilateral, that lends to the Government through the Ministry of Economy
<b>FMA</b>	Financial Management Act 2004
<b>Government</b>	Government of the Republic of Fiji
<b>Grace Period</b>	is the period of time given to Borrower before principal repayments is required and is outlined in the Loan Agreement.
<b>Loan Agreement</b>	is the primary loan agreement between the Government and the External Creditors
<b>Minister</b>	refers to the Minister for Economy
<b>MOE</b>	Ministry of Economy, is the borrowing agency of the primary loan and lending agency to Borrower
<b>RBF</b>	Reserve Bank of Fiji, an agency bank of the Government of Fiji
<b>Permanent Secretary</b>	refers to Permanent Secretary for Economy
<b>Policy</b>	On – lending policy
<b>Primary loan</b>	refers to the loan obtained from external creditors by the Government
<b>Program</b>	Government loan program

## 2.0 Introduction

2.1 The On-Lending Policy provides guidelines for determining suitable lending requirements using the established rules and framework to administer the Government's on-lending program effectively by:

- a) ensuring the stability and soundness of the Government Entities;  
and
- b) reducing on-lending and fiscal risk.

The Policy provides vital links to the appropriations provided for in the budget estimates of the Government to ensure that the objectives of the loan as set in the budgetary provisions are achieved.

The Policy and the rights and obligations of the parties hereunder shall be governed in all respects by and be construed and interpreted in accordance with the laws of Fiji specifically the Constitution of the Republic of Fiji and the FMA.

The Policy will be administered by the Treasury Division of the Ministry.

### 2.2 On-lending

On-lending refers to instances where the Government obtains a loan from External Creditors and on-lends the same loan to Government Entities, the Borrower. Government is legally obliged to repay the principal and interest amount on the primary loan to the External Creditors whereas the Borrower is obliged to repay the interest and principal amount of the loan to the Government.

On-lending can arise where Government receives a grant from donor agencies, which it then on-lends to Beneficiary by way of a loan, requiring the Beneficiary to repay the principal amount of the loan. This transaction is considered under this Policy.

In any circumstances where Government receives a grant and then on-lends the funds to a Beneficiary without any repayments of the grant funds then this is an on-grant transaction and is not reflected in this Policy.

## **2.3 Government Entities**

For the purpose of this Policy, Government Entities refers to entities controlled by the Government including Public Enterprises.

## **3.0 Scope**

3.1 This Policy is applicable to the Borrower that the Government on-lends for the following purpose:

- a) projects or programs wholly funded by Government loans from External Creditors; or
- b) projects or programs partly funded by Government loans from External Creditors.

## **4.0 Purpose**

4.1 The purpose of this Policy is to:

- i) provide eligibility criteria for the loan facilities;
- ii) provide guidelines on the documentations and conditions of the loan;
- iii) provide reporting and monitoring obligations of the different loan facilities in the lending fund;
- iv) standardise record keeping of each loan facility; and
- v) provide the recovery options and processes.

## 5.0 Legal Framework

5.1 The FMA requires all lending arrangements to be authorised by the Minister responsible for finance and specifies the following:

- a) section 61(1) of the FMA states that the Minister may on behalf of the State, make loans of public money from the Consolidated Fund on such terms and conditions as the Minister thinks fit and whether within or outside Fiji;
- b) section 61(2) of the FMA states that a loan of public money under this section can only be made in accordance with an appropriation of the money concerned;
- c) section 61(3) of the FMA states that a loan of public money under this section or under any Act must be evidenced by an instrument signed by the Minister; and
- d) section 61(4) states that the regulations may make provision for or with respect to loans under this section or (subject to the other Act) any other Act.

## 6.0 Structure of Government Loan Program

6.1 The Program that is permitted under section 61 of the FMA does not replace conventional financing. The goal of the Program is to participate in situations where the necessary conventional financing and equity is not available or where the cost of the available funds is such that the servicing of the debt cannot be managed with the available cash flow of the Borrower.

## 7.0 General condition and processes

### ***7.1 Requirements for loan submission under the Program***

7.1.1 Borrower requesting for loan from the Government is required to provide written submission to the MOE with supporting documentation.

7.1.2 All submissions should include the purpose of the loan, projects/program, loan value and repayment capacity.

**7.1.3 Supporting documentation includes:**

- i. letter of offer from external creditors;
- ii. latest audited financial statements;
- iii. latest annual report;
- iv. projected five (5) years cash flow; and
- v. any related information that will assist MOE with its assessment.

