



THE FIJI SOVEREIGN GREEN BOND

2019 UPDATE

OVERVIEW

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

This FSGB Impact Report 2019 follows the Harmonised Framework for Impact Reporting¹ 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 Report² 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

Date	Rate (%)	Nominal Value (FJ \$)	Interest (FJ \$)
01/05/2018	4.00	20,000,000	400,000
	6.30	40,000,000	1,260,000
			1,660,000
01/11/2018	4.00	20,000,000	400,000
	6.30	80,000,000	2,520,000
			2,920,000
01/05/2019	4.00	20,000,000	400,000
	6.30	80,000,000	2,520,000
			2,920,000
01/11/2019	4.00	20,000,000	400,000
	6.30	80,000,000	2,520,000
			2,920,000
Total 1/12/2019			10,420,000

Source: Reserve Bank of Fiji

¹ Can be accessed at: <https://bit.ly/2M1FLka>
² Can be accessed at: <https://bit.ly/2qUXwKK>

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

Issuer	The Government of the Republic of Fiji
Issuer Rating at time of Issuance	Moody's Ba3: Stable/ S&P B+ (Stable)
Issuer Representative	Reserve Bank of Fiji
Coupon Terms	5 Years at 4.0% per annum / 13 Years at 6.3% per annum
Maturity	2022 for 5 Years / 2030 for 13 years
Interest Payments	Biannual until maturity on 1 May and 1 November
Tranches (FJD million)	T1: 40 / T2: 20 / T3: 20 / T4: 10
Use of Proceeds	Financing of National Budget Programmes in line with the Fiji Green Bond Framework
External Reviewer	Sustainalytics
Listings	London Stock Exchange

FIGURE 1: ADAPTATION VS MITIGATION

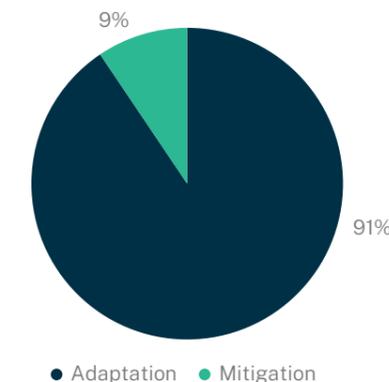
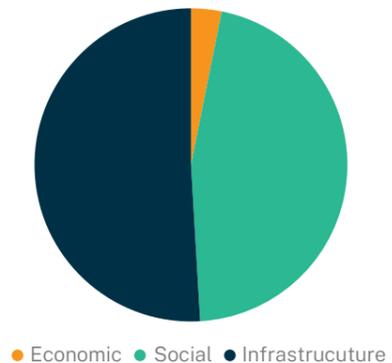


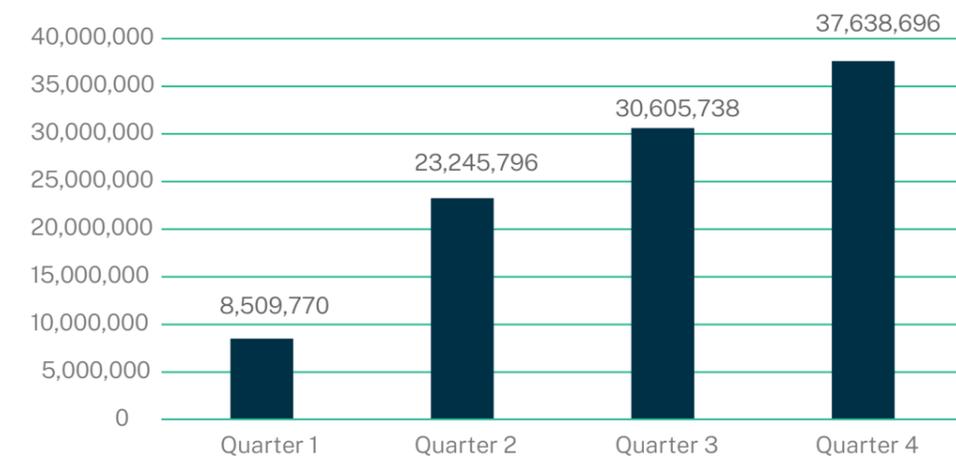
Figure 1 shows that majority of FSGB proceeds have been utilised for climate adaptation projects. Being one of the most climate vulnerable nations on earth, Fiji is steadfast in proactively adapting to climate change and building resilience against natural disasters as a matter of national priority.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

BENEFITS AND LESSONS LEARNT FROM THE FIJI SOVEREIGN GREEN BOND

Creating a Business Case for Adaptation

Creating a business case for climate adaptation is a common challenge, particularly in SIDS, due to the difficulty involved with pricing the benefits of adaptation projects and the challenges involved with generating adequate financial returns in the traditional sense from large-scale investments. As a result, the private sector is often reluctant to invest in climate adaptation.

