



Blue Bonds

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Centre for a Smart Future (CSF) is an interdisciplinary public policy think tank based in Colombo, with a network of researchers, practitioners, and policy professionals around the world. We believe that Sri Lanka's economic recovery must be just by people and just by nature. This Knowledge Primer is part of a series primers under CSF's Natural Capital Forum and the work pillar 'Nature and Finance'. These publications - and associated advocacy efforts - aim to improve Sri Lankan stakeholders' understanding on public and private financing instruments that are linked to nature. They are meant to be discussion starters and contribute to the public policy debate around these topics, and

bridge understanding between the economics, finance, and public financial management communities, and the conservation, ecology, and environmental science communities in Sri Lanka.

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SNAPSHOT

- A blue bond is a debt-instrument issued by governments, development banks, or other institutions to raise capital for the implementation of sustainable development goals (SDGs), and to finance the transition to a sustainable blue economy with blue natural capital at its core.
- While there are no formal Blue Bond Principles in existence today, a framework has been established in alignment with the International Capital Market Association (ICMA)'s Green Bond Principles (GBP) and the International Finance Corporation (IFC)'s Guidelines for Blue Finance.
- There are several identified incentives for the use of blue bonds for investors, businesses, and issuers in the form of direct financial incentives, and a multitude of other incentives pertaining to positive brand/corporation image
- While blue bonds have risen in popularity and gained significant recognition in recent conversation, they come with some limitations that must be taken into consideration. These include the lack of a universal standard due to its novelty, the relatively small size of the blue bond market, issues in governance stemming from political reasoning and high transaction costs.
- This Knowledge Primer is a component of a series focused on labelled bonds, including green bonds, blue bonds, and biodiversity bonds. Explore our primers on green bonds and biodiversity bonds for additional insights and information.

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A Knowledge Primer on Blue Bonds

1. Introduction and context

The annual economic value generated by our oceans amounts to 3 trillion dollars, equivalent to the world's 7th largest economy.¹ However, our relationship with this ecosystem has historically been one of exploitation, driven by the pursuit of resources and economic gain. While these endeavours have yielded enormous benefits, they have come at a cost—depleted fish stocks, polluted waters, and altered climates. The concept of the Blue Economy encompasses economic sectors directly or indirectly linked to the ocean, marking a shift in our perspective and utilisation of aquatic resources.²

In the wake of climate change, there is a critical need to support conservation, alongside a parallel urgency for more sustainable economies. Despite the extensive requirements, existing solutions and frameworks have consistently fallen short. At least 54 of the world's coastal nations belong to low- and middle-income countries, with governments incapable of singularly funding conservation efforts or systematic shifts into a blue economy.³ The financial sector, in this regard, plays a pivotal role in promoting ocean sustainability and facilitating economic transformation.

The emergence of blue bonds signifies an important step towards recognizing the value of aquatic ecosystems and the need to protect them. Blue bonds provide opportunities to generate return on investments, while cultivating efforts to conserve marine ecosystems. By directing capital towards projects that conserve and restore our oceans and waterways, blue bonds offer an innovative way to address critical environmental challenges.⁴

This primer delves specifically into blue bonds—exploring their mechanisms, existing global benchmarks, frameworks, drawbacks, limitations, and showcasing successful cases of issuance and implementation. By dissecting the intricacies of blue bonds, the primer aims to highlight the dual capacity of sustainable financing, which seeks to enhance transparency and accessibility within capital markets while creating opportunities for investors to align with Environmental, Social, and Governance (ESG) goals and investments aimed at mitigating climate change.

2. What are blue bonds and how are they used?

A blue bond is a debt-instrument issued by governments, development banks, or other institutions to raise capital for the implementation of sustainable development goals (SDGs), and to finance the transition to a sustainable blue economy with blue natural capital at its core.⁵

Functioning similarly to conventional bonds, investors provide funds to a bond issuer, who, in turn, commits to paying annual interest throughout the bond's term, repaying the principal amount upon maturity.⁶ Blue bonds are considered 'labelled bonds' in that the capital raised from a blue bond is used to fund projects that are categorised as 'blue' (projects specifically related to sustainable marine and coastal conservation related investments). Traditionally, revenue is used to finance sustainable fisheries, marine protected areas (MPAs) and coastal infrastructure.

¹ Mathew, J. and Robertson, C. (2021) "Shades of Blue in financing: Transforming the ocean economy with Blue Bonds." *Journal of Investment Compliance*, 22(3), pp. 243–247. Available at: <https://doi.org/10.1108/joic-04-2021-0020>.

² Guidelines for Blue Finance: Guidance for financing the blue economy, building on the green bond principles and the green loan principles - IFC (2022). Available at <https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-guidelines-for-blue-finance.pdf>

³ The Potential of the Blue Economy: Increasing Long-term Benefits of the Sustainable Use of Marine Resources for Small Island Developing States and Coastal Least Developed Countries - World Bank (2017) Available at <https://sdgs.un.org/sites/default/files/publications/2446blueeconomy.pdf>

⁴ Mathew, J. and Robertson (n.1)

⁵ Bosmans, P.; de Mariz, F. The Blue Bond Market: A Catalyst for Ocean and Water Financing. *J. Risk Financial Manag.* 2023, 16, 184.

