Around the globe, the impacts of climate change continue to worsen due to increased global warming driven by high global dependence on non-renewable sources of energy. Despite having some of the world’s smallest carbon footprints, Small Island Developing States (‘SIDS’) like Fiji are on the frontlines of this crisis.

That is why the Fijian Government is steadfast in championing for the urgent need to address climate change at the international level, while working at home to fortify the nation against climate-induced natural disasters. For over a decade, it has invested heavily in the future of Fijians by building resilient infrastructure and promoting sustainable development.

Meanwhile, the immense amount of capital required to wholly meet Fiji’s climate-resilient development needs far exceeds the levels of domestic and international climate finance currently available.

To help raise additional finance to fill this resourcing gap, the Fijian Government issued the FJ $100 million Fiji Sovereign Green Bond (‘FSGB’) in November 2017. In doing so, Fiji became the first emerging market in the world to issue a green bond. The FSGB was a resounding success, receiving strong market interest from domestic and international investors alike; all bond issuances were oversubscribed.

The FSGB is now regarded as a pioneering initiative due to its demonstration of the way in which capital markets can be harnessed as a reliable source of climate finance. This award-winning initiative has not only mobilised unprecedented levels of international private climate finance to help support domestic climate action but has also encouraged the private sector to better consider the potential for bond investments to help achieve resilient development objectives.

The Fijian Green Bond is mutually advantageous to both investors and the people who ultimately benefit – providing both financial returns and critical assistance for vulnerable people on the ground.

- Fijian Prime Minister Frank Bainimarama
The issuance of Fiji Green Bonds represents our deep commitment to narrow the climate financing gap through the power of capital markets. It also provides multifold opportunities to widen investor base, harness transparency on the use of public funds and the development of our bond market.

- Governor of the Reserve Bank of Fiji, Ariff Ali

This FSGB Impact Report 2019 follows the Harmonised Framework for Impact Reporting\(^1\) developed by the International Capital Market Association. Given that all proceeds from the FSGB were utilised in the 2017-2018 financial year, the projected environmental and social benefits resulting from the seven projects financed by the FSGB as reported in the First FSGB Impact Report\(^2\) remains unchanged.

**BOND REPAYMENT AND SCHEDULES**

The FSGB was split into two tenors at five years for 4% coupon rate and 13 years for 6.3% coupon rate. These two variants were offered after potential investors requested a combination of short- and long-term investment options to better suit their investment portfolios. The FSGB issuance was done in four tranches over the course of approximately nine months. This enabled the Fijian Government and the Reserve Bank of Fiji (‘RBF’) to adjust its successive issuances and secure the highest level of investor response.

Since the FSGB issuance in 2017, the Fijian Government has paid out FJ $10.4 million in interest. Each interest payment is made on a semi-annual basis payable to investors on the first day of May and November of each year until the respective issuances mature. The payment is facilitated by the RBF on behalf of the Fijian Government through the FIJICLEAR payment system. Table 1 shows a summary of interest payments as at 1 December 2019.

Table 1: FSGB Interest Payment Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Rate (%)</th>
<th>Nominal Value (FJ $)</th>
<th>Interest (FJ $)</th>
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<td>400,000</td>
</tr>
<tr>
<td></td>
<td>6.30</td>
<td>80,000,000</td>
<td>2,520,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2,920,000</td>
</tr>
<tr>
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<td>4.00</td>
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<tr>
<td></td>
<td>6.30</td>
<td>80,000,000</td>
<td>2,520,000</td>
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<td>2,920,000</td>
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<tr>
<td>Total 1/12/2019</td>
<td></td>
<td>10,420,000</td>
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</tr>
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</table>

Source: Reserve Bank of Fiji

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The National Budget is divided into five broad sectors: General Administration, Economic, Social, Infrastructure and Miscellaneous sectors. Figure 2 gives a snapshot of how FSGB proceeds have been utilised across these budget sectors. Of the seven projects funded, four were from the Infrastructure Sector enabling access to clean water, maintaining crucial road access to communities after natural disasters and providing renewable energy to rural communities. The Social Sector had the second highest utilisation of proceeds after the Infrastructure Sector, mainly driven by massive rebuilding of schools destroyed after Tropical Cyclone Winston.

**Figure 1:** Adaptation vs Mitigation

Figure 1 shows that majority of FSGB proceeds have been utilised for climate adaptation projects. Being one of the most climate vulnerable nations on earth, Fiji is steadfast in proactively adapting to climate change and building resilience against natural disasters as a matter of national priority. This is duly reflected in the National Budget from which FSGB projects were selected.

**Figure 2:** Green Bond Allocation by Budget Sectors

The National Budget is divided into five broad sectors: General Administration, Economic, Social, Infrastructure and Miscellaneous sectors. Figure 2 gives a snapshot of how FSGB proceeds have been utilised across these budget sectors. Of the seven projects funded, four were from the Infrastructure Sector enabling access to clean water, maintaining crucial road access to communities after natural disasters and providing renewable energy to rural communities. The Social Sector had the second highest utilisation of proceeds after the Infrastructure Sector, mainly driven by massive rebuilding of schools destroyed after Tropical Cyclone Winston.

