

GUIDANCE FOR

SOVEREIGN GREEN BOND

ISSUERS

With Lessons
from Fiji's First
Emerging Economy
Sovereign Green Bond



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The guide was written by Aaron Levine. Valuable contributions were also received from various peer reviewers including from the Reserve Bank of Fiji Governor, Ariff Ali and Chief Manager, Financial Markets, Caroline Waqabaca, as well as colleagues from IFC Treasury, World Bank Treasury, the IFC-World Bank Finance, Competitiveness and Innovation Global Practice, the World Bank Group Global Knowledge and Research Hub in Malaysia, and the World Bank's Social, Urban, Rural and Resilience Global Practice. This included Swee Ee Ang, Oualid Ammar, Sameer Chand, Camille Funnell, Habiba Gitay, Farah Hussain, Hang Nguyen, Mohamed Rozani Bin Mohamed Osman and Priscilla Xian.

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EXECUTIVE SUMMARY

Many lessons have been learned through the issuance of the first emerging economy sovereign green bond in Fiji, which can be applied to future sovereign issuers.



A sovereign green bond presents countries with an opportunity to demonstrate national leadership in the green financing agenda while giving exposure to a new investor base and solidifying a country's commitment to complying with the Paris Climate Change Agreement.

While green bonds allow sovereign issuers to appeal to a new class of investors—domestically or internationally—in addition to the usual costs associated with the preparation of a vanilla government bond, green bonds require upfront and ongoing resources that are not recoverable through bond proceeds. Many potential investors need to be educated on the benefits of a green bond—for themselves and the country as a whole. Studies have shown an increasing number of millennials are attracted to investments that will have a positive environmental impact, making it a wise choice for retail issuances and institutions whose customer base will increasingly include millennials¹.

Clearly identifying the reasons for issuing will drive many decisions in the issuance process. If a country's motivation to issue a green bond is prompted by a desire for cheaper financing compared to a vanilla issuance, then caution should be exercised. While it has been suggested they may have the potential to attract a pricing premium², or 'greenium' compared to vanilla bonds, especially in liquid global markets such as USD and Euro denominations, there is no conclusive empirical data to confirm this assertion.

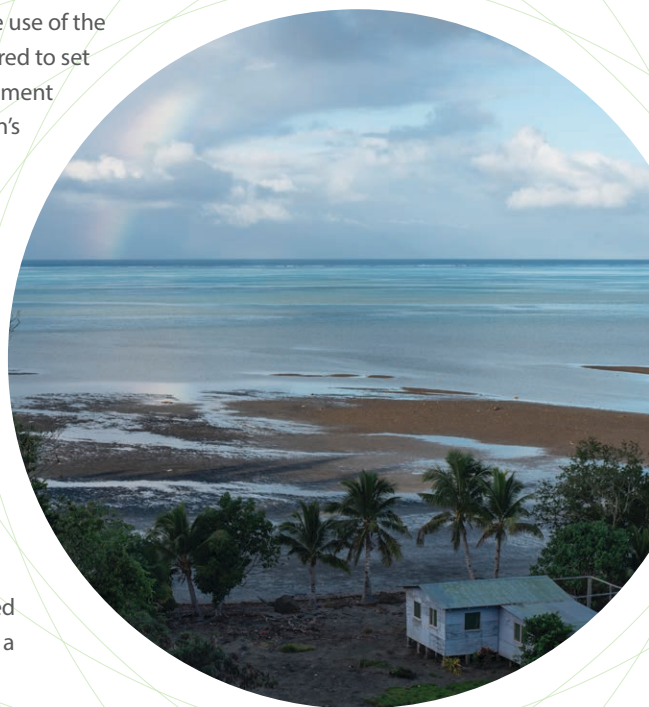
Carefully identifying potentially eligible green projects will help determine the structure of the bond, which must also suit the overall debt profile of the sovereign. Projects can be defined quite broadly and may include tax relief, subsidies, financing and refinancing. However, all expenditures should be assessed by an external reviewer to ensure they qualify as 'green'. Transparency at every step of the process is critical to the success of the green bond market, so resourcing and expertise must be applied to monitoring and reporting on the use of the proceeds, and the impact of funded projects. An extensive level of work is required to set up these processes, but if done early on, and with the collaboration of all government parties, accountability and consistency will be achieved, increasing the sovereign's ability to meet their green economy objectives.

For an international issuance, there is a significant appetite for green bonds from both environmental, social and governance-focused (ESG) investors, and institutional investors with mandates to have a minimum percentage of their portfolio meeting ESG standards. But it should be remembered that international sovereign issuances require a significantly greater effort in terms of regulatory compliance compared to that of a domestic issuance.

There is no single global framework which must be followed to label a bond as 'green'. However, the primary global guidance comes from the International Capital Markets Association which produced the Green Bond Principles, a set of voluntary process guidelines intended for broad market use, developed by a range of investment and multilateral banks, including the World Bank and IFC. The Green Bond Principles set the foundations for the elements to be incorporated within a Green Bond Policy Framework—a critical document to give credibility to a green bond.

As a pioneer issuer, Fiji sought to set high standards for other nations to follow suit and was particularly supportive of the establishment of a robust and transparent process. This transparency has provided future sovereign countries with a roadmap they can follow when issuing their own green bond.

Here's everything Governments need to know at a glance.



1 http://www3.weforum.org/docs/WEF_IL_FromMarginsMainstream_Report_2013.pdf, [http://www.ey.com/Publication/vwLUAs-sets/ey-sustainable-investing-the-millennial-investor-gl/\\$FILE/ey-sustainable-investing-the-millennial-investor.pdf](http://www.ey.com/Publication/vwLUAs-sets/ey-sustainable-investing-the-millennial-investor-gl/$FILE/ey-sustainable-investing-the-millennial-investor.pdf)

2 'Green bond issuers are poised to charge a premium', Financial Times, Nov 22 2017.