<https://doi.org/10.3390/jrfm16030184>

⁶ Sovereign Blue Bond: Quick start guide - Asian Development Bank (2021). Available at <https://www.adb.org/sites/default/files/publication/731026/adb-sovereign-blue-bonds-start-guide.pdf>

More specifically, blue bonds are aligned to support the implementation of SD 6, and SDG 14, as well as activities that are related to SDG 2, 7, 12, 13 and 15.⁷

Box 1: The Seychelles Sovereign Blue Bond

Seychelles is a small island developing state (SID) with an economy that is heavily dependent on marine natural resources.⁸ In 2018, the Seychelles National Bureau of Statistics reported that exports of fresh and frozen fish rose to 5025 tonnes for the previous 6 months, amounting to a 116% increase.⁹ While this boosted its economy, the overexploitation of fisheries resources led the Seychelles to consider a transition to more sustainable fisheries and develop a blue economy.

To meet the cost of transition, the Government of Seychelles in collaboration with The Nature Conservancy (TNC), the Global Environment Facility and the UN Development Programme, piloted its blue bond debt conversion model in 2016.¹⁰ The model aimed to balance the protection of the country's ecological assets with the reliance of its economy on marine resources.¹¹ The deal stipulated that the government use private capital raised by TNC to buy back \$21.6 million of its sovereign debt at a discount.¹² In doing so, the Seychelles launched the world's first Blue Economy debt-for-nature swap and the world's first sovereign blue bond.¹³ The Seychelles Conservation and Climate Adaptation Trust was created to disburse the repayment sum of \$15.2 million in loan capital over the course of 10 years.¹⁴

While the business model for the case for a sovereign blue bond was identified by the Prince of Wales' Charities International Sustainability Unit, the bond was supported by Standard Chartered, Latham & Watkins LLP, and Clifford Chance LLP, alongside a team of experts from the World Bank working to structure the Blue Bond and assisting the government in channelling its proceeds.¹⁵ The blue bond, therefore, is backed by a \$5million guarantee from the World Bank, along with a \$5 million concessionary loan from the Global Environment Facility, with investors receiving an annual interest rate of 6.5%.¹⁶ The Seychelles blue bond worked to combine public and private investment to finance the transition into a blue economy, and empower local communities and businesses in the process.¹⁷

As of 2020, the Seychelles government exceeded their target, protecting 32% of the Seychelles' Exclusive Economic Zone and Territorial Sea.¹⁸ Half of the new protected areas consist of a top priority area where marine and coastal plants are rare, endangered or unique.¹⁹ The other half includes areas that have a degree of

⁷ United Nations (2021). Promotion and strengthening of sustainable ocean based economies: Sustainable Development Goal 14. United Nations. Economic and Social Affairs. Available at https://sdgs.un.org/sites/default/files/2022-01/2014248-DESA-Oceans_Sustainable_final-WEB.pdf

⁸ Seychelles: Introducing the World's First Sovereign Blue Bond - Mobilising Private Sector Investment to Support the Ocean Economy. (2019). In The World Bank. The World Bank. Retrieved October 29, 2023, from <https://thedocs.worldbank.org/en/doc/242151559930961454-0340022019/original/CasestudyBlueBondSeychellesfinal6.7.2019.pdf>

⁹ Seychelles: Fish Exports Rise in Seychelles, Giving Boost to Economy. (n.d.). Stop Illegal Fishing. <https://stopillegalfishing.com/press-links/seychelles-fish-exports-rise-in-seychelles-giving-boost-to-economy/>

¹⁰ An Audacious Plan to Save the World's Ocean. (2019, April 15). The Nature Conservancy. <https://www.nature.org/en-us/what-we-do/our-insights/perspectives/an-audacious-plan-to-save-the-worlds-oceans/>

¹¹ Seychelles swaps debt for nature - World Ocean Initiative. (n.d.). <https://ocean.economist.com/blue-finance/articles/seychelles-swaps-debt-for-nature>

¹² Seychelles swaps debt for nature - World Ocean Initiative. (n.d.). <https://ocean.economist.com/blue-finance/articles/seychelles-swaps-debt-for-nature>

¹³ Innovative Financing - Debt for Conservation Swap, Seychelles' Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles. (2020). In The Common Wealth Blue Charter. Commonwealth Secretariat. Retrieved November 3, 2023, from <https://production-new-commonwealth-files.s3.eu-west-2.amazonaws.com/s3fs-public/2022-02/Innovative%20Financing%20%E2%80%93%20Debt%20for%20Conservation%20Swap%20Seychelles%E2%80%99%20Conservation%20and%20Climate%20Adaptation%20Trust%20and%20the%20Blue%20Bonds%20Plan%20Seychelles.pdf>

¹⁴ Seychelles swaps debt for nature - World Ocean Initiative. (n.d.). <https://ocean.economist.com/blue-finance/articles/seychelles-swaps-debt-for-nature>

¹⁵ Innovative Financing - Debt for Conservation Swap, Seychelles' Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles. (2020). In The Common Wealth Blue Charter. Commonwealth Secretariat. Retrieved November 3, 2023, from <https://production-new-commonwealth-files.s3.eu-west-2.amazonaws.com/s3fs-public/2022-02/Innovative%20Financing%20%E2%80%93%20Debt%20for%20Conservation%20Swap%20Seychelles%E2%80%99%20Conservation%20and%20Climate%20Adaptation%20Trust%20and%20the%20Blue%20Bonds%20Plan%20Seychelles.pdf>

