



CHAPTER 5: CLIMATE ACTION FINANCING AND DEBT SUSTAINABILITY

Fiji, like other debt-burdened developing countries, is at a crossroads between dealing with climate change, fiscal health and economic development. On the one hand, they face certain climate risks and the economic havoc they wreak. Not attending adequately to these risks places Fiji in a vicious circle in which greater climate vulnerability raises the cost of debt—especially if it chooses to borrow from the markets—and diminishes the fiscal space for investment in climate resilience.

As financial markets increasingly price in climate risks and global warming accelerates, the risk premia of countries such as Fiji, if it does nothing, is likely to increase even further. On the other hand, the country is already deep in debt, and greatly expanding borrowings for climate action could risk the health of public finances further, bringing with it all the potential ramifications highlighted in the earlier chapters.

Fiji is no stranger to the devastations of climate change, which have upended and continue to threaten all aspects of life on the island, from the environment to the economy to her cultures and traditions. The country's critical infrastructure such as electricity and water stations, hospitals and schools are frequently damaged by extreme weather

events. Its vital ecosystems and natural resources, including its coral reefs, coasts and catchments, on which key sectors of its economy depend, are facing further loss and degradation. As pointedly underscored by the government, “climate change is the single greatest threat to the country’s national security.”¹

To enhance its capacity to withstand these climate hazards, Fiji conducted a vulnerability assessment in 2017 which led to the identification of 125 interventions, such as preserving key ecosystems, risk-informed land use and climate proofing its infrastructure.

Counting the Costs

These interventions do not come cheap. According to the government’s climate vulnerability assessment,² FJ\$9.3bn (almost the entirety of Fiji’s GDP) of investments, plus another FJ\$220-500mn of recurring operational and maintenance costs will be required over the next 10 years³ in order to build up Fiji’s resilience against climate change and natural hazards.

Figure 5-1: Costs of Strengthening Fiji's Climate Resilience By Sector

Summary of identified sectoral needs over the next 10 years to strengthen resilience of Fiji

Sector	INVESTMENT NEEDS (F\$ million)			RECURRENT COSTS (F\$ million)		
	Planned	New	Total	Planned	New	Total
Housing/land use	63	152	215			
Hazard Management	n.a.	2,106	2,106			
Transport	3,098	1,591	4,689			
Energy	271	175	446			
Water	685	447	1,132		175-440	
Health/education	5	568	573			
Environment	55	22	77			
Agriculture	11	3	14			
Fisheries	6	14	20			
Social Protection				47	4	51
GRAND TOTAL	4,194	5,078	9,272			226-491

Source: *Climate Vulnerability Assessment: Making Fiji Climate Resilient*, p.27.

The report noted: “The proposed investments amount to approximately FJ\$900mn per year for the short term and FJ\$954mn per year for the medium term.⁴ The highest yearly investments are required for, inter alia, the transport sector (FJ\$469mn, which is 92% of the 2017 transport sector budget), water sector (FJ\$113mn, about 49% of the water sector budget), and health/education sectors (FJ\$57mn).”⁵

Figure 5-1 shows the substantial financial commitment needed to effectively address the impacts of climate change in Fiji, spanning various critical sectors.

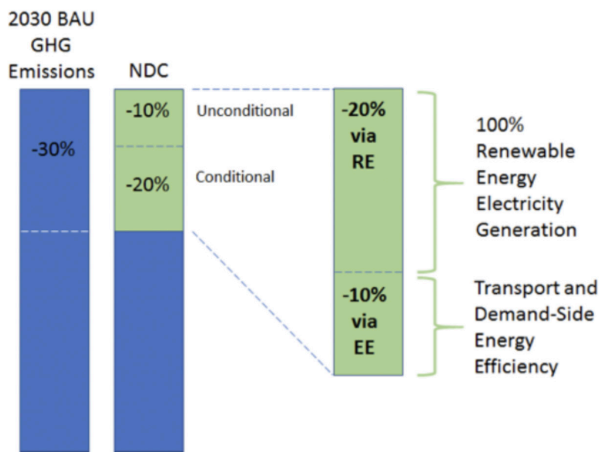
More Money Needed

Aside from its adaptation plans, Fiji has also embraced ambitious climate mitigation targets and goals. According to its National Climate Change Policy (NCCP),⁶ Fiji aspires to achieve net zero annual GHG emissions by 2050. In line with this objective, 100% of national electricity production should be

derived from renewable energy sources by 2030, its transport sector de-carbonised, and its natural carbon sinks and reservoirs enhanced.

These mitigation targets were reiterated and additional indicators developed in Fiji's updated Nationally Determined Contribution (NDC) 2020 document, which was submitted to the UN Framework Convention on Climate Change (UNFCCC) secretariat. To make progress toward net zero emissions by 2050, it will reduce by 30% the business-as-usual (BAU) CO₂ emissions from the energy sector by 2030. This is to be achieved by reaching close to 100% renewable energy power generation by 2030,⁷ which will account for two-thirds of the 30% target. The remaining third will be met by energy efficiency improvements across other sectors of the economy, including the transport, industry and demand-side sub sectors, among them the reduction of domestic maritime shipping emissions by 40%. (See Figure 5-2.)

