



BRINGING
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RESERVE BANK OF FIJI'S EXPERIENCE WITH FINANCIAL INCLUSION AND CLIMATE CHANGE

November 2018



CASE STUDY



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EXECUTIVE SUMMARY

When Tropical Cyclone Winston (TC Winston) hit Fiji in February 2016, the impacts were intense, immediate and far reaching. The biggest tropical cyclone to ever hit the Southern Hemisphere, the Category 5 storm destroyed 40,000 homes, flooded crops and farmland and displaced entire communities. Ultimately, the economic losses from the storm amounted to almost one-third of Fiji's GDP.

Galvanized to act, the government and other key decision makers, including the Reserve Bank of Fiji (RBF), escalated efforts to make the country more resilient to extreme climate events, rising sea levels and changing weather patterns. Just nine months after TC Winston, Fiji emerged as a global climate change leader when it became the first government to sign the Paris Agreement, and its Prime Minister was subsequently appointed President of the Conference of Parties 23rd Meeting (COP 23), which is responsible for moving UN climate negotiations forward.

The leadership of the RBF is passionate about the role financial inclusion could play in mitigating and adapting to climate change and championed policies that would expand access to financial products and services for the unbanked and enable Fiji's most vulnerable populations to become more resilient to adverse economic, social and climatic conditions.

Today, the RBF sees the development of green financial products and services as an integral part of its broader financial inclusion agenda and vital to Fiji's transition to a sustainable, low-carbon economy. The National Financial Inclusion Strategic Plan 2016-2020, developed together with the National Financial Inclusion Taskforce (NFIT), makes green finance a focus.



The effects of Tropical Cyclone Winston, December 2016.

Strategic Goal 6.4.6 states:

“Provide support for the development of green financial services and products. This includes services and products designed for individuals, households and MSMEs that reduce negative environmental impacts or provide environmental benefits.”

In the face of urgent environmental, economic and social challenges brought about by climate change, the RBF is finding ways for the financial sector to become more sustainable and transition to a green economy. One of these efforts is the Fiji Financial Sector Development Plan 2016-2025, which the RBF developed in alignment with the government's National Development Plan (NDP) and commitments to the Sustainable Development Goals (SDGs).

The NDP provides a framework for the RBF and other financial institutions to assess the sustainability of their operations and develop policies and strategies to better protect Fiji's people and environment.

The RBF has also been a global champion for financial inclusion and climate change as a member of the Alliance for Financial Inclusion (AFI). As host of the 2016 AFI Global Policy Forum (GPF) in Nadi, the RBF made commitments under the Maya Declaration to advance green finance, and at the 2017 GPF in Egypt the Bank endorsed the Sharm El Sheikh Accord on Climate Change.

There is optimism in Fiji that fostering financial inclusion will strengthen the resilience of the poor and ease the transition to a low-carbon economy. This case study examines the important link between financial inclusion and climate change and provides practical examples of RBF policies that are contributing to climate change mitigation, adaptation and resilience, greening the financial sector and laying the foundation for a low-carbon economy.



Woman boarding up her house during a Tropical Cyclone Winston.

INTRODUCTION

Financial inclusion has made significant inroads in many countries, including Fiji, where today over 80%¹ of adults have access to financial products and services. Rigorous research shows that providing access to formal financial services helps the poor smooth consumption when they face unexpected setbacks.²

At a time when rising sea levels, changing weather patterns and extreme weather events are having dramatic and negative effects on the lives of the poor, financial products and services like savings accounts, loans, insurance and mobile money not only provide a vital safety net, but also help facilitate the transition to a low-carbon economy.

However, while green finance and sustainable finance have become established concepts, the connection between financial inclusion and climate change has not been sufficiently explored.

The purpose of this case study is to show the important link between financial inclusion and climate change and to help build a body of evidence of the actions financial regulators are taking to address the pressing issues of climate change mitigation and adaptation for those at the bottom of the pyramid. It examines the early work of the Reserve Bank of Fiji (RBF) to enact policies that will transition Fiji's financial sector to a green economy and help the population cope with the financial losses of climate change and adapt to new livelihoods and environmental realities.