¹⁶ Hale, K. (2021, October 14). Africa's Seychelles Blue Bond Economy Inspires Belize. Forbes. <https://www.forbes.com/sites/korihaley/2021/10/14/africas-seychelles-blue-bond-economy-inspires-belize/?sh=3b9f39d069cc>

¹⁷ Seychelles launches World's First Sovereign Blue Bond. (2018, October 31). World Bank. <https://www.worldbank.org/en/news/press-release/2018/10/29/seychelles-launches-worlds-first-sovereign-blue-bond#:~:text=The%20blue%20bond%20is,sustainably%20develop%20our%20blue%20economy%2C%E2%80%9D>

¹⁸ An Audacious Plan to Save the World's Ocean. (2019, April 15). The Nature Conservancy. <https://www.nature.org/en-us/what-we-do/our-insights/perspectives/an-audacious-plan-to-save-the-worlds-oceans/>

¹⁹ Seychelles swaps debt for nature - World Ocean Initiative. (n.d.). <https://ocean.economist.com/blue-finance/articles/seychelles-swaps-debt-for-nature>

In-Text Citation: (Seychelles Swaps Debt for Nature -

tolerance for human use, and thereby allow certain activities under the required regulation.²⁰

The proceeds from the debt-swap and bond amount to an annual \$700,000 available for distribution.²¹ The bond, therefore, played a pivotal role in the establishment and financing of protected areas in the Seychelles. By fostering ocean-based renewable energy initiatives and establishing new entities committed to sustainable practices, the bond actively contributed to the growth of the blue economy. The collective impact of these measures initiated the long-term preservation of the Seychelles' marine environment and the promotion of sustainable development within the ocean-based industry.

3. Global benchmarks and frameworks

While there are no formal Blue Bond Principles in existence today, a framework has been established in alignment with the International Capital Market Association (ICMA)'s Green Bond Principles (GBP) and the International Finance Corporation (IFC)'s Guidelines for Blue Finance.²² Bond issuance, therefore, should adhere to the required structural characteristics, standards of disclosure, process of project evaluation and selection, management, and reporting guidelines in order to be considered a credible issuance by international investors.²³

The initial step in this alignment involves establishing a "blue" baseline. Here, Issuers must ensure that their business models and strategies align with the Sustainable Development Goals (SDGs) and related blue finance principles.²⁴ An example of blue finance principles is the 'Sustainable Blue Economy Finance Principles,' collaboratively developed by the European Union, the International Sustainability Unit of the Prince of Wales, and the European Investment Bank.²⁵ These principles consider how issuers perceive the ocean while establishing their own risk management, reporting, and transparency criteria.

The second step involves issuers defining clear and measurable targets. By outlining concrete objectives linked to SDG achievement, issuers are more likely to attract investor interest. These objectives may include sustainable business prospects, conservation efforts, and goals related to ecotourism.²⁶

Thirdly, to avoid "green-washing" projects, where recipients or investors may make 'false or misleading claims about the environmental impact of their product of practice,' issuers must provide detailed, accurate information.^{27 28} Regular disclosure of sustainability metrics increases transparency, fosters investor confidence, and could potentially support future bond issuances.

Finally, issuers are required to list a blue bond on an exchange. Listing a blue bond offers investors and issuers with a platform to increase market liquidity and facilitate transparent price discovery.²⁹ It also enables issuers to benefit from the publicity of a listing and from ESG-specific listing choices. Listing, in this regard, allows issuers to connect and establish long-term relationships with appropriate investors.³⁰

²⁰ Seychelles swaps debt for nature - World Ocean Initiative. (n.d.). <https://oceaneconomist.com/blue-finance/articles/seychelles-swaps-debt-for-nature>
²¹ Innovative Financing – Debt for Conservation Swap, Seychelles' Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles, (2020). In The Common Wealth Blue Charter. Commonwealth Secretariat. Retrieved November 3, 2023, from <https://production-new-commonwealth-files.s3.eu-west-2.amazonaws.com/s3fs-public/2022-02/Innovative%20Financing%20%E2%80%93%20Debt%20for%20Conservation%20Swap.%20Seychelles%E2%80%99%20Conservation%20and%20Climate%20Adaptation%20Trust%20and%20the%20Blue%20Bonds%20Plan.%20Seychelles.pdf>
²² IFC. (2022). (n 2)
²³ Lindner, Peter, and Kay Chung. "Sovereign ESG Bond Issuance: A Guidance Note for Sovereign Debt Managers". IMF Working Papers 2023, 058 (2023). A001, accessed Nov 6, 2023. <https://doi.org/10.5089/9798400235047001A001>
²⁴ Mathew, J. and Robertson, C. (n 1)
²⁵ "Introducing the Sustainable Blue Economy Finance Principles", WWF (2018). Available at https://www.wwf.org.uk/sites/default/files/2018-03/Introducing%20the%20Sustainable%20Blue%20Economy%20Finance%20Principles_2018%20Brochure.pdf
²⁶ Mathew, J. and Robertson, C. (n 1)
²⁷ What Is Greenwashing? (2023, February 9). <https://www.nrdc.org/stories/what-greenwashing#:~:text=What%20does%20greenwashing%20mean%3F,of%20a%20product%20or%20practice.>
²⁸ IFC. (2022). (n 2)
²⁹ Mathew, J. and Robertson, C. (n 1)
³⁰ Mathew, J. and Robertson, C. (n 1)