CONSIDERATIONS BEFORE ISSUING

1	Clearly identifying the reasons for issuing will drive many decisions in the issuance process. Reasons to issue may include moral leadership, setting a path for private sector issuers in the country, and reaching new investors.
2	Caution should be exercised if the driver is cheaper financing compared to a vanilla issuance, as evidence of a price premium, or 'greenium' (another term used for green bonds that are heavily oversubscribed and are priced tighter than vanilla bonds) is not well established for green bonds.
3	A steering committee structure is critical to organize the relevant stakeholders, who are broader than a vanilla issuance.
4	It is essential that a central coordinator, often the treasury or the central bank with authority and capacity to see the big picture, is appointed.
5	Identifying potentially eligible green projects will help determine the structure of the bond, which must also suit the overall debt profile of the sovereign.
6	Adequate budget should be set aside for additional compliance components of a green bond.
7	Any capacity gaps could be filled with external expertise; Fiji drew on the World Bank Group at each phase of the issuance.

PREPARING TO ISSUE

1	The path for domestic versus international issuances diverges, with differing transaction costs, disclosure requirements and currency considerations. Whether domestic or international, roadshows will need to take care to explain the nature of the green bond. International prospectuses will require a similar level of effort as a vanilla bond issuance to meet regulatory requirements.
2	The development of a green bond policy framework should align with an internationally recognized set of principles, such as the Green Bond Principles, to ensure a level of legitimacy in the investor's eyes. The framework will require a form of external review, from second party opinions to full ratings, with differing associated transaction costs.
3	Listing on a stock exchange can assist in pricing transparency, encourage secondary trading and improve global exposure of the bond, though trading volumes are typically low. A green bond listing must comply with the same listing requirements as a vanilla bond, in addition to the requirements of external review, a policy framework, and a commitment to transparent reporting.

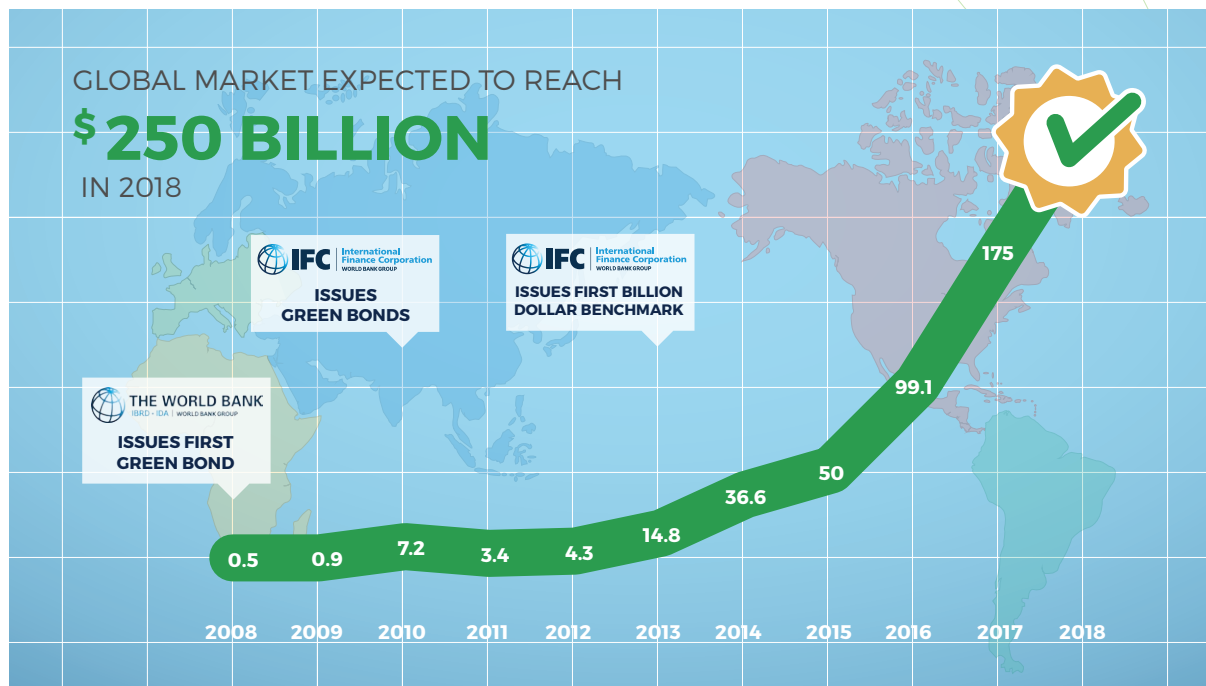
ISSUANCE AND POST-ISSUANCE

1	The issuer should allow sufficient time in their calendar to explain the green bond to investors.
2	While green bonds are currently heavily oversubscribed, there is no clear trend that the issuance will provide a cheaper source of financing for the sovereign.
3	The issuance provides an excellent opportunity to leverage an issuer's green credentials, and marketing and communications plans should be considered well in advance.
4	Transparency is critical to the success of the green bond market, so resourcing and expertise must be applied to monitoring and reporting on the use of the proceeds, and over time, the impact of the projects funded.

INTRODUCTION

Sovereign green bonds can be an excellent tool for financing green infrastructure, create moral leadership on sustainability, set a path for private sector issuers, and reach a growing pool of new investors.

The green bond market is witnessing rapid growth from its pioneering days, with over 1500 issuances in 2017 valuing \$155.5 billion, a 78 percent increase compared to 2016. There were 239 different issuers, more than half of which were new issuers. The bonds covered 37 different countries across the globe.



Source: Climate Bonds Initiative Green Bonds Highlights 2017

Amid calls to increase green bond issuance to \$1 trillion by 2020³, there are signs of significant momentum building from a range of issuers—including the relatively new class of sovereign countries. France, Poland, Fiji and Nigeria are the sovereign pioneers, with more issuances expected in 2018 from countries including Belgium, Ghana, Hong Kong, Indonesia, Kenya, Morocco and Sweden.

These moves by countries are significant in the face of the global challenge of climate change. Climate change is an acute threat to global development and efforts to end poverty. It's estimated trillions of dollars are needed to help countries meet the climate challenge. By creating a new market for climate finance through green bonds, governments can help build a more resilient future in the face of a changing climate. Sovereign green bonds also represent another way for governments to play their part in moving towards a green economy.