**7.1.4 The Borrower is required to undertake the following:**

- i) provide accurate and complete information on their application, regularly assess their borrowing and other financial commitments;
- ii) should there be anticipations of difficulty in meeting future repayments or managing timely repayments, to contact MOE immediately; and
- iii) fully understand the terms and conditions on the funds borrowed from the Government and should seek further information if required.

**7.1.5 The written submission must be received by the MOE at least five (5) months before the end of the Government fiscal year.**

**7.2 *Assessment of submission***

**7.2.1 The MOE will assess the formal submission from the Borrower and coordinate meetings and consultations with the Borrower if necessary.**

**7.2.2 Any new expenditure under an on-lending arrangement should be thoroughly assessed and approved under the Government budgetary process. No disbursement of funds from Government borrowings can be made without a budgetary appropriation.**

**7.2.3 The MOE once satisfied with the assessment, will proceed with the following:**

- a) prepare the relevant brief with a recommendation for consideration by the Minister;
- b) subject to Minister's approval:
  - (i) prepare Cabinet Paper if the loan is not appropriated for in the Annual Budget;
  - (ii) prepare Parliamentary Motion if the loan is not appropriated for in the Budget Estimates for the financial year in which it is to be released to the Borrower.

### **7.3 *Cost Recovery Agreement***

7.3.1 A Cost Recovery Agreement will be drawn up, vetted by the Office of the Solicitor-General then endorsed by the Permanent Secretary and the authorised representative of the Borrower.

### **7.4 *Monitoring***

7.4.1 As part of its monitoring role, the MOE, through the Treasury Division will monitor the performance and repayment abilities of the Borrower. This will include but not limited to:

- a) formulation of a semi-annual update to the management of MOE;
- b) undertaking annual financial analysis and assessment of the Borrower; and
- c) conducting an annual meeting and site visit to Borrowing entities.

## **8.0 Key terms and conditions of the loan**

### **8.1 *Interest Rate***

8.1.1 Government borrowings from External Creditors are made on concessional terms with long term repayment periods and at a lower interest rate. Concessional terms is an arrangement mutually agreed by both parties in where the interest rate is below those available on the market or by grace period or a combination of both.



8.1.2 Government repayments to External Creditors are in foreign currency whereas the Borrower repayments to the Government are usually in Fijian currency based on the confirmation advice of payment from the RBF and the agreed terms as stipulated in the Loan Agreement.

8.1.3 The interest rate charged to the Borrower will be aligned to the Loan Agreement and at a mutually agreed rate.

## 8.2 ***Grace Period***

Grace period is the period from the commencement of the loan whereby there will be no repayments of principal as articulated in the Loan Agreement.

## 8.3 ***Repayments Terms***

The repayment terms for on-lending facility is aligned with the Government's repayment schedule to the External Creditor.

## 8.4 ***Billing Process***

8.4.1 MOE will arrange for a formal payment notice on MOE letterhead and send to the Borrower via electronic mail and the original via registered postal as soon as the confirmation advice of MOE payment is received from the RBF.

8.4.2 The formal notice should capture the date, address, description of payments, repayment amount (at VIP) and payment methods (bank direct credit is preferred).

8.4.3 The Borrower should remit payment to MOE within 14 working days of receiving the written notice.

## 9.0 **Event of Default**

9.1 Event of Default is where the Borrower cannot meet its loan repayment to the Government in the manner as stipulated in the Cost Recovery Agreement due to financial constraints or other unforeseen circumstances.

9.2 Financial constraints is an event where the Borrower's financial situation is in distress with losses recorded and a negative cash flow position. Unforeseen circumstances is any unplanned event including a slowdown in economic growth, decline in revenue sources, a natural disaster to

name a few that may negatively impact on the Borrower's performance and its ability to repay Government.

- 9.3 Pursuant to 9.1, the Borrower to notify the Permanent Secretary in writing of an expected event of default at least a month before the event of default.
- 9.4 The following are processes to follow in the event of default:
- a) the Permanent Secretary upon receipt of the formal notification from the Borrower to advise the Treasury Division;
  - b) Treasury Division to undertake assessment and analysis of the Borrowing entity and arrange meeting with its Management;
  - c) if the Treasury Division is satisfied with evidences provided that the Borrower is genuinely unable to repay Government, an update outlining options of debt repayments or restructure to be provided to the Permanent Secretary; and
  - d) the Permanent Secretary as soon as practicable shall advise the Minister and seek approval of actions and punitive measures to be taken.

## **10.0 Review of Policy**

- 10.1 This Policy shall be reviewed as and when required and when there are changes to laws and related regulations directly linked to the Policy or at any time determined by the Minister.