1 Source: RBF on AFI Data Portal
2 Moore, Danielle, Zahra Niazi, Rebecca Rouse and Berber Kramer. Forthcoming. "Building Resilience through Financial Inclusion: A Review of Existing Evidence and Knowledge Gaps". Innovations for Poverty Action, Washington, DC.

BACKGROUND

Like many other island nations in the South Pacific, Fiji is vulnerable to the effects of climate change. In recent years, the country has experienced extreme weather events, such as cyclones, floods and drought, and rising sea levels have jeopardized the stability of coastal life. The intensity of these events has increased dramatically, with saltwater intrusion affecting water supplies and agriculture and displacing communities. For the government, tackling these issues is an expensive undertaking.

For a small, open economy heavily dependent on tourism, sectoral damages from extreme weather events can have a massive direct impact on economic growth. Although TC Winston had widespread and devastating effects, Fiji's main industries and cities escaped damage and businesses in the main urban centers were not affected. The story would have been much different if the cyclone had hit the heart of economic activity, but damages still amounted to a billion Fijian dollars (nearly half a billion US dollars).

In the aftermath of TC Winston, the RBF recognized that climate-induced disasters can set an economy back and threaten to roll back important development gains. It also considered the prospect of an even worse case scenario: that climate change could threaten the key function of the central bank to ensure monetary and financial stability. If another major cyclone were to hit Fiji and its main industries and businesses were to close for a prolonged period, food security became an issue, or imports and exports stalled, the ability of the RBF to maintain adequate levels of foreign reserves and keep inflation low would be affected. Loan repayments would perhaps need to be rescheduled and there could be an increase in non-performing loans. The flow-on effect on downstream industries in the value chain could exacerbate this situation.

TC Winston had a dramatic effect on decision makers in both the public and private sector, who took immediate steps to make climate change a priority. A motion to ratify the Paris Agreement was proposed in the Fiji Parliament less than a week before TC Winston and received unanimous agreement.

1/3 OF FIJI'S GDP
THE ECONOMIC LOSSES FROM TROPICAL CYCLONE WINSTON IN 2016 AMOUNTED TO ALMOST ONE-THIRD OF FIJI'S GDP



1ST
IN APRIL 2016, FIJI BECAME THE FIRST GOVERNMENT TO RATIFY THE PARIS AGREEMENT OF THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE



COP23
IN NOVEMBER 2017 FIJI TOOK A LEADING ROLE AS PRESIDENT OF THE CONFERENCE OF PARTIES 23RD MEETING (COP 23)



In April 2016, Fiji became the first country to ratify the Paris Agreement of the United Nations Framework Convention on Climate Change, and in November 2017 it took a leading role as President of the Conference of Parties 23rd meeting (COP 23). Having just weathered the worst natural disaster in its history, Fiji emerged as a climate change champion with a story to tell the world.

STRATEGIES FOR FINANCIAL INCLUSION AND CLIMATE CHANGE

NATIONAL FINANCIAL INCLUSION STRATEGIC PLAN 2016-2020

Since 2009, the RBF has been working with the National Financial Inclusion Taskforce (NFIT) and the NFIT working group to expand access to and usage of financial products and services across Fiji. In just the last four years, the percentage of adults with access to formal financial services has increased from 64% to 80.89%.³ In 2016, together with the NFIT, the RBF issued the second National Financial Inclusion Strategic Plan 2016-2020, which includes a target of reaching an additional 130,000 adults, or 85% of the adult population, with financial products and services, 50% of whom will be women.

When the Fiji Government committed to adopt the Rio+20 Sustainable Development Goals 2030 Agenda (the SDGs) in 2012, the RBF saw its financial inclusion work as a positive contribution in this area. The Strategic Plan recognizes that financial inclusion is vital to a strong economy and contributes directly to the SDGs, namely SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 6 (Clean Water and Sanitation) and SDG 13 (Climate Action).

The Strategic Plan is also aligned with the government's 5-year and 20-year National Development Plan (NDP). Guided by a vision of "Transforming Fiji", the NDP aims to accelerate integrated and inclusive sustainable development; inspire action at all levels to implement climate resilience, mitigation and adaptation measures; reduce poverty; and make broad social improvements.