In October 2017, Fiji became the first emerging economy, and the third nation globally after France and Poland, to issue a sovereign green bond. The bond will raise 100 million Fijian dollars⁴, or around US\$50 million, with a special emphasis on helping the country adapt to a changing climate. It's estimated by 2050, Fiji's annual losses due to extreme weather events could reach 6.5 percent of Gross Domestic Product because of the impact of climate change, with more than 32,000 people pushed into hardship every year⁵.

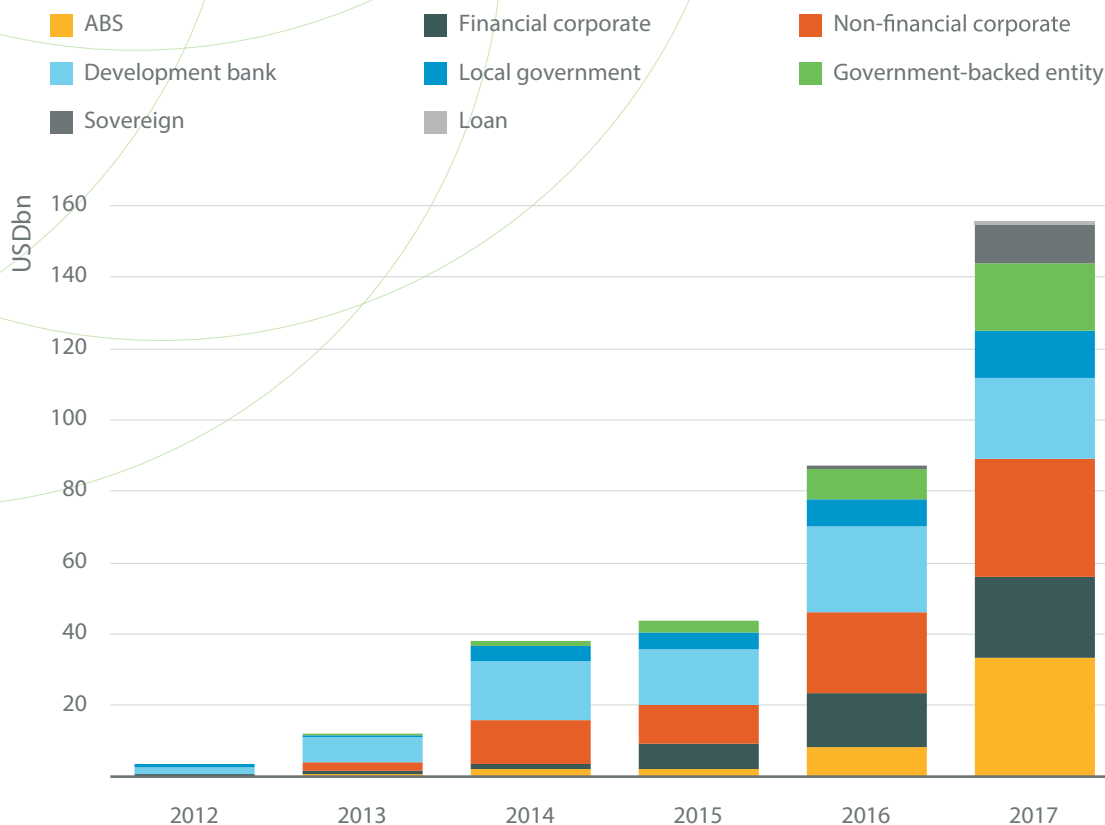
Drawing on lessons learned from Fiji's recent experience, which was supported by an International Finance Corporation-led, World Bank Group-wide team, this document outlines practical considerations sovereigns can take at each step of the process from preparation to issuance and post-issuance reporting. It is hoped that with this guide, more sovereigns will be able to issue their own green bonds.

3 Climate Bonds Initiative Green Bonds Highlights 2017 <https://www.climatebonds.net/files/reports/cbi-green-bonds-highlights-2017.pdf>

4 60 million Fijian dollars has been raised as at 3 March 2018, with the remaining 40 million to be raised before July 2018.

5 Climate Vulnerability Assessment - Making Fiji Climate Resilient <http://documents.worldbank.org/curated/en/163081509454340771/pdf/120756-WP-PUBLIC-nov-9-12p-WB-Report-FA01-SP.pdf>

The green bond market is growing rapidly



Source: Climate Bonds Initiative Green Bonds Highlights 2017

FIJI LAUNCHES GREEN BOND TO FINANCE CLIMATE-SMART PROJECTS

Home to over 880,000, Fiji's 300 volcanic islands include low-lying atolls that are highly susceptible to climate-related events, including cyclones, floods and droughts. In 2016, Tropical Cyclone Winston—the most intense tropical cyclone in the Southern Hemisphere on record—passed directly over Fiji causing economic losses that amounted to almost one-third of the country's GDP.

Fiji's sovereign green bond was officially launched at the 23rd Climate Change Conference (COP23) in Bonn, Germany, in November 2017. As President of COP23, Fijian Prime Minister, Frank Bainimarama, declared that Fiji was "proud to set an example to other climate-vulnerable nations" by issuing the sovereign green bond to fund its work to boost climate resilience across Fiji. As COP23 President, Fiji has made access to climate finance a key pillar of its presidency. The official launch of the sovereign green bond came after a five-month process under the guidance of the World Bank Group, led by one of the Group's members, IFC.

Projects financed by Fiji's sovereign green bond will follow the internationally developed Green Bond Principles and will focus primarily on investments that build resilience against the impacts of climate change. Fiji will also use bond proceeds for projects supporting its commitments, under the historic Paris Climate Change Agreement, to achieve 100 percent renewable energy and reduce its CO₂ emissions in the energy sector by 30 percent by 2030.

Fiji intends for issuances to form part of an ongoing program to attract domestic and international investors and to encourage both domestic corporate and financial institutions to consider their own domestic green financing mechanisms.

Technical support for the Fiji green bond forms part of a capital markets development project under the Fiji Partnership. Australia and IFC, are working together through the Fiji Partnership to reduce poverty by stimulating private sector development.

01

WHAT IS A GREEN BOND?

Green bonds are fixed income, liquid financial instruments used to raise funds dedicated to climate mitigation, adaptation and other environment-friendly projects. This provides investors with an attractive investment proposition and an opportunity to support environmentally and socially sound projects.