Moreover, there has been significant interest in blue finance, with blue bonds gaining traction amongst investors, financial institutions and issuers across the globe.³¹ In recognition of the immense potential blue bonds hold, the IFC, a member of the World Bank group, in collaboration with T. Rowe Price proposed an 'Emerging Markets Blue Economy Strategy.'³² This strategy is said to support blue bonds as a vehicle for blue investments and will also 'be critical in promoting sustainable capital markets in emerging markets and developing economies.'³³

Box 2: The Belize Blue Bond

Once the pilot project in the Seychelles was deemed a success, the Government of Belize, in collaboration with the Nature Conservancy, confirmed its commitment to protect 30% of Belize's oceans through a \$364 million debt conversion for marine conservation.³⁴ The bond reduced Belize's debt by 12% of GDP, creating a long-term financing opportunity of \$4 million for conservation annually.³⁵

Despite the UNESCO designation of Belize's Barrier Reef System as a World Heritage Site in 1996, the country's coral reefs and other marine ecosystems were included in UNESCO's List in Danger in 2009.³⁶ These habitats faced significant threats on account of offshore oil exploration, and unsustainable development projects, alongside enhanced impacts of climate change.³⁷

In recognizing the value of Belize's marine resources through the issuance of its blue bond, Belize drives an investment of \$180 million into conservation for the next two decades.³⁸ It aims to use a participatory approach, prioritising stakeholder driven marine spatial planning, alongside developing a governance framework for domestic and high-seas fisheries, and a regulatory framework for coastal blue carbon projects.³⁹ The project, now known as the world's largest blue bond transaction, demonstrates the potential of blue bonds in scaling financing opportunities to reach global goals on a national level.⁴⁰ Therefore, in its commitment to coral reef and marine ecosystem restoration, amongst other initiatives, Belize's blue bond has the potential to cultivate long-term financing to sustain a healthy blue economy.

5. Incentives for using Blue Bonds

Blue bonds are established with the overarching objective of raising capital and supporting conservation. Utilising blue bonds to fund activities aimed at protecting the ocean provides an opportunity to contribute to the preservation of marine ecosystems, foster sustainable development, and enhance the well-being of coastal populations.⁴¹

One of the more specific advantages of blue bonds lies in their capacity to promote responsible fishing practices. Governments issuing these bonds often link the funds raised to initiatives such as expanding Marine Protected Areas (MPAs) and implementing regulations that ensure sustainable fishing. The Journal of Risk and

³¹ De Bolle, P. (2023, October 2). Blue Finance: How can this innovative wave finance the blue economy? World Bank Blogs.

<https://blogs.worldbank.org/climatechange/blue-finance-how-can-innovative-wave-finance-blue-economy>

³² IFC, T. Rowe Price to Create First Blue Bond Strategy to Support the Sustainable Blue Economy across Emerging Markets. (n.d.). <https://pressroom.ifc.org/All/Pages/PressDetail.aspx?ID=27876>

³³ Basar, S., & Basar, S. (2023, November 21). IFC, T. Rowe Price to Create Blue Bond Strategy. Markets Media. <https://www.marketsmedia.com/ifc-t-rowe-price-to-create-blue-bond-strategy/>

³⁴ Government of Belize Debt Conversion for Marine Conservation. (n.d.). <https://www.greenfinanceinstitute.com/gfihive/case-studies/government-of-belize-debt-conversion-for-marine-conservation/>

³⁵ Field, A. (2022, June 24). How The Nature Conservancy's Blue Bond Helped Belize Restructure Its Debt And Conserve Its Oceans. Forbes.

<https://www.forbes.com/sites/annefield/2022/06/24/how-the-nature-conservancys-blue-bond-helped-belize-restructure-its-debt-and-protect-its-oceans/?sh=672a350456fe>

³⁶ Belize Barrier Reef Reserve System. (n.d.). UNESCO World Heritage Centre. <https://whc.unesco.org/en/list/764/>

In-Text Citation: (Belize Barrier Reef Reserve System, n.d.)

³⁷ How Belize is Transforming the Caribbean. (2021, November 4). The Nature Conservancy. <https://www.nature.org/en-us/what-we-do/our-insights/perspectives/belize-transforming-caribbean-blue-bond/>

³⁸ Akhtar, S., & Akhtar, S. (2023, October 16). Belize's Debt-for-Nature Swap: A New Dawn for Marine Conservation. BNN Breaking. <https://bnn.network/finance-nav/belizes-blue-bond-a-pioneering-lifeline-for-marine-conservation/>

³⁹ How Belize is Transforming the Caribbean. (2021, November 4). The Nature Conservancy. <https://www.nature.org/en-us/what-we-do/our-insights/perspectives/belize-transforming-caribbean-blue-bond/>

⁴⁰ Blue Bonds: radical collaborations to save the ocean. (2022, March 4). <https://impact.economist.com/ocean/biodiversity-ecosystems-and-resources/blue-bonds-radical-collaborations-to-save-the-ocean>

⁴¹ World Bank (n 20)

Financial Management reports that countries with especially high dependence on fisheries, including Seychelles, Belize, and Thailand, have issued bonds which cite sustainable fisheries and aquaculture in their use of proceeds.⁴² This approach encourages fisheries to operate within limits that safeguard the long-term health of fish stocks and marine ecosystems.