The Paris Agreement aims to achieve climate neutrality and lower greenhouse gas emissions, and the RBF has been pursuing green finance as a key policy priority to support the Government of Fiji's climate commitments. Strategic Goal 6.4.6 of the National Financial Inclusion Strategic Plan states: "Provide support for the development of green financial services and products. This includes services and products designed for individuals, households and MSMEs that reduce negative environmental impacts or provide environmental benefits."⁴

3 Source: Reserve Bank of Fiji on AFI Data Portal and www.rbf.gov.fj

4 <http://www.rbf.gov.fj/>

THE NDP SETS SEVERAL MAJOR TARGETS THAT ARE TIED DIRECTLY TO THE SDGs, INCLUDING:



EXPANDING RELIABLE ELECTRICITY
(SDG 7: Affordable and Clean Energy)



REDUCING GREENHOUSE GAS EMISSIONS BY 30% BY 2030
(SDG 13: Climate Action)



ESTABLISHING MARINE PROTECTED AREAS THAT WILL COVER 30% OF FIJI'S MARINE AREAS BY 2036
(SDG 14: Life Below Water)

FIJI'S GREEN DEVELOPMENT AGENDA

2012 Fiji commits to adopt the Rio+20 Sustainable Development Goals 2030 Agenda (SDGs) and puts a development policy framework in place to support these commitments.

2014 A Green Growth Framework for Fiji with the theme, "Restoring the Balance in Development that is Sustainable for our Future", is developed. The framework addresses several areas under the SDGs of special concern to Fiji, including strengthening resilience to climate change and natural disasters.

2016 Fiji becomes the first country to ratify the Paris Agreement of the Conference of Parties on Climate Change.

FIJI FINANCIAL SECTOR DEVELOPMENT PLAN 2016-2025

Financial institutions can help to move a country toward a low-carbon, climate-resilient economy by providing green financial products and services and financing technologies and practices that benefit the environment. The RBF's Fiji Financial Sector Development Plan 2016-2025 aligns financial sector development with the government's NDP and the pursuit of the SDGs and green finance. As part of the implementation, the RBF has institutionalized its work on financial inclusion and climate change. The Financial System Development Group (FSDG) is a separate department within the RBF that, in addition to other work, is responsible for financial inclusion and climate change.

SUSTAINABLE FINANCE ROAD MAP

The RBF is working with the Sustainable Banking Network (SBN) to finalize Fiji's Sustainable Finance Roadmap, which will seek to guide the financial sector's transition to a green economy. The Roadmap will cover all players in the financial sector and is intended to strengthen the resilience and competitiveness of the country's financial institutions. It would attempt to achieve this by enabling them to grow and develop sustainably through better risk management and offering innovative, environmentally-friendly and socially-responsible products and services.

The Roadmap will aim to make financial resources available to achieve Fiji's SDG targets and enhance the ability of the financial system to mobilize private capital for green investments. It will also seek to enable the financial sector to contribute to the government's commitments to climate change mitigation and adaptation and support the transition to a low-carbon economy.

A key objective of the Roadmap will be bringing Fiji's national strategies for financial inclusion, climate change, environmental conservation, social inclusion and economic development into alignment.

Together, these strategies will seek to provide an overarching sustainability framework and streamline policies across government ministries and the RBF. This alignment will avoid a potential disconnect between the financial sector and sustainability policies and will help to make the implementation of the Roadmap more effective and efficient.

Finally, the envisaged Roadmap will integrate environmental, social and governance considerations into existing financial decision-making processes. This integration will become evident in two areas: 1) managing systemic risk to financial markets from environmental, social, governance and climate risks

that have been largely overlooked until now; and 2) capital allocation for product innovation, which will encourage financial institutions to develop products that address environmental and social challenges.

MAYA DECLARATION COMMITMENT TO GREEN FINANCE



The RBF has been a leader in financial inclusion and climate change as a member of the Alliance for Financial Inclusion (AFI). As host of the 2016 AFI Global Policy Forum (GPF) in Nadi, the RBF made a commitment under the Maya Declaration to:

“work with partners on developing and promoting sustainable business models to support communities’ response to climate change”.

As part of this commitment, the RBF held a workshop in July 2017 to develop a common understanding and create an enabling environment for green finance. A discussion on greening the financial sector was the starting point for developing Fiji's Sustainable Finance Roadmap and Policy Framework. Later that year at the 2017 GPF in Egypt, the RBF endorsed the Sharm El Sheikh Accord on Climate Change.