Sovereign green bonds are similar to vanilla government bonds, but with a particular 'green' purpose given to the use of the proceeds of the bond. Pricing of the bond from investors is not reliant on the underlying return on investment of the projects, but rather the sovereign risk/rating. Sovereign green (and non-sovereign green) bonds typically price on or very near the yield curve of vanilla bonds.

The additional benefits of the sovereign green bond, therefore, revolve more around national leadership in the green financing agenda, exposure to a new investor base and solidifying a country's commitment to complying with the Paris Climate Change Agreement.

There are many considerations a government must make when preparing for a green bond issuance –

- What is the objective?
- What projects will it fund?
- Is it a once-off or part of an ongoing program?
- Will it target domestic or international investors?
- Who will manage the process?
- How does a sovereign access technical support?
- How long will it take, and how much will it cost to issue and manage?

This guide will provide a starting point for addressing these key questions.

WHERE THE WORLD BANK GROUP SUPPORTS ISSUERS

As pioneer issuers of green bonds, the IFC and World Bank can provide a range of technical support at the policy and transactional level to issuers including:



Considerations before Issuance

- Guidance on purpose of issuance
- Eligible project identification support
- Terms of reference for steering committee



Issuance

- Media and communications strategies to investors
- Roadshow presentation support



Preparing to Issue

- Policy framework development
- Terms of reference for external reviews
- Structuring considerations
- Cost benefit analyses on stock exchange listings



Post Issuance

- Guidance on monitoring and reporting structures
- Reporting templates

WHAT TO CONSIDER

Before a Sovereign Issues
a Green Bond



A. PRIMARY OBJECTIVES – WHAT IS THE PURPOSE OF ISSUANCE?

Green bonds are in high demand and they are regularly oversubscribed. While it has been suggested they may have the potential to attract a pricing premium⁶, or ‘greenium’ compared to vanilla bonds, especially in liquid global markets such as USD and Euro denominations, no conclusive empirical data exists to confirm this assertion⁷. Transaction costs are higher compared to vanilla bonds, as a green bond requires a policy framework, reporting and monitoring systems, and external verifications to support the issuance.

Green bonds can provide exposure to a new investor base, particularly those with an environmental, social and governance mandate. They can also provide a marketing platform for a sovereign to demonstrate its efforts in combatting climate change, supporting its nationally determinable contributions under the Paris Climate Change Agreement, or harnessing support for climate resilience. More importantly, sovereign issuances can create markets for corporate and financial sector issuances by putting in place a well-considered green bonds policy framework, and making a demonstration issuance.



WHAT DID FIJI DO?

Fiji had the opportunity as COP 23 President to direct global awareness to the potential damage climate change can inflict upon small island and vulnerable nations and the unique pressing challenges faced by the country.

The timing of issuance for Fiji was critical, having just suffered from the worst tropical cyclone in the southern hemisphere, Tropical Cyclone Winston, in February 2016. The country's green bond proceeds focus on climate adaptation projects that will strengthen the island nation against future climate events.

Fiji also used its green bond to encourage new domestic investors, particularly its commercial banks, who had traditionally only invested in short-term government securities, to show their support for financing green projects. The banks significantly oversubscribed to the five-year tranche offered by the Government of Fiji.

B. PIPELINE OF ELIGIBLE EXPENDITURES

Before a country can issue a green bond it needs to have an established pipeline of eligible expenditures that clearly outlines how it will deploy the bond's proceeds. If a sovereign chooses to apply the Green Bond Principles (GBP)—and while this is voluntary, most sovereigns do adopt these principles, or a derivative of them—they can use the GBP's suggested categories as a guide for how to distribute the proceeds (see graphic below). All expenditures need to be budgeted for in accordance with public financial management principles, so that proceeds can be legally allocated.

Sovereigns must first collate a long list of eligible expenditures. Once this is completed, a technical high-level assessment of which expenditures are most likely to qualify as ‘green’ should be undertaken. The assessment may be done in-house, if environmental expertise exists, through a third-party consultancy, or in the case of Fiji, with assistance from the World Bank Group. This will then guide the sovereign as to the appropriate level and size of fundraising under the bond.

Green Bond Principles Categories

renewable energy | energy efficiency | pollution prevention and control | climate change adaptation environmentally sustainable management of living natural resources and land use | clean transportation terrestrial and aquatic biodiversity conservation | sustainable water and wastewater management eco-efficient and/or circular economy adapted products, production technologies and processes green buildings which meet regional, national or internationally recognized standards or certifications

⁶ ‘Green bond issuers are poised to charge a premium’, Financial Times, Nov 22 2017.

⁷ <https://www.climatebonds.net/files/files/Greenium%20Q3-Final-20180219.pdf>

Projects can be defined quite broadly, and may include tax relief, subsidies, financing and refinancing. For example, through proceeds of their sovereign green bond, France funds its researchers focusing on climate science and finding solutions to combat climate change.



WHAT DID FIJI DO?

Fiji's Head of Climate Change worked with their Head of Treasury to develop a 'long list' of projects that may qualify as 'green.' They then gained support from the World Bank's Climate and Environment team to undertake a high-level screening of the project descriptions to sort which projects are eligible, partly eligible (requiring some changes to their focus), or likely to be ineligible. This allowed Fiji to establish its pipeline of eligible expenditures that met the GDP Framework.

C. GOVERNANCE STRUCTURE

A steering committee comprising of senior government decision makers is strongly recommended, with clear lines of authority on preparing the green bonds policy framework, prospectus, eligible expenditure definitions, and ongoing monitoring and reporting. This ensures accountability, consistency and transparency across government departments and sectors.

A green bond draws on the expertise of those arms of government (and often central banks) who manage issuances of government bonds. Therefore, it is critical that debt management units, and key treasury officials are part of the process.

In addition, technical expertise is required to identify and select the range of eligible expenditures—this may involve a collaboration across senior representatives in various sectors, including environment, infrastructure, climate change and planning. The legal department responsible for drafting government prospectuses should also be involved early on in the process.



WHAT DID FIJI DO?

Fiji established, with the World Bank Group's support, a Green Bonds Steering Committee to oversee the process, chaired by the Governor of the Reserve Bank, which is the registrar and custodian of government securities for the government.