By mobilising private sector finances to promote ocean economies, blue bonds access the untapped financial potential in the blue economy and create opportunities for long-term financing. A blue bond issuance may also encourage the interest of public and private investors hoping to play a larger role in the blue economy, thereby improving the diversification of the investor base, and potentially reducing exposure to fluctuations in bond markets.⁴³ As seen in the Seychelles' issuances of blue bonds, these environmental credentials and support for the blue economy could in turn stabilise a country's credit rating, and potentially encourage better funding alternatives and financing conditions.⁴⁴

Blue bonds can also be directed towards investing in sectors of the ocean economy, such as fisheries, to enhance food security, preserve livelihoods, and contribute to the development of sustainable ecosystems. These investments should align with SDG 14, which recommends users to "Conserve and sustainably use oceans, seas, and marine resources for sustainable development."⁴⁵ This proves particularly advantageous for both private and public issuers seeking to orient themselves with commitments and provide funding for initiatives aimed at achieving these goals. For instance, Pacific island countries (many of which hold the largest Exclusive Economic Zones in the world) are interested in sustainably managing marine resources to strategically build a blue economy.⁴⁶ However, blue economies are dependent on long-term oceanic health.⁴⁷ Blue bonds, in their emphasis on fisheries, food security, and the preservation of livelihoods, have the potential to sustain long-term conservation efforts and be a crucial element of building ecosystems that support blue economies.

Box 3: The Gabon Blue Bond

As a result of its success in both the Seychelles and Belize, The Nature Conservancy has since taken its efforts to Mainland Africa. Gabon, the central African country, hosts the largest population of endangered leatherback turtles, Atlantic humpback dolphins, manatees, and sawfish.⁴⁸ In August of 2023, as a part of its 'Blue Bonds for Ocean Conservation Program,' The Nature Conservancy, in partnership with the Government of Gabon, announced a blue bond that would refinance \$500 million of Gabon's national debt while generating an additional \$163 million of funding into ocean conservation.⁴⁹

The deal, arranged by the Bank of America, was granted political risk assurance from US international Development Finance Corporation (DFC) and ensured the bond had a higher credit rating than the government's, alongside a lower interest rate on Gabon's debt, giving it a longer period of time to pay back its existing national debt.⁵⁰ These funds will help the country mobilise annual contributions to an independent Conservation Trust Fund and an endowment which will continue

⁴² Bosmans, P., & De Mariz, F. (2023, March 8). The Blue Bond Market: A Catalyst for Ocean and Water Financing. *Journal of Risk and Financial Management*. <https://doi.org/10.3390/rjfm16030184>

⁴³ Alithalet, F. et al. (2021) "Incorporating blue bonds as a funding alternative for a sustainable development project." *International Journal of Research in Business and Social Science* (2147- 4478), 10(5), pp.129-134. Available at: <https://doi.org/10.20525/ijrbs.v10i5.1310>.

⁴⁴ Slovik, & Katugampola. (2019). Blue Bonds: The Next Wave of Sustainable Bonds. In Morgan Stanley: Institute for Sustainable Investing. Retrieved November 2023, from https://www.morganstanley.com/content/dam/msdotcom/ideas/blue-bonds/2583076-FINAL-MS_GSF_Blue_Bonds.pdf

⁴⁵ World Bank (n 20)

⁴⁶ Exploring Blue Bonds potential to support the Ocean Economy. (n.d.). UNDP. <https://www.undp.org/pacific/news/exploring-blue-bonds-potential-support-ocean-economy>

⁴⁷ Samuwai, & Wiese. (2022, July). Demystifying Green and Blue Bonds for the Pacific Region. In UNDP and the Pacific Island Forum. UNDP. Retrieved November 15, 2023, from <https://www.undp.org/sites/g/files/zskgke326/files/2022-08/demystifying-green-and-blue-bonds-for-the-pacific.pdf>

⁴⁸ <https://www.reuters.com/sustainability/gabon-blue-bond-swap-raises-hopes-wave-african-debt-for-nature-deals-2023-08-15/>

⁴⁹ Savage, R. (2023, August 15). Gabon 'blue bond' swap raises hopes for wave of African debt-for-nature deals. *Reuters*.

<https://www.reuters.com/sustainability/gabon-blue-bond-swap-raises-hopes-wave-african-debt-for-nature-deals-2023-08-15/>

⁵⁰ Ninety Sixth Sovereign Debt News Update: Gabon's Debt-For-Nature Swap: Some Critical Reflections. (n.d.). *Afronomiclaw.org*. <https://www.afronomiclaw.org/category/african-sovereign-debt-justice-network-afsdjr/ninety-sixth-sovereign-debt-news-update>

to support conservation efforts after the bond is repaid.⁵¹ Additionally, Gabon plans to use the savings generated from the lower interest rates to finance a variety of marine conservation projects, selected and executed by TNC.