GLOBAL CHAMPION

AS HOST OF THE 2016 AFI GLOBAL
POLICY FORUM (GPF) IN NADI,
THE RBF MADE COMMITMENTS
UNDER THE MAYA DECLARATION
TO ADVANCE GREEN FINANCE



Closing ceremony, 2016 GPF, Fiji.

BUILDING RESILIENCE: POLICIES ON FINANCIAL INCLUSION AND CLIMATE CHANGE

The Fiji Government, the RBF and the FPNP have implemented a variety of policies and programs to support climate change mitigation, adaptation and resilience, from disaster recovery assistance to life insurance. These initiatives are described here.

NATURAL DISASTER REHABILITATION FACILITY FOR HOMEOWNERS AND BUSINESSES

In April 2009, the RBF established a Flood Rehabilitation Facility (FRF) to assist businesses affected by floods to obtain credit at concessional rates of interest. This facility was renamed in January 2013 as the Natural Disaster Rehabilitation Facility (NDRF) and extended eligibility to businesses affected by Tropical Cyclone Evan. The original NDRF allocation was FJD 40 million (USD 18.5 million) and was available until 31 December 2013.

As a resilience and adaptation measure, affected businesses and homeowners could apply to the NDRF to replace damaged inventory; the loss of sales, including working capital; repair or replace damaged plants, equipment and machinery; restore damaged buildings, including resorts and hotels; and replace business vehicles. Businesses could apply for funding up to FJD 500,000 at a maximum interest rate of 5% per annum, while homeowners could apply for up to FJD 5,000 at a maximum interest rate of 4.5% per annum. This facility was available from all commercial banks, the Fiji Development Bank and licensed credit institutions.

The devastation wrought by TC Winston throughout Fiji prompted the RBF to reactivate the NDRF. Applications were received from 142 homeowners and eight businesses, and a combined value of FJD 7.4 million was approved before the facility expired on 30 June 2016. The NDRF was activated again in April 2018 to assist businesses and homeowners affected by tropical Cyclone Josie and the associated floods in the Western Division. Prior to expiring on 30 June 2018, three businesses received funding of around FJD 0.29 million.

77 BUSINESSES

BUSINESSES HAVE BEEN HELPED THROUGH THE NATURAL DISASTER REHABILITATION FACILITY (NDRF)



FJD 25.6 MILLION

TOTAL LOANS APPROVED TO DATE ACROSS BUSINESSES AND HOMEOWNERS THROUGH THE NDRF



Since the inception of the NDRF, a total of 77 businesses and 142 homeowner applications have been received and approved,⁵ and the total loans approved to date amount to FJD 25.6 million, of which FJD 14.7 million remains outstanding.⁶

MICROINSURANCE FOR SMALLHOLDER FARMERS

The RBF has been instrumental in the development of microinsurance for smallholder farmers. A bundled insurance product (covering life insurance, funeral expenses, personal accident and fire) was issued to 12,500 sugarcane farmers, 300 members of the Fiji Cooperative Dairy Company, 150 copra farmers and 230 rice farmers, underwritten by a local insurance company. This underwriter is also attempting to rollout the product to employers, unions, associations, cooperatives and government ministries across Fiji. A microinsurance product that provides coverage for life insurance and hospitalization costs is also being sold through a mobile network operator via the purchase of airtime top-ups on mobile phones.

The RBF is still in the early stages of building resilience through insurance. Microinsurance coverage in Fiji does not currently include protection against climate-induced disasters, such as cyclones, windstorms, floods and droughts, nor does it include crop insurance. Given the size of the local premium pool and the expertise required to underwrite such specialized insurance covers, Fiji's insurance market currently does not have the capacity to underwrite these risks. TC Winston is a good example: with approximately 4,000 homes destroyed in the cyclone, writing a cover of FJD 10,000 would have immediately exposed an insurance company to a potential loss of FJD 40 million – a stark commercial reality in a small market like Fiji.