The Ministry of Economy's Head of Climate Change who, with the Head of Treasury, have ultimate responsibility for the selection of eligible projects, tracking expenditures, monitoring and reporting of the use of proceeds, outcomes, and impact. These senior managers draw expenditures from, and coordinate with, line ministries on progress of the projects.

D. DEBT POSITION

The level and nature of the sovereign's debt will help determine the amount, tenor, currency, frequency of issuance, calendar and maturity profiles of the bond issuance. The pricing of green bonds tends to track that of regular government debt issuances, since investors price their green bonds on the basis of sovereign risk.

If the size of the potential green bond is counted towards a government debt program for the year, then one would expect the vanilla bond issuance to be reduced by the size of the green bond issuance.

Governments need to consider whether the issuance will be one or multiple tranches, and whether it will form part of an ongoing program of issuances. Where climate change and moves towards renewable energy are issues of growing concern and importance, it is recommended that governments strongly consider green bonds as part of their ongoing fundraising mix and integrate a program of issuances into their portfolio.



WHAT DID FIJI DO?

The government split the \$100 million Fijian dollar amount between a five-year tenor at \$20 million, as a result of market soundings from financial institutions, and a 13-year tenor at \$80 million to cater for longer-term institutional investors.

Fiji issued in multiple tranches through the fiscal year to match project spending needs, and intends to replicate France's model of following an ongoing program of issuances.

E. ISSUANCE AND ONGOING COSTS RELATIVE TO VANILLA BONDS

In addition to the usual costs associated with preparation of a vanilla bond, green bonds require upfront and ongoing resources that are not recoverable through the proceeds of the green bond.

Depending on whether the bond is domestic or international (discussed below at 3(b)), the usual transaction costs will include a range of items:

- obtaining ratings and market intelligence,
- appointing underwriters, arrangers, custodians, payment agents, legal counsel,
- registering with local regulators and stock exchanges (if listing),
- arranging roadshows, regular capital market communications, and
- secondary market monitoring.

Additional costs associated with the green bond include:

- defining, drafting and approving the green bond policy framework,
- establishing project selection processes and eligible projects,
- establishing a special account to ring fence proceeds, and
- setting up a process to earmark proceeds.

A government must obtain a pre-issuance external review (discussed below at 3(d)), and potentially, regular post-issuance audits on the use of proceeds. This includes:

- tracking proceeds disbursement,
- monitoring of projects, and
- preparation and publication of regular impact reports.

If the bond is a domestic issuance, particular effort will be required to raise awareness among investors as to the specific benefits of the green bond, including through roadshows, one-to-one investor briefings with key institutional investors, and factsheets and media placements explaining the basic differences between green bonds and vanilla bonds.

In addition to topics covered through a vanilla bond briefing, investor briefings would tend to cover elements of the green bond framework, the issuer's sustainability credentials and use of proceeds, and would include environmental specialists, and where relevant, a knowledgeable green bond underwriter/arranger.



WHAT DID FIJI DO?

Fiji had sufficient domestic demand to focus on a local currency issuance. They used existing processes run by the Reserve Bank of Fiji for the conventional aspects of the bond issuance, such as market soundings, the base prospectus, registry and custodial processes. They did not appoint an arranger, but benefitted from an IFC-led World Bank Group wide technical assistance program for support in developing the green bond policy framework, adapting the prospectus, identifying eligible expenditures, and providing support for ongoing monitoring and reporting.

Fiji's banks rarely participate in government issuances over 365 days, but were persuaded by the overall contribution to the nation that a green bond would make, and were strong supporters of the issuance (more than triple oversubscribing the five-year tenor bond).

F. TECHNICAL SUPPORT

Preparing for issuance of a sovereign green bond will be a novel task for most sovereign issuers and will require technical support. However, issuances by international organizations, sub-sovereigns, banks and corporates are now well established, making the process smoother and providing useful precedents to build upon. The market for technical support—both privately and through public institutions such as the World Bank Group—is also developing rapidly.



WHAT DID FIJI DO?

Fiji requested assistance from the IFC with the preparation for the issuance. The IFC drew on resources under a capital market development program funded by the Australian Government to provide technical support to the Government of Fiji. A Bank Group-wide team was formed comprising of capital markets, treasury, environment and climate resilience experts.

03

PREPARING TO ISSUE

A Sovereign Green Bond – Key
Considerations



A. ESTABLISHING A STEERING COMMITTEE AND KEY RESPONSIBILITIES

A Green Bond Steering Committee should be established to oversee the issuance process. The committee can consist of members of the ministry of finance/treasury, ministry of environment and planning, energy, infrastructure, attorney-general's department, securities regulators, and the central banks, as needed. The committee may also include members of the private sector, environmental specialists, asset managers, and financial institutions.

The Steering Committee's mandate should conform to the government's climate financing, environmental, national development, climate mitigation and adaptation, and green infrastructure goals.

The life of the Steering Committee may be for the duration of the preparation process, or it may continue to exist post-issuance to provide an ongoing oversight role to ensure green bond standards are upheld.



WHAT DID FIJI DO?

Fiji established the Steering Committee as a joint initiative of the Reserve Bank of Fiji and the Government of Fiji. The committee was tasked with two distinct roles: initially to facilitate the issuance of a sovereign green bond, and second to work towards the establishment of a green bond program in the country.

The Governor of the Reserve Bank of Fiji acted as chair, with extensive cross-government representation, and the IFC and World Bank maintained an observer status as technical advisers. The Reserve Bank of Fiji also provided secretariat support.

Meetings were originally scheduled on a monthly basis in the lead up to issuance, then quarterly post issuance. The Committee was responsible for finalizing the Green Bond Policy Framework in advance of the sovereign bond issuance, and then were required to develop and publish a strategy for Fiji's ongoing green bond program to guide future public and private issuers. The Committee is also responsible for monitoring other issuers, and is tasked with providing training and awareness raising for prospective issuers.

B. DECIDING ON A DOMESTIC OR INTERNATIONAL ISSUANCE

Managers of government debt will be familiar with the areas that need to be considered when deciding whether to issue domestically or internationally, and the associated transaction costs of such a decision including obtaining ratings, currency risk, and settlement infrastructure. A green bond can be an opportunity to appeal to a new class of investor—whether domestically or internationally.