Figure 5-2: Fiji’s NDC Emission Reduction Targets



Source: Fiji NDC Implementation Roadmap 2017-2030. p.14

In terms of financing, the previous government stated that of the 30% reduction in BAU baseline CO2 emissions,⁸ 10% will be achieved unconditionally using existing resources, while the remaining 20% will be realised “conditionally”, meaning that external financing will be required.⁹

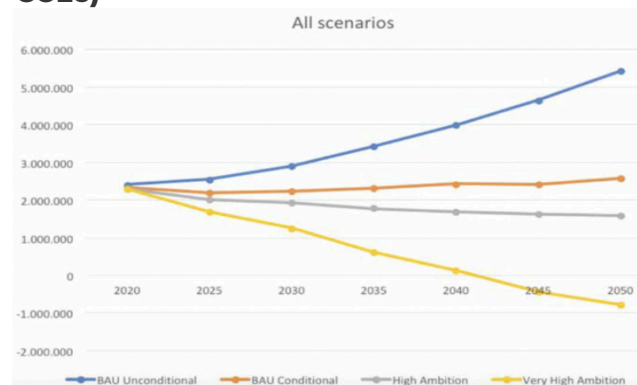
Concretely, to get to the 2030 mitigation targets alone will cost Fiji US\$2.9bn, according to government estimates.¹⁰ Needless to say, “this is an exorbitant financial challenge compounded by competing adaptation and disaster risk challenges... all of which are exacerbated by the Covid-19 economic crisis”¹¹ and its aftermath on fiscal and debt sustainability.

Achieving the far more ambitious economy-wide net zero emissions by 2050 as espoused in Fiji’s NCCP, will invariably cost even more. The pathways to arrive at net zero have been mapped out earlier in Fiji’s Low Emission Development Strategy (LEDS) issued in 2018.¹² The strategy estimates Fiji’s emissions would more than double under the BAU “unconditional” scenario, drop by 31% under the “high ambition” scenario, and will only reach net negative emissions under the “very high ambition” scenario.¹³ (See Figure 5-3.)

In the most ambitious scenario under LEDS, Fiji reaches net zero emissions by 2041. This would be achieved through a complete transformation of Fiji’s energy sector into one based on a wide variety of on-grid and off-grid renewable energy generation. Specific policy actions include capacity building for renewable energy and smart grid technology; complete transition of Fiji’s land transport system to hybrid-electric and electric vehicles; full methane capture and utilisation for organic waste reduction and recycling programmes; and extensive afforestation measures to offset the increase in emissions caused by population and economic growth.

Getting to net zero emissions by 2050 will entail significant financial resources, including massively tapping on external and international sources of funds. According to LEDS estimates, to get to an electric vehicles penetration rate of 70-100% under the “high ambition” and “very high ambition” scenarios will cost the country approximately between US\$5.2bn-7.3bn.¹⁴ The mitigation action of replacing its domestic fleet of aircrafts with more efficient ones will cost between US\$500mn-600mn.¹⁵ As for adopting renewable energy sources such as solar with storage, biomass, geothermal, hydro and wind installations, the costs are USD\$4.3bn to US\$13.1bn, based on the two more ambitious

Figure 5-3: Total Net Emissions for Fiji under four LEDS Scenarios (in metric tonnes CO2e)



Source: Fiji Low Emission Development Strategy (LEDS) 2018-2050. p.5 t Emissions for Fiji under four LEDS Scenarios (in metric tonnes CO2e).png

scenarios.¹⁶ Yet another mitigation action of reducing emissions from deforestation by 80% (under the “very high ambition” pathway) is projected to lead to an income loss of US\$48m.¹⁷ This could cost the country even more as this will also have a direct impact on Fiji’s trade performance. Wood and wood fuel make up the second largest category of exports at 8.9% of the total, valued at US\$95.7mn in 2021.¹⁸ To be clear, the LEDS cost estimates are cumulative, over a range of implementation timeframes from 2018 to 2050.

Implications for Debt Sustainability

Clearly the combined bill for both climate mitigation and adaptation actions is eye watering, threatening to strain public finances even further. Given the lack of fiscal space as

pointed out by the current government and the unprecedented debt burden, climate action spending and investments can pose a real risk to debt sustainability.

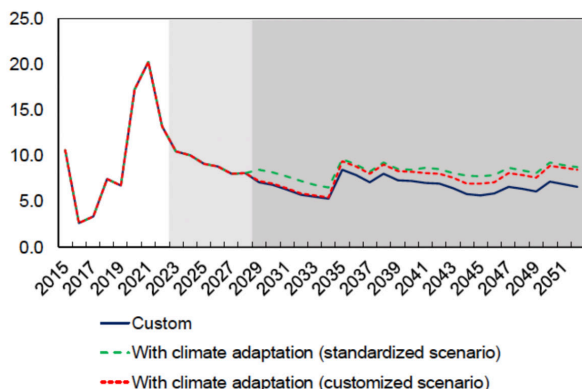
Figures 5-4 and 5-5 are IMF simulations of Fiji’s long-term debt sustainability, and are not well articulated and explained in its Article IV consultation report for the country. They do not appear to be about the effects of climate disasters but rather, the financial and debt implications of heightened public spending on mitigation and adaptation measures. It is also not clear which cost estimates the IMF used for its climate spending projections to derive the government gross financing needs and consequent relationship to public debt.