⁵ Source: Reserve Bank of Fiji

⁶ See Annex, Table 1: Bundled Microinsurance Coverage

One of the main challenges with offering insurance for climate-induced disasters is a lack of conclusive data, which makes it difficult for insurers to set premiums commensurate with the risks. Also, the small number of cumulative risks compared to the potential exposure to underwriters makes it difficult to obtain cover in the international insurance market. Complicating matters further is whether Fiji's National Building Code is adequate and whether buildings have been constructed according to these standards. This was found not to be the case after TC Winston, as most of the houses destroyed belonged to those who could not afford to comply with building standards.

DESPITE THE CHALLENGES, THE RBF IS SEEKING SOLUTIONS.

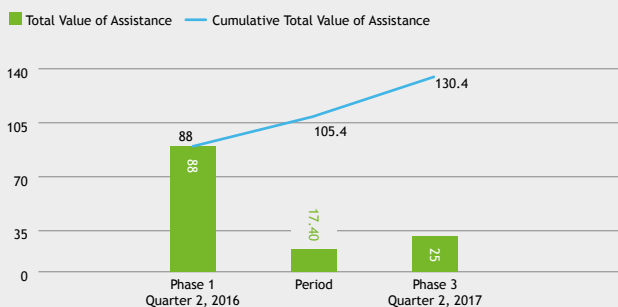
The Bank is in early discussions with donors about providing insurance coverage for climate-induced disasters with parametric insurance – a type of insurance that pays claim holders following a triggering event, often a catastrophic natural event that may ordinarily precipitate a loss or series of losses.

One of the advantages of these products is that the claims process is much easier and administration is straightforward. However, the complexity of the products requires the participation of a broad range of players, including the local community, insurance companies, donor partners and government. The RBF is also in discussions with the Livestock Association of Fiji to establish crop and livestock insurance for farmers.

MOBILE-ENABLED G2P PAYMENTS: HELP FOR HOMES

Under its Help for Homes Initiative,⁷ the Government of Fiji has leveraged digital payments to disburse FJD 130.4 million in aid to those who suffered from the impacts of TC Winston. Vodafone Fiji's M-PAiSA platform proved to be an effective channel for distributing aid payments. Figure 1 shows the disbursement of assistance over a one-year period.

FIGURE 1: HELP FOR HOMES ASSISTANCE DISTRIBUTED THROUGH M-PAISA (USD\$M)



+12.3%

THE NUMBER OF REGISTERED M-PAISA USERS INCREASED FROM 672,271 IN QUARTER 1 OF 2016 TO 707,193 IN QUARTER 2 AND 754,939 IN QUARTER 4



Financial assistance was provided to 32,800 households through M-PAiSA's mobile wallet. In Phase 1 of the disbursement, the government deposited FJD 88 million in M-PAiSA accounts, and by 30 June 2016, total disbursements amounted to FJD 84.9 million. The total number of new M-PAiSA cards distributed was 24,660 and 83 new Near Field Communication (NFC) machines were installed.

The number of registered M-PAiSA users increased from 672,271 in Quarter 1 of 2016 to 707,193 in Quarter 2 and 754,939 in Quarter 4. Active users increased by 43% from 13,078 Quarter 1 of 2016 to 18,663 in Quarter 2. However, this fell once Phase 1 of the Help for Homes Initiatives ended in July 2016, and by Quarter 4 of 2016 active users stood at 15,812.⁸



Victims of Tropical Cyclone Winston live in UNICEF tent in Navala village, Fiji.

7 Help for Homes Initiative: <http://www.fiji.gov.fj/Media-Center/Press-Releases/HELP-FOR-HOMES-INITIATIVE.aspx>

8 All data sources for Help for Homes are from Vodafone Fiji.

Three levels of financial assistance were offered under the Help for Homes Initiative:

- > FJD 1,500
- > 3,000 and
- > 7,000.

Applications were received in Fiji's main centers where they were assessed by government officials. Vodafone was notified of the successful applicants and funds were disbursed directly into Vodafone's M-PAiSA account. Vodafone then transmitted the funds into the recipient's e-wallet. The payments were redeemable only at approved vendors, such as hardware shops, agri-shops and certain household appliance shops.

Armed with experience from TC Winston, the government issued similar payouts during Cyclones Josie and Keni and the subsequent floods. This assistance was called the Care for Fiji Initiative, which included Homes-Care for affected households, Farms-Care for affected farmers and Etransport-Care for Fijians living in affected areas. These initiatives enabled victims to replace household contents that were destroyed and purchase building materials, fertilizer, seedlings and farm equipment.