If the issuer requires local currency, then a domestic issuance may be a suitable option. International issuances will most likely be in a hard currency, particularly since most asset managers with mandates to invest in green bonds are based in Europe and the United States.

A domestic issuance will require time and money to be invested in educating potential investors on the benefits of a green bond, for themselves and for the country as a whole. Studies have shown that increasing numbers of millennials are attracted to investments that will have a positive environmental impact⁸—a point worth noting for both retail issuances and institutions whose customer base will increasingly include millennials.

⁸ http://www3.weforum.org/docs/WEF_II_FromMarginsMainstream_Report_2013.pdf , [http://www.ey.com/Publication/vwLUAs-sets/ey-sustainable-investing-the-millennial-investor-gl/\\$FILE/ey-sustainable-investing-the-millennial-investor.pdf](http://www.ey.com/Publication/vwLUAs-sets/ey-sustainable-investing-the-millennial-investor-gl/$FILE/ey-sustainable-investing-the-millennial-investor.pdf)

For an international issuance, there is significant appetite for green bonds from both ESG investors, and institutional investors with mandates to have a minimum percentage of their portfolio meeting ESG standards.

International sovereign issuances will require a significantly greater effort in terms of regulatory compliance. While prospectuses for domestic issuances may often be built from a pre-existing standard prospectus for a sovereign's vanilla issuances, a prospectus tailored for international issuance will be required to comply with various disclosure requirements on country risks, financial stability and political situation. This will require the additional transaction costs of legal counsel support.

Several stock exchanges are actively encouraging listings, including through dedicated green bond boards, as discussed in further detail at 3 (g) below.



WHAT DID FIJI DO?

Fiji had significant domestic investor interest, and in the limited time it had available to prepare the bond for issuance, an international placement was not a practical option. Given the size of Fiji's economy and its outstanding US dollar sovereign bond, it is unlikely Fiji would have elected to tap international markets.

Fiji has decided to list its bond on the London Stock Exchange, and while it must navigate a variety of issues raised by use of a local currency-base prospectus for an internationally listed issuance, the listing may provide a continued marketing platform for the bond issuances, and potentially pricing transparency and the capacity to access international investors willing to take Fiji dollar currency risk.

C. DEVELOPMENT OF GREEN BOND POLICY FRAMEWORK

There is no single global framework which must be followed to label a bond as 'green'. However, the primary global guidance comes from the International Capital Markets Association which produced the Green Bond Principles (GBP), a set of voluntary process guidelines intended for broad market use, developed by a range of investment and multilateral banks, including the World Bank and IFC. The GBP set the foundations for the elements to be incorporated within a Green Bond Policy Framework — a critical document to give credibility to a green bond.

The Association of Southeast Asian Nations also recently issued its own guidelines intended to promote the green bond market for its participants, which drew heavily from the GBP. Europe, and China are also reviewing their policies to determine how better to harmonize standards with other markets, and Indonesia launched their own Green Bond Regulations in December 2017⁹.

Despite variances, all guidelines are based upon The GBP core elements that state each of the following should be covered in the policy framework:

- the use of the proceeds,
- the process for evaluation and selection;
- management of proceeds, and
- reporting.

⁹ <http://debtnews.today/index.php/2018/01/02/financial-regulator-ojk-details-requirements-green-bond-issues/>

A green bond policy framework ideally fits under a broader government roadmap for sustainable financing, under which green bonds are simply one tool to ensure the nation is equipped to balance environmental, social and economic objectives.



WHAT DID FIJI DO?

To ensure the green bonds program was transparent and to promote integrity, the Fiji Green Bond Framework was aligned with the Green Bond Principles. With World Bank Group technical support, the government distilled and incorporated national/domestic policies as well as international commitments, including those under the Paris Agreement, into the framework.

In determining the use of proceeds, Fiji ensured the categories of eligibility (eligible sectors) fit not only with the Green Bond Principles, but were in line with the island nation's policies and budgeted projects. Eligible sectors identified included increasing resilience to climate change for highly vulnerable areas and sectors, water efficiency and wastewater management, and mitigation measures such as the development of renewable energy and energy efficiency.

However, given Fiji's relatively negligible global contributions to greenhouse gas emissions and high vulnerability to extreme weather events and changes in climate, the primary focus was on being able to finance adaptation projects. This was the first sovereign green bond with such a focus on adaptation. Though not strictly required, examples of eligible projects were provided to give greater clarification on the use of proceeds.

For evaluation and selection, projects were extracted from the government's budget and screened to ensure they were aligned with the identified eligible sectors based on the environmental and climate benefits to be achieved. A first round of 'dark green' projects were identified that clearly fit with the principles, with other tiers of projects identified which required further investigation or information. The projects screened were then allotted to an eligible sector.

It is worth noting that for most projects there may also be associated negative consequences. In all cases, positive outcomes should outweigh the negative outcomes for those projects chosen to be financed.

A process for managing the proceeds was developed, with the Government of Fiji establishing a 'ring-fenced' sub account so expenditure can be tracked separately. Fiji's reporting and monitoring commitments are detailed below in section 5 - post-issuance considerations. With IFC support, Fiji joined the Sustainable Banking Network and concurrently developed a sustainable financing roadmap, under which green bonds are one financing tool.

D. EXTERNAL REVIEW – SECOND OPINION, VERIFYING, CERTIFYING, RATING

For a green bond to attain a level of investor legitimacy, there is market consensus that the sovereign must obtain a pre-issuance external review of the green bond’s compliance with Green Bond Principles, or an equivalent framework, such as the relatively new ASEAN Green Bond Standards. There are several options, as disclosed under the Green Bonds Framework discussed in the table below.

Consultant review	Consultants or institutions providing critical reviews of the green bond framework and potential projects. This may include a ‘second party opinion’, as provided under the French, Polish and Fijian bonds.
Verification	Independent verification by qualified parties such as auditors to verify the green bond framework, underlying asset sustainability or issuers’ claims.
Certification	Assessment of the bond, its framework or use of proceeds against an external green assessment standard, such as the Climate Bonds Initiative’s Climate Bond Standard version 2.1, which was used by Nigeria.
Rating	An issuer can have the bond and framework rated by a specialized research provider or ratings agency. Nigeria, for example, had their sovereign green bond rated by Moody’s, rating it “GB1”, the highest possible rating.