Nonetheless, it is illustratively useful as they clearly show that the very steep cost estimates

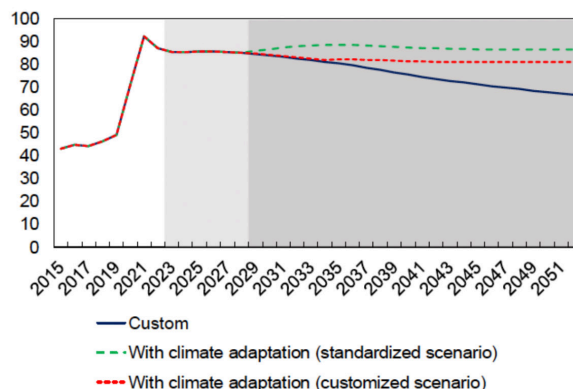
Figure 5-4: Fiji’s Long-Term Debt Sustainability With Climate Change Adaptation

Climate Change: Adaptation

GFN-to-GDP ratio



Total public debt-to-GDP ratio

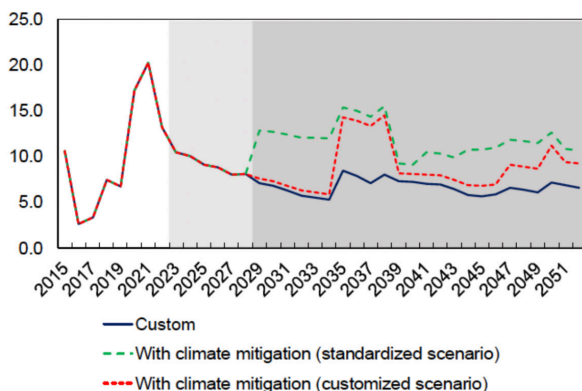


Source: IMF, “Republic of Fiji: 2023 Article IV Consultation,” p. 43

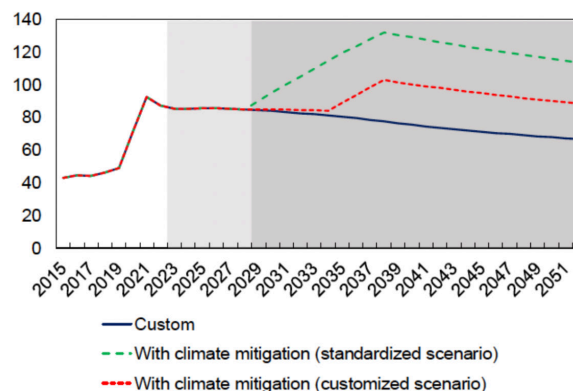
Figure 5-5: Fiji’s Long-Term Debt Sustainability With Climate Change Mitigation

Climate Change: Mitigation

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Source: IMF “Republic of Fiji: 2023 Article IV Consultation,” p. 43

outlined by the various climate policy papers and strategies mentioned earlier, will invariably lead to a far higher debt-to-GDP ratio than the elevated levels today, making it technically unsustainable as it trends significantly higher over time.

Need For a Climate Finance Strategy

From a debt sustainability and management standpoint, it is critical that these climate actions are assessed on how it might add to the debt burden and further strain public coffers. The need for prioritisation and sequencing of actions is now even more pressing given the current state of its public finances. While some groundwork has gone into evaluating how these proposed measures could tangibly reduce and avert the costs of climate disasters, more country specific data and analyses will be needed in justifying and prioritising new investments and asset maintenance for climate action.

As the government noted in its National Adaptation Plan (NAP) in 2018, “there is a need to produce a comprehensive financing strategy...The requirement is for the financial plan to be specific to Fiji...such as highlighting which financial mechanisms exist under the UNFCCC and which can be used to finance NAP processes. This strategy should estimate the total cost of actions in the NAP process to an acceptable level, and....It should provide insight into how these costs will be borne across time and which are likely to be on-going costs.”¹⁹

Belying its rubric, Fiji’s National Climate Finance Strategy,²⁰ intended as a blueprint to Fiji meeting its net zero emission 2050 goals, missed an opportunity to address this central question on how climate actions should be optimally financed, and for developing a framework to prioritise these enumerated actions to deliver the most bang for the buck.

A country’s climate finance strategy should in the prioritisation process²¹ take on board the economic considerations of these

climate actions. It is essential to integrate a “development case” approach to discern which climate actions are financially viable and economically impactful. At the same time, it should account for the economic repercussions of inaction—the costs that accrue when these vital measures are deferred or ignored. Furthermore, there is a need to strike a balance between investing in climate adaptation and mitigation vis-à-vis other policy priorities, such as fiscal and debt sustainability, when operationalising these climate action plans. The climate finance strategy, apart from identifying the most appropriate sources of financing, should also consider the fiscal tools and financial incentives that can be employed to meet these costs over the long term.