In this regard, the issuance of the FSGB was unique as it became the first sovereign green bond in the world to focus most of its bond proceeds –more than 90.6% –on adaptation projects. The FSGB mobilised unprecedented levels of private climate finance for adaptation in Fiji by translating climate centric projects into a bankable investment package with a clear financing plan that had stable investment returns. This was underpinned by the fact that investing in adaptation now will result in exponential cost savings in the future resulting in business resilience and economic growth multiplier effects.

Sustainable Development Goals

Climate change is the single greatest threat to Fiji's development aspirations. Failure to address it will most definitely result in a failure to achieve our Sustainable Development Goals ('SDGs'). As global average temperature rise is expected, under current projections, to surpass the vital threshold of 1.5 degrees Celsius by the end of the century, there is increasing risk that climate change will become the foremost exacerbator of poverty and a fundamental threat to human security.

The FSGB has helped to demonstrate that national climate action does not have to be constrained by the limits of traditional sources of finance. Market-based mechanisms such as green bonds have the potential to bridge the financial gap between existing climate finance flows and the substantial finance needs that resilient, low carbon economic transitions immediately require. Green bonds also have potential to be part of blended financing solutions for large scale projects that address multiple SDGs. **See Figure 1.**

Promising Opportunities for Market Based Climate Finance

The global science is clear, the impacts of climate change will only get worse if the current trend in global warming continues and high polluting nations continue to be lethargic in raising ambition. Fiji is not willing to rest on its laurels and let this harm its development ambitions. In true Fijian spirit of determination,

FIGURE 1

	FJ \$	13 CLIMATE ACTION	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES	15 LIFE ON LAND
Rural Water Supply Programme	6,311,789						
Rainwater Harvesting System	3,757,471						
TC Winston Rehabilitation and Construction of Schools	45,906,073						
Emergency Works	34,583,500						
Solar Home Systems New Installations	6,280,998						
REDD plus	308,542						

persistence and ingenuity, the Fijian Government is using lessons learnt from the issuance of the FSGB to explore other market-based mechanisms to raise climate finance. It is looking into blue bonds and leveraging fiscal revenue streams to raise market capital as the next frontier in Fiji's journey towards a prosperous climate conscious future.

Cost of Lowering Access to Finance

Green bonds have grown rapidly after the Paris Agreement in 2015. Market trends show that the green bond market is expected to remain strong despite the global economic slowdown, with issuances likely to reach US \$180 billion in 2019, following a record high of US \$167 billion in 2018. These trends reflect the growing appetite from investors seeking to invest in sustainable projects that are compatible with the Paris Agreement.

Despite the clear benefits, accessing the capital market has macroeconomic implications which need to be considered as this access will increase national debt. While green bonds are expected to generally be cheaper for issuers, the FSGB had to be issued at interest rates that are similar to vanilla bonds in order to attract more investors. Learning from this, the Fijian Government is championing the need to reduce the cost of accessing innovative climate finance, particularly through recalibrating development assistance to help reduce investment risks. The Fijian Government is also looking to engage with development partners to help absorb the interest risks of future capital market climate instruments to reduce premium costs.

Success Factors

The FSGB was a success due to a combination of factors that have set the foundations for future capital market investments in climate change by not only Government but large private sector firms as well. Strong and consistent political will to address climate change allowed the Fijian Government to choose such an innovative approach to raising climate finance. Active engagement with investors by the RBF was fundamental in ensuring that market awareness and interest was generated for every tranche that was issued. This was coupled with a phased approach to issuances which enabled the Fijian Government to test out the market and strategically float the tranches to better leverage on positive investor sentiments.

As a result, the FSGB was able to raise unprecedented levels of climate finance from the private sector and send a clear message to the world that Fiji is serious about going green with a strong appetite for prudent financial innovation. Issuing a green bond for the first time is not an easy feat and the Fijian Government is grateful for the technical assistance provided by the International Financial Cooperation. **See Figure 2.**

FIGURE 2



PROJECT SPOTLIGHT



FIJI REDUCING EMISSIONS FROM DEFORESTATION AND FOREST DEGRADATION PROGRAMME

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 existing 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 help increase carbon capture, increase environmental resilience, and will 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 (Kenii)) 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.





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