WHAT DID FIJI DO?

Fiji’s condensed timeframe, limited budget, and precedents set by France and Poland, were key drivers in the government’s decision to obtain a second party opinion. Second party opinion providers can have more active involvement in iterations of the green bond policy framework, as compared to the verification process, in which a qualified party will simply receive documentation and make an assessment.

However, in this case, the World Bank Group was able to mobilize rapidly and provide a technical role in the preparation of the policy framework and project screening, such that Sustainalytics Inc., as the second party opinion provider, effectively retained a degree of independence from the preparation process.

There is currently no clear consensus indicating which type of external review is perceived by investors as the most transparent and reliable, however this is an area which is expected to be constantly evolving as the market moves towards standardizing expectations around external reviews.

E. DEFINING TARGET INVESTORS AND ROADSHOWS

Domestic and international green bond issuances have different target investor and resourcing requirements.

A domestic issuance will appeal to the usual class of institutional investors, as they will be purchasing green bonds priced on the same basis as a conventional bond. It is an opportunity for sovereigns to reach new investor classes—whether they be new institutional market segments, or retail investors. Providing the opportunity for its citizens and corporates to invest in the green future of the country is a powerful argument. However, additional efforts may be required for roadshows to educate existing and new investors about the specifics of a green bond versus the vanilla bond.

An international issuance is likely to be managed by an arranger, who should have prior experience in specifically marketing to buyers of green bonds—ESG focused funds and funds with an ESG portion, as well as new green bond specific funds such as the IFC-Amundi Green Bond Cornerstone Fund should be targeted.

Green bonds attract a broader investor base than vanilla bonds. Research undertaken by the Climate Bonds Initiative with IFC support has found that treasurers acting on green bond issuances are consistently reporting positively about the attraction of socially responsible investors, and highly diversified order books compared to vanilla bond transactions¹⁰.



WHAT DID FIJI DO?

Fiji's domestic issuance focused on briefing key institutional investors in one-on-one meetings, rather than an extensive roadshow process. The institutional investors all showed considerable interest in supporting, and being seen to support, the government's commitment to the green agenda.

The Reserve Bank also took the opportunity to approach financial institutions, appealing to their role in supporting the 'climate' future of Fiji. The banks fully supported the bond, resulting in a significant oversubscription in the shorter five-year tenor green bond, which had been structured specifically to attract the banks.

F. PROSPECTUS PREPARATION – DOMESTIC VS INTERNATIONAL

Domestic issuances usually only require minor additions to the base government bond prospectus to account for the eligible projects, future reporting and references to the Green Bond Policy Framework.

International issuances will need to comply with the regulatory disclosure standards in the jurisdiction of issuance. This entails further transaction costs, usually through the use of legal counsel and arrangers to assist with prospectus preparations.



WHAT DID FIJI DO?

Fiji's domestic issuance entailed straightforward limited amendments to the base prospectus¹¹. The Reserve Bank of Fiji also organized awareness sessions with potential investors to educate them on green bonds.

¹⁰ CBI Green Bond Pricing Q2 2017 <https://www.climatebonds.net/files/files/CBI-Green-Bond-Pricing-Q2-2017.pdf>

¹¹ <http://www.rbf.gov.fj/getattachment/4529c8ae-c8e3-400c-8572-ba85fe2713d4/Green-Bond-Prospectus>

G. LISTING ON A STOCK EXCHANGE

Listing a green bond on one of the many green boards being established globally is a straightforward process, and stock exchanges are willing to guide prospective issuers through the process. Some stock exchanges may also offer exemptions and waivers of fees and certain rules to attract listings. The stock exchanges of London, Luxembourg, Singapore, Oslo, Mexico, Stockholm and Italy all have dedicated green bond boards.

The traditional requirements of a sovereign bond listing must be complied with, including disclosures around risk factors, the nation's economy, political system, finances, and debt ratings. Custodial and settlement procedures, international instrument codes, and issuer identifiers also need to be established in the same manner as a vanilla bond listing.

Additional work required to list on a green bond board typically involves publication of the green bond policy framework, the external review and the prospectus, along with an application that discloses basic details about the bond's structure (pricing, tenor, coupon payment frequency). This is usually a straightforward procedure.

Dedicated green bond boards may provide greater publicity for issuers and better transparency for investors. However, secondary trading in green bonds tend to track trading behavior of vanilla bonds—with low trading levels, as they are usually held by long-term institutional investors. Trading that does take place is typically over-the-counter, potentially limiting price transparency.

Sovereigns who are accustomed to listing vanilla bonds on foreign stock exchanges will find that additional compliance requirements for listing a green bonds are very light. The documentation requested by stock exchanges is typically the same documentation that has already been prepared as part of the issuance, namely a green bond policy framework and an external review.

A growing number of green bond indices are also being established to assist investors in comparing the performance of the asset class to other investments.



WHAT DID FIJI DO?

Fiji's bond was initially intended for domestic investors, however significant global interest following Fiji's COP 23 presidency led to approaches from several stock exchanges to list the bond. Given the limited size of the bond, the primary purpose of the bond would be for marketing exposure, rather than investor-base expansion or secondary market activity. A bond of this size is unlikely to attract international institutions.

While the green bond board component was straightforward, the structure of Fiji's bond itself was not immediately in compliance with the general listing rules. Additional disclosures required by international exchanges regarding the sovereign's political and financial position, instrument codes and identifiers were not used in Fiji's domestic issuance, and working through settlement procedures where Fiji does not yet have dematerialized securities, presented certain complications arising from a listing. These elements were not a significant deterrent, as the stock exchanges were proactive in working with Fiji to comply with their rules, or issued waivers in exchange for certain undertakings.

Fiji secured external legal counsel advice with experience working on green bond listings, and formed a high-level committee to work on meeting requirements of listing the green bond on the stock exchange. The key lesson is that the intention to list a green bond should be clarified from the outset so that the structure and associated transaction costs can be fully accounted.