**Figure 3:** Quarterly Utilisation of Green Bond Proceeds (FJ $)

The Government fiscal financial year begins on 1 August and ends on 31 July. Figure 3 provides a snapshot of FSGB proceeds utilisation by quarter. The trend is aligned to the normal financial utilisation of Government agencies that tend to use most of their budgets in quarters 3 and 4.
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One of the seven projects financed by the FSGB in 2017-2018 was the Reducing Emissions from Deforestation and Forest Degradation (REDD+) programme. The programme is a pilot initiative that started in 2012 with the objective to support Fiji’s participation in the Clean Development Mechanism (CDM) under the World Bank funded REDD+ initiative. It also sought to provide Fiji with financial incentives to reduce deforestation and forest degradation and increase its forest stocks. The pilot site selected for demonstrating REDD+ intervention activities was 7,347 hectares of primary forest belonging to Mataqali Emalu (Navosa).

Building on the lessons learnt from the successful pilot project, Fiji is ready to scale up the REDD+ initiative having developed a robust national Emissions Reduction Programme (ERP). The ERP is expected to help maintain exiting national forest cover, increase afforestation, minimise forest degradation and promote sustainable forest management practices on Viti Levu, Vanua Levu and Taveuni—the three largest islands of Fiji. With 1,045,309 ha of forest area on 1,685,742 ha of land, the programme covers 90% of the total land mass and 94% of the forest cover in Fiji.

The ERP has successfully secured partial funding from the Forest Carbon Partnership Facility (FCPF) of the World Bank which will allow Fiji to monetise at least 2.5 million tonnes of carbon dioxide net emissions reduction expected to be generated from 2020 to 2024—the expected duration of the programme. These emissions reductions will be tradeable in the international climate market. The FCPF will guarantee a carbon market price of $5 per tonne of carbon dioxide which is expected to generate US $12.5 million in revenue over the course of the programme. This will be given back to forest resource owners for their benefit.

The Fijian Government is proud to highlight that the FSGB has helped contribute towards this transformational forest conservation initiative that will contribute towards generating market revenue for forest conservation and support Fiji’s ability to achieve the sustainable development goals by 2030, particularly SDG 13 on Climate Change and SDG 15 on Life on Land.

The REDD+ pilot programme and the ERP is envisaged to create the policy, regulatory and governance foundations for future emissions trading and carbon market activities for Fiji. The Fijian Government is currently running consultations on a Draft Climate Change Bill which creates specific provisions for the government to engage in carbon markets and generate finance for domestic resilient development objectives. Exemplifying its strategic prowess, the Fijian Government has also embarked on a parallel domestic initiative of planting 30 million trees in the next 15 years which will help increase carbon capture, increase environmental resilience, and further Fiji’s potential to take advantage of emissions reduction credits through emerging international carbon markets.
CYCLONE REHABILITATION AND CONSTRUCTION OF SCHOOLS POST TROPICAL CYCLONE WINSTON

The devastating impacts of Tropical Cyclone Winston, the strongest cyclone recorded in the southern hemisphere at the time, remain etched deep in the minds of Fijians. 44 lives were lost and more than one-third of the value of Fiji’s Gross Domestic Product was wiped out. Also severely impacted were 206 schools all of which required significant rehabilitation in the aftermath of cyclone Winston to ensure education services could continue. Finance raised by the FSGB was put towards the rehabilitation and construction of 101 schools in 2019. In total 45.9 percent of total green bond proceeds were dedicated to school reconstruction activities.

As of December 2019, a total of 173 schools have been rehabilitated and rebuilt by the Fijian Government while tenders for 26 schools have been approved and awarded by the Government Tender Board (GTB). In addition, 21 schools have been mobilised for construction while 12 schools are going through various stages of Government tender process.

There are various challenges that have contributed towards delays in the reconstruction schedule, including further severe weather events (TD 16F (Zena); TD07F (Gita); TD12F (Josie) and TD13F (Keni)) which have resulted in site closures, contributed to a shortage of construction materials, and strained the limited pool of appropriate contractors. A further ongoing barrier is the logistical challenges involved with running construction projects in remote and maritime areas. Despite this, the remaining 33 schools are expected to be completed by the end of the 2019-2020 financial year (31st July 2020) with all 206 school being built to top engineering standards with proper building plans.

The rehabilitation and reconstruction of schools damaged by Tropical Cyclone Winston was a major undertaking for the Fijian Government which required significant resource mobilisation and coordination. To ensure that the impact of Tropical Cyclone Winston on the education sector was minimised, approximately FJ $223.4 million has been spent on this initiative of which $45.9 million was financed through the FSGB. Needless to say, the FSGB has contributed significantly to Fiji’s rehabilitation post Tropical Cyclone Winston, helping to reduce the immediate fiscal burden of this major disaster event. The FSGB has helped to protect the continuity of education for Fijian children and in doing so, demonstrated a further innovative application of the Green Bond proceeds.