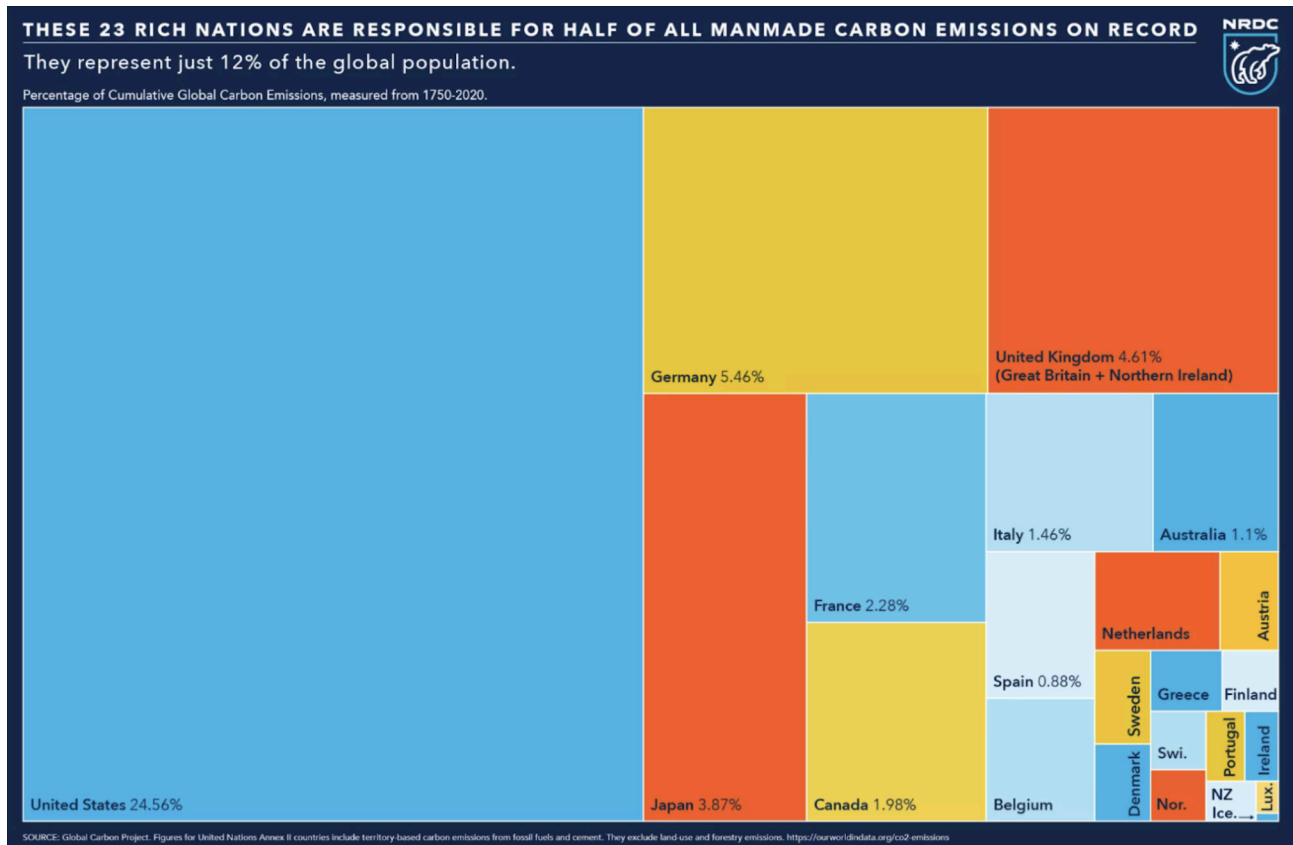
Understanding the full economic impact of these actions, including the implications for development, fiscal health, and debt sustainability, is crucial for informed decision-making in climate action planning.

Given the profound economic and financial costs of climate action, a centrepiece of the climate finance strategy should be greater advocacy for more non-debt creating grants and highly concessional funding, to be made available especially to Small Island Development States (SIDS) on the bases of equity, international cooperation and the realisation of globally agreed sustainable development goals (SDGs).

Who Pays?

Fiji’s desired leadership in climate action is laudable. As chair of COP23, Fiji has sought to galvanise the rest of the world through its own exemplary actions. This is despite the fact that Fiji like most SIDS have done virtually nothing in precipitating and contributing to anthropogenic climate change, responsible for no more than 0.006%²² of global greenhouse gas (GHG) emissions. Yet, it will be in the frontline of suffering the worst consequences of rising temperatures.

Figure 5-6: Wealthy Nations' Share of Global Carbon Emissions



Source: Rich, Polluting Nations Still Owe the Developing World

On the other hand, wealthy, developed countries, particularly the US and western European nations, have emitted the lion's share of greenhouse gases that led to the climate crisis (see Figure 5-6). In fact, just 23 developed countries are responsible for half of all historic CO2 emissions.²³

Even today, the world's richest 10%—which includes much of the developed countries' middle classes—continue to account for 50% of emissions. The biggest dent to emissions therefore could be easily made by reducing their consumption substantially and quickly.