The use of mobile money to disburse social payments has been a success in Fiji. The RBF believes that government-to-person (G2P) payments are crucial to driving uptake of digital payments in Fiji as they encourage active use of mobile money. Ultimately, G2P payments promote financial inclusion by creating awareness of digital products and services and how they work, building consumer trust in the safety and reliability of mobile money and trust in the government itself.

FIJI NATIONAL PROVIDENT FUND

In the aftermath of TC Winston, the Fiji National Provident Fund provided relief assistance to members through its retirement fund. Members directly affected by the cyclone could apply to the fund for urgent relief, and benefits of FJD 1,000 and 5,000 were paid out depending on eligibility.

A total of 182,571 applications, representing approximately 45% of all members and 80% of active members, were processed at the Fund's main centers in Suva and Lautoka. FJD 275.5 million was ultimately paid out. The Provident Fund also provided approximately FJD 12 million in relief assistance to members following Cyclones Josie and Keni and the subsequent floods. Similar amounts (FJD 1,000 and 5,000) were paid out to members who applied and met the eligibility criteria.

MOBILE MONEY

THE RBF BELIEVES THAT GOVERNMENT-TO-PERSON (G2P) PAYMENTS ARE CRUCIAL TO DRIVING UPTAKE OF DIGITAL PAYMENTS IN FIJI AS THEY ENCOURAGE ACTIVE USE OF MOBILE MONEY



DIRECT PAYMENT

BY LINKING UP WITH VODAFONE FIJI THE PROVIDENT FUND WAS ABLE TO MAKE PAYMENTS DIRECTLY INTO THE BANK ACCOUNTS OF THE RECIPIENTS VIA CLOUD-BASED OPERATION SYSTEM



Destruction of petrol station caused by Tropical Cyclone Winston, Island Viti Levu, Fiji.

Payments were made directly into the bank accounts of the recipients. To do this, the Provident Fund linked up with a mobile network operator, Vodafone Fiji, and set up a cloud-based operation through which all incoming calls were routed to Vodafone's call center, which then forwarded selected calls to the Provident Fund. This partnership also enabled the call center to provide updated information to members.

The experience of delivering relief assistance has helped the RBF and the government realize that not only are disaster risk insurance and green financial products essential for people to prepare for natural disasters, the absence of these products is very expensive for the financial sector.

When FJD 275.5 million drained out of the financial system after TC Winston (this figure is higher if insurance is included), a Sustainable Finance Roadmap was the logical next step.

GREENING THE FINANCIAL SECTOR

REDUCING THE CARBON FOOTPRINT OF THE FINANCIAL SECTOR

The transition to a low-carbon economy begins with the financial sector reducing its own carbon footprint. The RBF has taken the lead by conducting an energy audit of its day-to-day operations, including reviewing the use of paper and stationery, electricity, lighting, air conditioning and electronic equipment. The Bank has made changes to improve the energy efficiency of its building and reduce waste, and if all financial institutions in Fiji were to follow suit this would contribute to mitigating reducing carbon emissions overall. However, more needs to be done, such as developing the ability to provide an energy efficiency rating, possibly through the Department of Energy.

GREEN FINANCIAL PRODUCTS

Greening the financial sector also involves reducing the climate-related risks financial institutions are exposed to through lending and financial service activities, including project finance, equity and debt underwriting. Banks and licensed credit institutions, insurance companies, capital market and development finance institutions should all provide innovative, green financial products that cater to all segments of society. For instance, banks can issue loans to businesses for renewable and energy-efficient technologies, green buildings, low-emission transport, waste reduction, water conservation, carbon abatement and sequestration projects, forestry and land rehabilitation, or provide financial services that support climate resilience and adaptation.

In 2012, the RBF issued a Renewable Energy Loan Ratio that required all commercial banks to hold 2% of their deposits and similar liabilities in loans to the renewable sector.