04

ISSUING THE GREEN BOND



A. ISSUANCE METHOD AND PROCESS

Once the issuer has completed the preparatory steps described, the issuer should follow the usual issuance methods and process for government bonds as regulated by the country either generally or specifically relating to sovereign green bonds.

The issuer should allow sufficient time in the issuance calendar to ensure the market is adequately informed of the differences between a vanilla and a green sovereign bond.



WHAT DID FIJI DO?

Fiji undertook one-on-one briefings with targeted institutional investors, explaining the purpose, process and structure of the sovereign green bond.

B. FINAL PRICING

Green bonds are currently oversubscribed, and tend to price better than expectations. However, this is consistent with conventional bonds, given current market conditions. In a recent study by the Climate Bonds Initiative, some green bonds showed pricing inside or on their yield curves¹².



WHAT DID FIJI DO?

After market soundings with local investors, Fiji's two tenors ended up marginally inside the yield curve as of September 30, 2017.

C. MEDIA AND COMMUNICATIONS STRATEGY

There is a significant opportunity to leverage media interest in sovereign green bond issuances. Having a clear, well-resourced communications plan is critical to anticipate domestic and international media coverage.



WHAT DID FIJI DO?

Fiji leveraged its role as COP 23 President to bring the issuance to a global platform. As part of the COP 23 meeting, they held various seminars and press conferences and utilized social media platforms.

With World Bank Group technical involvement, Fiji also benefitted from its global communications platform, with a joint president-level media release, broad media reach, an animated 'explainer' video¹³, social media presence and televised interviews.

Following the issuance of each tranche, the Reserve Bank of Fiji disclosed the tender process and results on their website.

¹² <https://www.climatebonds.net/files/files/Greenium%20Q3-Final-20180219.pdf>

¹³ <https://www.youtube.com/watch?v=S338JDwz2lw>

05

POST- ISSUANCE

Considerations



A. DEVELOPING AND USING INDICATORS FOR MONITORING AND REPORTING

Clear monitoring and reporting processes are critical to maintain the transparency expected by investors around the green bond's ultimate impact. The level of work required in establishing these processes is extensive, and needs to be well resourced within the appropriate government department. A project leader responsible for gathering data from line agencies regarding projects, and preparing the annual report is strongly recommended.

B. ANNUAL REPORTING – PROCEEDS, OUTPUTS, IMPACT

A fundamental element of green bonds is transparent reporting of up-to-date, easily-available information on the use of the proceeds. Over time, reporting should also incorporate qualitative and quantitative performance measures and impacts—such as greenhouse gas emissions reduced/avoided and reduction of number of cars required.

An issuer may elect to appoint an external auditor to verify the use of proceeds each year until full disbursement; this is known as a post-issuance audit. These add greater credibility to overall post-issuance reporting. France, Poland and Fiji have each committed to such an audit. These are recommended, but are not mandatory under the Green Bond Principles, Climate Bond Standards or ASEAN Standards. Indonesia has made an 'opinion or assessment of result from an environmental expert' mandatory.

A series of reporting templates has been developed by International Capital Markets Association, and by virtue of the transparency of green bonds, a wide range of reports can be found through internet searches. Typically, a report is issued annually through the tenor of the bond, with more regular updates as needed by stock exchanges for listed green bonds.



WHAT DID FIJI DO?

As a pioneer issuer, Fiji sought to set high standards for subsequent countries and was particularly supportive of a robust and transparent process being put in place. While not compulsory, Fiji has committed to a publicly-available annual report, with the use of proceeds having been audited by an external party.

Given the technical nature of the reporting, Fiji drew on the World Bank Group's technical assistance in developing appropriate monitoring processes, indicators and reporting formats, using the Green Bond Principles, as well as guidance from a paper developed by multilateral institutions called "Green Bonds Working Towards a Harmonized Framework for Impact Reporting"¹⁴.

C. RESOURCE ALLOCATION

Sovereigns must ensure sufficient resources are allocated including personnel, IT systems and budget to conduct ongoing reporting and monitoring of green bonds issuance and impact.



WHAT DID FIJI DO?

Fiji considered recruiting additional support to assist in coordinating the various line ministries responsible for extracting project information required for monitoring and reporting purposes. To assist with the development of a framework for monitoring and reporting, Fiji sought the assistance of the World Bank Group well in advance of the first report to be issued to investors.

¹⁴ <https://www.ifc.org/wps/wcm/connect/f932dc004ad996538a1fea4fb4720a61/Updated+Logo+FINALPROPOSALIRH+CLEAN.pdf?MOD=AJPERES>

CONCLUSION

Sovereign green bonds can provide an excellent tool for countries wanting to finance green infrastructure, show moral leadership on climate change and sustainability, and reach a new pool of domestic and international investors, including the growing class of millennials.

As the green bond market is witnessing rapid growth compared to its pioneering days, it is recommended that sovereign countries now strongly consider green bonds as part of their ongoing fundraising mix and integrate a program of issuances into their portfolio.

As climate change continues to be an acute threat to global development and creates unique challenges for small island and vulnerable nations, governments must look at ways they can build a more resilient future for their country in the face of a changing climate.

It's estimated trillions of dollars are needed to help countries meet the climate challenge. By creating a new market for climate finance through green bonds, governments can not only safeguard their nation from climate-change related issues, but they can support their commitments to the Paris Climate Change Agreement.

Fiji has shown that despite its size and location, the country can raise 100 million Fijian dollars to fund its work to boost climate resilience. The proceeds of the green bond will be spent on projects that help the country to recover from its economic losses and ensure they can maintain their commitment under the historic Paris Climate Change Agreement, to achieve 100 percent renewable energy and reduce its CO₂ emissions in the energy sector by 30 percent by 2030.

This document has outlined practical considerations sovereign countries can take at each step of the process from preparation to issuance and post-issuance reporting. It is hoped that with this guide, more sovereigns will be able to issue their own green bonds and play their part in moving towards a green economy.



ABOUT IFC

IFC—a sister organization of the World Bank and member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work with more than 2,000 businesses worldwide, using our capital, expertise, and influence to create markets and opportunities in the toughest areas of the world. In FY17, we delivered a record \$19.3 billion in long-term financing for developing countries, leveraging the power of the private sector to help end poverty and boost shared prosperity. For more information, visit www.ifc.org.

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