Figure 5-7: Global Income Groups and Associated Emissions

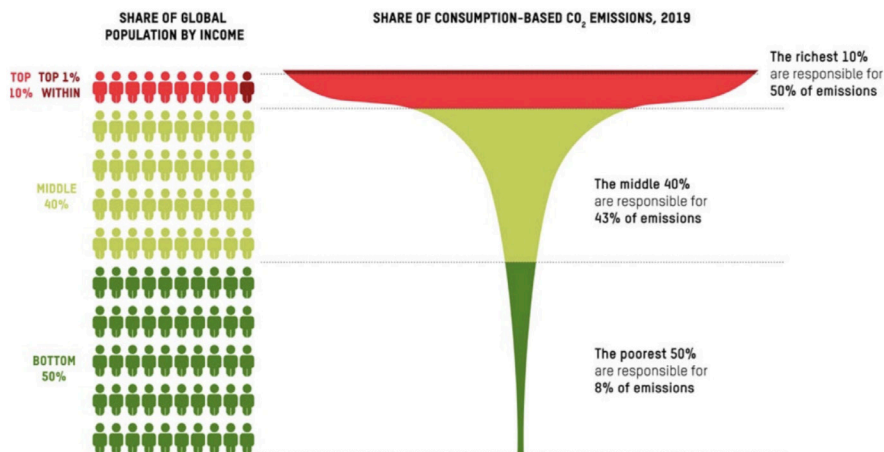


Figure 1.1 Global income groups and associated consumption emissions in 2019. Source: Oxfam and SEI.

Source: Oxfam International, "Climate Equality: A Planet for the 99%," p. 8

Climate Justice and Equity

Many developing countries face the uphill tasks of fulfilling the basic economic and social necessities of their citizens and managing the dire impacts of climate change. These countries, due to limited resources, will find it difficult to transition from a fossil fuel-dependent framework to more sustainable alternatives. It is not just a matter of capability but of justice that developed nations, which have historically contributed the most to this crisis, step up. They have a clear responsibility to financially support those who are now bearing the brunt of climate change.

This duty is not just moral; it is a commitment made under international agreements like the UNFCCC and the Paris Agreement, which endorse the principle of “common but differentiated responsibilities and respective capabilities” of individual countries when it comes to addressing climate change.

Despite this, there is a persistent shortfall in both the ambition and political determination among developed nations to settle their “climate debt” and to honour their pledged climate finance commitments.

In 2009, wealthy developed countries committed to collectively mobilise US\$100bn a year by 2020 to help developing countries cut their emissions and adapt to climate impacts. But they have so far failed to respect that pledge. In 2020 rich nations reportedly mobilised US\$83.3bn of climate finance, according to contested data published in 2022 by the OECD.²⁴ Oxfam, in its Climate Finance Shadow Report 2023, reported that the real value of rich countries’ climate finance in 2020 was just US\$24.5bn.²⁵ The official inflated figure of US\$83bn was reached by overstating climate benefits and taking loans at their face value, according to the Oxfam report.

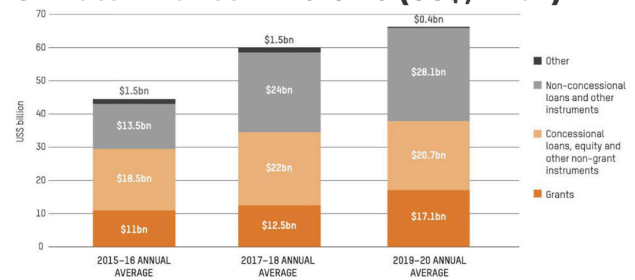
Unless much more non-debt creating finance is made available to climate-vulnerable developing countries, they will be forced to rely

on expensive, unsustainable loans to finance their response.

And this they have done: taking on more loans and borrowings for climate actions. For some of the regions and countries most affected by the climate crisis and least able to finance their own needs, the proportion of loans is particularly concerning.

Oxfam’s Climate Finance Shadow Report found that just about 17% of reported public climate finance was provided as grants, about a third as concessional loans, and a “staggering” 42% as commercial, non-concessional loans that heighten the risk of debt distress in recipient countries. Over half of all climate finance allocated to least developed countries (LDCs) were provided as loans; for SIDS, this figure is more than one third.