The RBF provided an internal guideline to commercial banks on how to define renewable energy loans. Although not every bank has complied, the industry as a whole has met this requirement. Fiji's banking sector achieved the 2% benchmark from March 2012 to May 2018, with the highest ratio recorded at 4.3% in February 2015 and the lowest at 1.46% in August 2018. As of August 2018, there was FJD 113.2 million in outstanding renewable energy loans, or 1.46% of total deposits and 1.63% of gross loans.^{9,10}

100%

FIJI HAS COMMITTED TO ACHIEVING 100% RENEWABLE ENERGY BY 2030



11

BUSINESSES TOOK OUT LOANS WHEN THE IMPORT SUBSTITUTION AND EXPORT FINANCE FACILIT ISEFF FUNDING ELIGIBILITY WAS EXPANDED TO RENEWABLE AND SUSTAINABLE ENERGY PROJECTS IN 2018



The RBF has not penalized any bank for non-compliance as it takes time, especially for smaller banks, to build capacity to issue these new types of loans. However, financial institutions are becoming more familiar with sustainable banking, and are increasingly recognizing the need to develop credit assessment capabilities to issue loans to the renewable energy sector.

Nationally Determined Contributions (NDCs) are at the heart of the Paris Agreement, and Fiji has committed to achieving 100% renewable energy by 2030.

To accelerate the transition, an Import Substitution and Export Finance Facility (ISEFF) Facility provides lending for companies in the renewable and energy efficiency business. The Facility's objective is to improve Fiji's Balance of Payments position, but in 2018 funding eligibility was expanded to renewable and sustainable energy projects.¹¹ Of the 131 loan applications received, FJD 137 million has been issued, FJD 80 million of which remains outstanding. Of this amount, 5.5% or 11 businesses took out loans for the energy sector. ISEF provides concessional lending whereby the RBF lends to financial institutions at 1% which in turn lend to businesses at 5%.¹²

9 Source: Reserve Bank of Fiji

10 <https://www.rbf.gov.fj/getattachment/Publications/Press/2012/Press-Release-No-6-RBF-Introduces-Agriculture-and-Renewable-Energy-Loans-Ratio.pdf>

11 <https://www.rbf.gov.fj/Left-Menu/Financial-Market-Operations/Import-Substitution-and-Export-Finance-Facility>

12 Source: Reserve Bank of Fiji

The RBF has also put an SME Credit Guarantee Scheme (SMECGS) in place on behalf of the government. Under the Scheme, the Fiji Government guarantees to pay 50% of the outstanding principal on defaulted SME loans (with an interest rate of less than 10%) up to a limit of FJD 50,000 per business.¹³ SMEs and banks are required to apply under the Scheme, and although the Guarantee covers all defaults, including those caused by climate-related events, no applications arising from these events have been received. Four claims totalling FJD 0.08 million have been paid out to date, leaving FJD 3.92 million for future claims.¹⁴

Although most banks and other licensed credit institutions already issue loans for energy efficiency projects, the lending data is not necessarily captured by the RBF. Lending data for energy-efficient housing and building improvements would likely be captured under a broader heading of building and construction. The same applies to clean transportation. Although there has been an influx of second-hand hybrid vehicles in Fiji, lending data does not clearly distinguish these types of vehicles and credit assessments would be made without considering sustainability or environmental issues or what constitutes a green product.

Because lending levels under the current policies are still low, the RBF, as the regulatory authority, has the opportunity to ensure that environmental and sustainability considerations are appropriately factored into credit assessments.

The Sustainable Finance Roadmap includes related action items, such as developing environmental and social risk management guidelines, creating a legal definition of green products and collecting better data.



Solar PV modules Fiji.

FINANCING FIJI'S CLIMATE CHANGE RESPONSE

FIJI GREEN BONDS

Green bonds are an important tool in financing the transition to a low-carbon, climate-resilient economy. Green bonds are fixed income, liquid financial instruments that can be used to raise funds for climate mitigation, adaptation and resilience. They enable financial institutions to offer a green investment portfolio and support projects that deliver direct environmental benefits to communities.

In 2017, Fiji became the first emerging market in the world to issue a green bond, raising 100 million Fijian dollars (USD 50 million) to finance government infrastructure projects aimed at climate change mitigation and adaptation.¹⁵ The RBF developed and implemented the entire policy framework for the green bond, which is aligned with the internationally approved Green Bond Principles. With technical assistance from The World Bank and the International Finance Corporation (IFC), the RBF issued the green bond in the local capital market in October 2017.

Proceeds from the green bond were allotted to local financial institutions – commercial banks, the Fiji Provident Fund and insurance companies – to finance approved capital expenditure projects that directly benefit poor and low-income households in Fiji.