One of the significant aspects of the Gabonese bond is the political risk insurance policy. Alongside its structural design, the policy provides Gabon with scale and investors with security.⁵² It is therefore likely to attract an array of global capital looking to be invested in emerging market climate debt.⁵³ Designed to help Gabon improve the management of its territorial waters, the bond unlocks a significant stream of funds which will help safeguard the sustainability of Gabon's blue economy.

6. Drawbacks and limitations

Financial markets heavily rely on investor confidence for their continuity. The relative novelty of blue bonds suggests that standard structures for issuance and maintenance are yet to be established.⁵⁴ The absence of concrete standards makes objective evaluation challenging, creating difficulties for investors to make informed decisions and for issuers to demonstrate the impact of their initiatives.⁵⁵ Confidence, in this regard, relies on a makeshift framework that struggles to effectively assess the creditworthiness of issuers or the likelihood of repayment. Compared to other financial instruments, sustaining long-term interest in blue bonds may be challenging. While there are initiatives such as the 'Emerging Markets Blue Economy Strategy,' created to facilitate more structure and confidence in blue bonds, it can be overshadowed by public opinion. For instance, despite its overarching commitment to blue bond deals, The Nature Conservancy has since replaced the term 'blue bond' with 'nature bond' following criticism that Gabon's blue bond has raised capital to refinance general purpose debt as opposed to directing it towards conservation.⁵⁶

Blue Bonds, therefore, are implicitly expected to align with principles similar to the Green Bond Principles (GBP), such alignment is merely a recommendation as opposed to a requirement.⁵⁷ The precarity of this process could lead to a lack of transparency, making it difficult to trace the use of proceeds and evaluate the effectiveness of a project. These constraints make it difficult to build a sustainable market for blue bonds and to attract significant investors - a crucial factor for the growth and viability of this instrument.

Despite the growth of the blue bond market, its market share remains relatively small, with only a few bonds developed so far.⁵⁸ This relatively small market size could hamper its ability to attract investors who typically favour larger and more established investment markets. A small market also implies lower liquidity due to limited opportunities to sell bonds, potentially inhibiting the development of the blue bond market, which involves creating new financial instruments and expanding market infrastructure.⁵⁹

The issuance of a bond entails substantial expenditures in legal, financial, and technical services to ensure compliance with environmental and regulatory

⁵¹ Ninety Sixth Sovereign Debt News Update: Gabon's Debt-For-Nature Swap: Some Critical Reflections. (n.d.). Afronomicslaw.org. <https://www.afronomicslaw.org/category/african-sovereign-debt-justice-network-afsdjn/ninety-sixth-sovereign-debt-news-update>

⁵² Gabon shows how to make blue bonds work |. (n.d.). <https://www.fidelityinternational.com/editorial/article/gabon-shows-how-to-make-blue-bonds-work-4c6d2e-en5/>

⁵³ Gabon shows how to make blue bonds work |. (n.d.). <https://www.fidelityinternational.com/editorial/article/gabon-shows-how-to-make-blue-bonds-work-4c6d2e-en5/>

⁵⁴ World Bank (n 20)

⁵⁵ Mobilizing Capital for the Blue Economy (2021) World Bank. Available at: <https://www.worldbank.org/en/topic/blue-economy/brief/mobilizing-capital-for-the-blue-economy>

⁵⁶ Sustainable debt pioneer ditches controversial 'blue bond' label. (n.d.). Financial Times. <https://www.ft.com/content/68bcb820-c4af-42b7-84b7-ca2682af60ad>

⁵⁷ Blue bonds: An audacious plan to save the world's oceans (2019) The Nature Conservancy. Available at: <https://www.nature.org/en-us/what-we-do/our-insights/perspectives/an-audacious-plan-to-save-the-worlds-oceans/>

⁵⁸ The Nature Conservancy (n 28)

⁵⁹ Blue bonds: Financing resilience of coastal ecosystems (no date) Investable Oceans. Available at: <https://www.investableoceans.com/blogs/library/blue-bonds-financing-resilience-of-coastal-ecosystems>

criteria.⁶⁰ Conducting due diligence to evaluate bond viability, environmental effects, and long-term effectiveness is crucial, considering the complexity and severity of most ocean conservation initiatives.⁶¹ Blue Bonds are often vast and complex, requiring technical and financial expertise to implement projects. This expertise may be costly for many low-income countries and organisations unable to fund conservation efforts initially. The high processing costs could make it challenging for some countries with limited resources to issue bonds, thereby reducing the capital available for ocean conservation initiatives.

Additionally, blue bond projects may be vulnerable to political and regulatory changes, including shifts in the legislative framework, variations in government priorities, and alterations to the political stability of the issuing country.⁶² In some cases, governments may not fully embrace the concept of blue bonds, complicating the process of obtaining regulatory clearances and the political backing necessary to issue bonds.