Figure 5-8: Instrument Split of Public Climate Finance in 2016-20 (US\$, in bn)

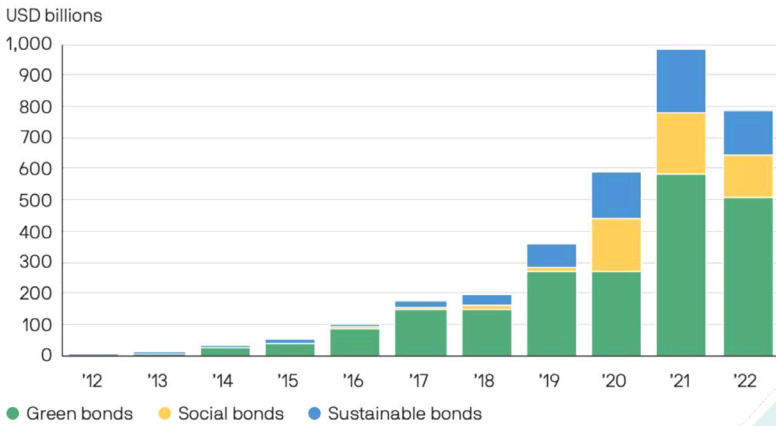


Source: Oxfam, “Climate Finance Shadow Report 2023,” p.17

However, many countries are already over-indebted and may not be able to take on any more loans. The debt crisis must be resolved to meet the climate challenge, and a larger share of climate finance should be disbursed as grants. To make matters worse, countries with higher climate risks, particularly low-income states and SIDS, are paying higher rates of interest to access finance.

This is not helped by the push to get developing countries to issue more green bonds or other climate related bonds. Such instruments have been touted as “one of the most important financial breakthroughs in the domain of sustainable finance during the last 15 years”.²⁶

Figure 5-9: Global Sustainable, Social and Green Bond Issuance



Source: Vincent Juvyns, "Green bonds: Is doing good compatible with doing well in fixed income?", JPMorgan Asset Management. Feb 2023, p. 1

Supporters point to the growing demand and market for such bonds by investors (Figure 5-9) and see an opportunity for developing countries to tap capital markets for financing their climate goals and objectives.

Green Bonds

While the first green bond was issued in 2007, it only really took off in the last couple of years. However, sovereign issuances, especially those by developing countries, is only a sliver of the whole green bond market. In this regard, Fiji is exceptional by being the first developing country to have issued a green bond in 2017.

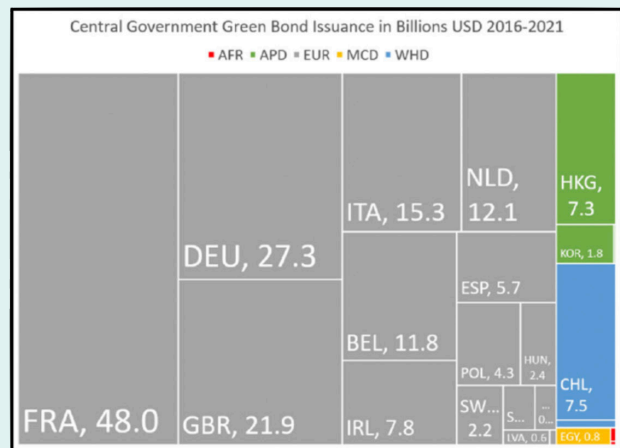
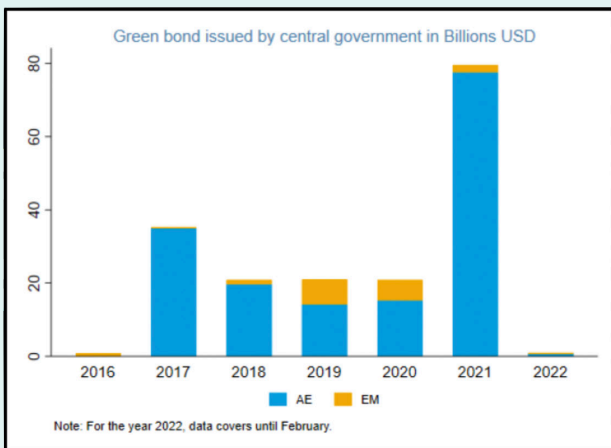
Nonetheless, this sovereign green bond market remains dominated by developed countries issuers. (See Figure 5-10.)

Geographically, the cumulative issuance from 2016-21 is mostly concentrated in European countries (US\$161bn), followed by Asia Pacific countries (US\$9bn), western hemisphere countries (US\$8bn), the Middle East and Central Asian countries (less than US\$1bn), and African countries (less than US\$1bn). France has issued nearly US\$48bn for green projects and is the largest issuer as of February 2022.²⁷

Figure 5-10: Green Bonds Issued by Central Government (US\$, in bn)

1. Across years

2. Cumulative from 2016-2021



Source: IMF Staff Climate Note 2022/004, p. 4.

“Greenium” and The Costs of Green Bonds

One of the reasons for the enthusiasm around green bonds is their supposed price premium, or “greeniums”; in other words, issuers are able to borrow at a lower cost of capital when compared to a non-green bond. Green bonds are often structured similarly to traditional “plain vanilla” bonds, but with a “use of proceeds” clause stating that the funds would be utilised for green investments. In theory, it is assumed that investors are willing to pay a higher price for green bonds out of concern for the environment.