Among others, these projects include:

- > Solar installations in remote locations, such as maritime and rural stations;
- > Maintenance and construction of infield drainage and installation of culverts on waterlogged sugarcane farms;
- > Rebuilding schools to withstand more severe weather events; and
- > Reforestation of indigenous species and encouraging the regeneration of indigenous forests through public distribution of tree seedlings.

¹³ A “small enterprise” is any enterprise that has a turnover or total assets between FJD 30,000 and 100,000 and employs between six and 20 employees. A “medium enterprise” is any enterprise that has a turnover or total assets between FJD 100,000 and 500,000 and employs between 21 and 50 employees.

¹⁴ Source: Reserve Bank of Fiji

¹⁵ The World Bank, 17 October 2017, “Fiji Issues First Developing Country Green Bond, Raising \$50 Million for Climate Resilience”, <https://www.worldbank.org/en/news/press-release/2017/10/17/fiji-issues-first-developing-country-green-bond-raising-50-million-for-climate-resilience>.

CONCLUSION

The monumental challenges posed by climate change can only be tackled if all stakeholders come on board. The Reserve Bank of Fiji has recognized its shared responsibility and made a bold decision to provide concrete solutions.

The RBF recognizes that financial products and services play a vital role in enabling the poor and vulnerable to cope with financial losses due to climate change and has enacted several policies to stimulate lending in the clean energy sector, provide financial assistance after extreme weather events, and build long-term resilience to climate change through greater access to green financial products and services.

The RBF has emerged as a leader in green financial inclusion and stands among the pioneers of financial regulators across the AFI network and beyond that have begun to tackle the issue of climate change.

Fiji's pioneering role and early efforts from other countries in the AFI network are an important part of the implementation of the Sharm El Sheikh Accord.

The RBF's initial policy measures were a reaction to urgent needs brought on by climate-related natural disasters. However, the Bank soon moved toward a more proactive and integrated approach. Including green financial services for individuals, households and MSMEs in Fiji's National Financial Inclusion Strategic Plan was an important first step in anchoring green financial inclusion within the country's financial sector.

The planned Sustainable Finance Roadmap will elevate RBF's approach to a comprehensive regulatory and policy framework that aligns Fiji's national strategies for financial inclusion, climate change, environmental conservation, social inclusion and economic development. Streamlining policies across all government ministries grappling with climate change will be essential, but will also require ongoing efforts from government players.

The technical capacities within the Bank to make policy, regulatory, investment and implementation decisions still need improvement. Green finance and climate financing are still relatively new subject areas for the financial sector, and the RBF will need to facilitate more knowledge sharing to help financial institutions develop their capacity to offer green financial products and services.

With programs in place and regulatory and policy changes underway, the RBF is laying the foundation for a greener financial sector and a climate-resilient, low-carbon economy. Although its work has only just begun, the RBF stands as an example of how to pursue financial inclusion in conjunction with a robust climate change response.

APPENDIX

TABLE 1: BUNDLED MICROINSURANCE COVERAGE

COVERAGE	AMOUNT IN FJD (USD)	AGE
Annual Combined Cover Limit	FJD 10,000 (USD 5,000) per insured person and annual premium of FJD 52 (USD 26)	-
Term Life	FJD 3,000 (USD 1,500)	Maximum age of 65
Funeral Expenses	FJD 1,000 (USD 500)	Maximum age of 65
Personal Accident	Maximum FJD 3,000 (USD 1,500)	Maximum age of 65
Fire in Main Dwelling	Maximum FJD 3,000 (USD 1,500)	-


ABBREVIATIONS

ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
COP	Conference of Parties
FJD	Fiji Dollar
FRF	Flood Rehabilitation Facility
GPF	Global Policy Forum
IFC	International Finance Corporation
MSME	Micro, Small and Medium Enterprise
NDP	National Development Plan
NDRF	Natural Disaster Rehabilitation Facility
NFIT	National Financial Inclusion Taskforce
RBF	Reserve Bank of Fiji
SBN	Sustainable Banking Network
SDG	Sustainable Development Goal
SMECGS	Small and Medium Enterprises Credit Guarantee Scheme
TC Winston	Tropical Cyclone Winston

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