7. Overcoming Drawbacks

Despite the absence of standardised blue bond principles, a blue market operates within the existing green and sustainability bond frameworks. This allows issuers to convey sustainability policies aimed at advancing ocean projects.⁶³ To ensure recognition and alignment with existing frameworks, a blue bond may be referred to as a "blue-green-bond," a "blue-sustainable bond," or a "blue sustainability-linked bond."⁶⁴ Clarifying the alignment of globally recognized standards such as the ICMA principles may assist ocean industries in gaining greater recognition within the framework of the sustainable bond market, and thereby call the market's attention to important characteristics of ocean industries.

Even in the absence of uniform blue bond principles, the public and private sectors have worked to expand the blue bond market by establishing diverse blue financing principles, such as the Sustainable Blue Economy Finance Principles, created by the European Union.⁶⁵ In order to develop consistent, long-term relationships across both sectors, it is essential that the ocean community and the financial community have the same interpretation of the term "blue."⁶⁶ Therefore, standardisation of the blue bond market will reduce the possibility of "blue washing" - in which a bond that is advertised as promoting "blue projects" does not necessarily utilise the revenues to do so.

The United Nations Development Program and the World Wildlife Fund are actively working to ensure the transparency and effectiveness of blue bonds.⁶⁷ These organisations offer training and capacity-building programs for governments, organisations, and investors interested in issuing Blue Bonds. To address the absence of a comprehensive, uniform regulatory framework, these organisations collaborate with governments to draft and implement legislation supporting market growth. The UNDP and Ocean-Climate Platform work with countries to establish and execute laws promoting the expansion and development of the blue bond market.⁶⁸ Similarly, the WWF provides technical assistance to governments to develop laws implementing impact measurements and reporting systems.⁶⁹ While there are limitations to the blue economy, it's important to note that institutions are actively

⁶⁰ World Bank (n 20)

⁶¹ World Bank (n 20)

⁶² Seychelles launches World's first sovereign blue bond (2020) Global Environment Facility. Available at: <https://www.thegef.org/newsroom/press-releases/seychelles-launches-worlds-first-sovereign-blue-bond>

⁶³ Mathew, J. and Robertson (n 1)

⁶⁴ Mathew, J. and Robertson (n 1)

⁶⁵ Introducing the Sustainable Blue Economy Finance Principles - WWF (2018) Available at https://www.wwf.org.uk/sites/default/files/2018-03/Introducing%20the%20Sustainable%20Blue%20Economy%20Finance%20Principles_2018%20Brochure.pdf

⁶⁶ WWF (n 36)

⁶⁷ World Bank (n 20)

⁶⁸ An Ocean of Opportunities: Action brief - UNDP (2023) Available at <https://www.undp.org/sites/g/files/zskgke326/files/2023-02/UNDP-RBAP-Blue-Economy-Action-Brief-2023.pdf>

⁶⁹ WWF Management Response - WWF (2020) Available at https://wwfint.awsassets.panda.org/downloads/4_ir_wwf_management_response.pdf

working to build capacity and stronger frameworks to ensure consistency and reliability.

8. Key Considerations for Sri Lanka

With a territorial sea of 21,500 km² and an Exclusive Economic Zone (EEZ) of up to 200 nautical miles, amounting to 7.8 times the area of the country's land, Sri Lanka's oceans hold immense potential and opportunity.⁷⁰ According to the World Bank, the island's Marine Protected Areas (MPAs) amounted to 0.07% of its territorial waters.⁷¹ Additionally, almost 25% of the country's population lives in the coastal area, relying on coastal and marine activity.⁷² Fish products remain the main source of protein, with over 1 million people dependent on fisheries as their primary source of income.⁷³ With as much of its population and livelihood reliant on the ocean economy, there is a critical need to further both conservation and economic sustainability. Within the wider context of Sri Lanka's sovereign debt crisis, blue bonds offer a significant opportunity to build back better. However, when considering the potential for such instruments to be implemented in the country, there are a few essential aspects that need to be considered.

While blue bonds facilitate long-term commitments to conservation, critics have argued that these commitments are often disproportionately borne by developing countries and emerging economies. The 'Blue Bond Conservation Model,' developed by TNC structures innovative financing inline with commitments from SIDs such as Seychelles, Belize and Gabon. However, many of the dynamics entrenched within these deals ignore the nature of global commitments as outlined in principle 7 of the Rio Declaration of Environment and Development, which highlights the need for common but differentiated responsibilities amongst developed and developing countries.⁷⁴ Blue bonds, in this regard, establish a relationship between countries and private investors, in which a country that cannot meet its commitments by the necessary deadlines may have to make increased payments to a statutory trust.⁷⁵ This increases the economic burden on taxpayers and reduces the autonomy of national governments. For instance, when the government of Seychelles identified the need to support the blue economy by investing in renewable energy, it needed to negotiate its terms with investors.⁷⁶ These renegotiation processes are often costly and limit the options available to emerging markets and SIDs. Therefore, it is important that countries such as Sri Lanka consider the dynamics between private and public institutions facilitating funds, especially within the context of a sovereign debt crisis.