First, the literature on sovereign green bond greenium is limited. And based on the limited research, the empirical evidence for greenium appears to be ambivalent at best. A study showed that the greenium is negative in the primary market but slightly positive (0.5 basis points or bps) in the secondary market.²⁸ The IMF found that the greenium of five- and 10-year European sovereign green bonds are marginal, at around 3 to 5 bps.²⁹

In short there is no discernible difference in pricing between a green and regular bond as concluded by other studies.³⁰ That said, one research paper found a “number of studies in favour of the existence of a small greenium, especially for green bonds that are government issued, investment grade, and follow defined green bond governance and reporting procedures.”³¹

Nonetheless, in a study on US municipal green bonds, researchers concluded that not only was the greenium not accrued as promised, the cost of such issuance could even be more expensive than regular bonds. Not least because investment banks tend to charge slightly more when they help to issue green bonds, as they may be more challenging to underwrite compared to conventional “vanilla” bonds. The researchers found that “borrowing costs are on average approximately 10% higher for green securities than almost identical non-green securities. The combination of equivalent yield and higher transaction

costs is not consistent with the existence of greenium.”³²

Green bonds also require more disclosure and tracking for the use of proceeds. For example, if a green bond issuer wants certification from the Climate Bonds Initiative (an outfit promoting financing for climate action), it needs documentation to show that it meets the Climate Bonds Standard and engagement with verifiers is needed. For the sovereign issuer this means orchestrating a whole range of government departments and bureaucracies. They also have to connect every dollar raised from the debt capital markets with the sustainability impact promised in the bond contract. And they have to pay third-party auditors and assurers to verify that the funds raised have been used for its climate purposes. While this leads to greater transparency and accountability, it also means more public money and resources will also have to be expended, on top of the debt servicing.



Finally there is also the cost of reputational damage to the sovereign issuer if the green project financed by the green bonds fails or is perceived as greenwashing (falsely claiming that the financed investment is green). This could also end up affecting its sovereign credit risk rating.

Therefore, from an issuer's point of view, a greenium is almost a necessity to offset the inherently more costly green bond issuance, and ensure compliance with the need for external review, regular reporting and impact assessments.

At the same time, insofar that some European issuers have enjoyed some greenium in the past, they are now complaining that it has now all but disappeared.³³ European public debt managers are now questioning the logic of issuing more green bonds, given their inherent costs and investors' increasing reluctance to pay a higher price for them.³⁴

Ironically, the recent growth in the green bond markets itself may be responsible for driving down its initial greenium. With an expanded pipeline of public and private green bonds, they are no longer the novelty they once were, and investors are able to choose among those which are more competitively priced.³⁵

Finally the sovereign green bond will also contain all the attendant risks and costs of a traditional bond such as:

- Foreign currency risks when these bonds are not issued in local currency and largely held by non-residents.
- High costs of borrowing especially for an emerging market with an unfavourable credit risk rating and under the current climate of high interest rates.
- Making the sovereign debt restructuring process much more complicated and expensive in the event of a default.
- Added constraint on macroeconomic policy space as sovereign issuers have to be more mindful of market sentiment and perceptions.

Fiji's Sustainable Bond Framework

The Fijian government published a sustainable bond framework³⁶ to demonstrate how it intends to select, finance and/or refinance "eligible projects" that will deliver focused environmental and social benefits in alignment with the UNSDGs, as well as the plethora of national climate action plans outlined above. The Fijian Sustainable Bond Framework is designed to align with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines published by the International Capital Market Association (ICMA).³⁷

In particular, the current iteration of Fiji's framework will support blue, green, social, sustainability and SDG bond issuances, depending on how the proceeds will be exclusively used to finance or refinance expenditures into these thematic areas. The exact classification of the bonds into the various thematic areas (green, blue, social, sustainability or SDG) will be determined by the Fijian government based on its primary objectives for the underlying projects. The government has up to two years after the issuance of a bond to fully allocate proceeds from that bond.

More generally, while there seems to be strong demand for climate-friendly bonds from investors—especially those with an ESG (environmental, social and governance) focus—there is little evidence of a significant price advantage for green bonds, as their pricing still largely reflects credit risk and liquidity.³⁸

Fiji's Green and Blue Bonds

In October 2017, the Fijian government issued³⁹ a FJ\$100mn (roughly US\$50mn) Sovereign Green Bond. The World Bank's International Finance Corporation (IFC) provided technical assistance to the government in issuing the bond. Proceeds from the bond were earmarked for several "climate friendly" projects in the areas of renewable energy and

Figure 5-11: Summary of Fiji Sovereign Green Bond Issuance

Fiji Green Bond Issue No.	Tender Start Date	Tender End Date	Settlement Date	Total Amount Offered	Maturity Date		Total Bids Submitted		Total Successful Bids	
					5-year	13-year	5-year	13-year	5-year	13-year
2017-2018/1	25-Oct-17	31-Oct-17	1-Nov-17	40 million	1-Nov-22	1-Nov-30	60.10 million	27.61 million	20 million	20 million
2017-2018/1 R	26-Dec-17	27-Dec-17	28-Dec-17	20 million		1-Nov-30		31.50 million		20 million
2017-2018/1 R1	18-Jun-18	19-Jun-18	20-Jun-18	20 million		1-Nov-30		26.62 million		26.62 million
2017-2018/1 R2	16-Jul-18	17-Jul-18	18-Jul-18	13 million		1-Nov-30		16.60 million		13.38 million

Source: Fiji Sovereign Green Bond Impact Report 2018, p.6

energy efficiency, clean and resilient transport, and air pollution reduction, among others.

The bond was broken-down into two instruments, a five-year and 13-year tenure (both of which were sold at par), which pay coupons of 4% and 6.3% respectively. In this regard, there appears to be little difference from the interests paid on regular bonds of similar durations issued by the government in 2017. (See Chapter 2.)

At the same time, the government had to engage the services of external auditor and assurer to verify that the proceeds will indeed and have been channelled to realise the stated purpose of the green bonds.⁴⁰ As part of the process, Fiji also committed to annual reporting on the use of the bond's proceeds on green qualifying projects.⁴¹

More recently under the new government, Fiji issued its first blue bond to raise funds from the international capital market for its climate adaptation actions.

According to a government concept note:

"Fiji's first sovereign Blue Bond will be issued on 8 November 2023. Referred to as the Fiji Sovereign Blue Bond ('FSBB'), the FSBB has been structured with funding support from the Government of United Kingdom's Blue Planet Fund and technical support from the United Nations Development Programme (UNDP) in collaboration with the United Capital Development Fund (UNCDF)."

It goes on to say that: "The 2023-2024 FSBB will focus on raising capital market finance to support projects in four priority sectors ranging from 'Coastal Protection', 'Sustainable Fisheries', 'Sustainable Towns and Cities', and 'Sustainable Waste Management', across 18 different projects. The selected projects have been carefully selected after comprehensive feasibility studies and are expected to yield multi-layered socio-economic benefits." The terms of Fiji's two notes can be found in Figure 5-12.

Figure 5-12: Terms of Fiji's Blue Bonds

ISIN	FJ1305037426	FJ1305037434
Tenor	3 Years	15 Years
Amount	\$5,000,000	\$15,000,000
Maturity	8-November-26	8-November-38
Interest Payments	8 May & 8 November in each year until maturity	
Coupon Rate	Fixed at 1.00%	Fixed at 4.20%

Source: Fiji Sovereign Blue Bond, Notice of Issuance

The coupon rates offered for the three- and 15-year blue bonds are hardly any different from that of the regular bonds offered domestically for similar tenors.⁴² The bottom line is that these green and blue bonds⁴³ are not the least concessional, provide no materially significant (if any) greenium, and are far more onerous for the government in terms of managing the use of proceeds.

Conclusion

Given the intricate challenges presented in implementing climate initiatives and their broad implications, the government must formulate a robust climate finance strategy. This strategy needs to thoroughly evaluate all possible funding sources and financial mechanisms, carefully prioritising climate actions that align with the nation's development, climate resilience, and fiscal goals. Such a strategic framework is crucial to ensure that climate-related investments reinforce the nation's broader economic and environmental objectives.

In this regard, Fiji's climate finance strategy should include (and is not limited) to the following considerations:

- Identify the greatest existential and economic threat to Fiji and its people posed by climate change. Prioritise climate actions that will have the greatest impact on minimising known existential and economic impact, and managing known climate hazards and risks, so as to right-size and stagger the amount of financing required.
- In this respect, well-chosen climate adaptation investments, by having a positive impact on growth, or by preventing growth from being derailed by climate change, can potentially help an economy outgrow its debt, advancing not just climate resilience but also debt sustainability in the longer run.
- Sequence the implementation of climate actions and interventions and in the process iterate and refine the efficacy of these interventions so that its financing can be better managed and deliver more bang for the buck.
- Conduct a cost-benefit analysis for each of these climate actions that takes into explicit consideration its impact on economic growth and development, and fiscal and debt sustainability.
- Conduct a comprehensive survey of all financing sources for its climate actions and objectives, and weigh the pros and cons of each. It should also consider fiscal tools and incentives that can be employed to meet these costs over the long term.
- Continue to advocate for developed countries to live up to their responsibilities and international commitments to provide the necessary financing, in the form of grants, official development assistance, and highly concessional loans for climate action.
- Borrowing at market rates (in the form of commercial loans or bond issuances) should be subject to stringent scrutiny, especially by the government's debt management office and other relevant agencies, given how such borrowings deteriorates the public debt profile and dynamics—they tend to be expensive, denominated in foreign currencies, and impose costly penalties in the event of defaults. Thus, the benefits of climate actions funded by such commercial borrowings, should be clearly evaluated and articulated from the outset, and mechanisms put in place to ensure that they are in fact accrued. The borrower or issuer should strive to ensure the best possible terms in these loan and bond contracts, such as "hurricane clauses" for automatic debt service suspension, an

- appropriate forum for dispute resolution, and agreed processes for restructuring in the event of a default.
- Identify climate actions that concomitantly deliver clear commercial and economic benefits. Private financing for such actions could be encouraged to reduce demands on the public purse.
 - Establish an automatic mechanism for a debt payment moratorium and comprehensive restructuring in the wake of external catastrophic shocks.
 - Review debt sustainability frameworks to incorporate climate vulnerabilities and risk and impact assessments.



ENDNOTES

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43 There was no mention of this sovereign blue bond issuance in the government’s annual borrowing plans for fiscal year 2023/24.