The success of the Seychelles, Belize, and Gabon in establishing blue bonds serves as a testament to the instrument's effectiveness in mobilising capital for conservation efforts. However, Belize's blue bond, while facilitating the largest debt swap to date, raises concerns as the country has undergone debt restructuring three times in the last 15 years.⁷⁷ The IMF has deemed Belize's debt as 'unsustainable,' and its approach to addressing this debt relies on what is perceived as 'make believe adjustment assumptions.'⁷⁸ From 2000 to 2020, Belize reported an average primary deficit of 0.7% of GDP, with projections anticipating an average fiscal deficit of 0.5% of GDP from 2023 onward.⁷⁹ In contrast, Belize's blue bond assumes a primary fiscal surplus of 3% of GDP over the same period, raising doubts about the feasibility of such an optimistic estimate.⁸⁰ Large primary surpluses are rare, and Belize's limited capacity for adjustment adds to the scepticism.⁸¹ Notably, Belize is highly susceptible to external shocks due to its reliance on the tourism sector and

⁷⁰ <http://ir.kdu.ac.lk/bitstream/handle/345/1711/004.pdf?sequence=1&isAllowed=y>

⁷¹ <https://tradingeconomics.com/sri-lanka/marine-protected-areas-percent-of-total-surface-area-wb-data.html>

⁷² <http://ir.kdu.ac.lk/bitstream/handle/345/1711/004.pdf?sequence=1&isAllowed=y>

⁷³ <https://www.slwcs.org/marine-project#:~:text=Si%20Lanka's%20coastline%20is%20rich,number%20of%20healthy%20coral%20reefs.>

⁷⁴ https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_CONF.151_26_Vol.I_Declaration.pdf

⁷⁵ <https://www.developmentresearch.eu/?p=1544>

⁷⁶ <https://www.developmentresearch.eu/?p=1544>

⁷⁷ https://www.eurodad.org/making_sense_of_belize_blue_bond_proposal

⁷⁸ https://www.eurodad.org/making_sense_of_belize_blue_bond_proposal

⁷⁹ https://www.eurodad.org/making_sense_of_belize_blue_bond_proposal

⁸⁰ https://www.eurodad.org/making_sense_of_belize_blue_bond_proposal

⁸¹ https://www.eurodad.org/making_sense_of_belize_blue_bond_proposal

susceptibility to climate events.⁸² Consequently, the fiscal adjustments required to sustain a primary surplus for servicing blue bond commitments could jeopardise domestic priorities such as healthcare, education, and poverty reduction in Belize.⁸³

Similarly, in 2023, the IMF classified Sri Lanka's debt as unsustainable, with the current debt to GDP ratio standing at 101.1%.⁸⁴ The IMF recommended that "Ambitious revenue-based fiscal consolidation is necessary for restoring fiscal and debt sustainability while protecting the poor and vulnerable."⁸⁵ The Sri Lankan government has targeted a primary surplus goal of 0.8% of GDP for 2024.⁸⁶ While it is in line with IMF projections, it raises concerns within the context of the government's track record of fiscal slippage. The advantage of issuing a blue bond entails unlocking alternate sources of finance that may not be accessible through the public sector. However, if the country overestimates its ability to finance blue bonds it may need to divert funds needed for fiscal spending to support commitments made to private institutions. As Sri Lanka navigates its debt restructuring program and awaits the second instalment of \$300 million from the Extended Fund Facility (EEF), a thorough assessment of its repayment capabilities and assurances from official creditors become crucial.⁸⁷ While the Belize blue bond does stand as a cautionary tale, it does demonstrate concerns Sri Lanka should consider in developing a possible pathway towards a blue bond.

Sri Lanka is currently in negotiations to confirm the restructuring of its sovereign debt. It has also drawn up a framework to sell green and blue bonds.⁸⁸ This framework ties in the support of the United Nations Economic and Social Commission for Asia and the Pacific and the Global Green Growth Institute.⁸⁹ While considering blue bonds as a possible solution to finance the need to conserve marine resources and restructure debt, it is important to consider the intricacies involved in raising capital through a blue bond. Blue bonds may raise capital for conservation and may provide discounted interest rates, however since bonds are not designed to resolve debt problems, much of the capital raised does not flow into public institutions but is transferred into private ownership. In the case of Gabon, funds were transferred into 'Gabon Blue Conservation,' a foreign owned entity which charged an administration fee of 20% on savings.⁹⁰ The remaining 40% of what is saved was earmarked for non-governmental organisations, including foreign environmental organisations.⁹¹ Therefore, as Sri Lanka considers blue bonds as a possible alternative to financing conservation, alongside its need to restructure debt, it is important to consider the practical aspects of fund allocation and distribution.

9. Conclusion

Blue bonds serve as a valuable tool for the preservation and sustainable management of our oceans. By offering financing for marine conservation and responsible fisheries, they have the potential to establish a crucial equilibrium between environmental protection and economic development. These bonds present a unique opportunity to safeguard the world's oceans for future generations, simultaneously supporting the livelihoods of coastal communities and fostering responsible business practices. In the face of a global climate crisis and the escalating need to mitigate the impacts of climate change, blue bonds and their market hold significant potential to contribute to mitigation efforts.

As governments, investors, and organisations continue to explore and implement blue bonds, other countries have the opportunity to use these experiences as a

⁸² https://www.eurodad.org/making_sense_of_belize_blue_bond_proposal

⁸³ https://www.eurodad.org/making_sense_of_belize_blue_bond_proposal

⁸⁴ <https://www.ceicdata.com/en/indicator/sri-lanka/government-debt--of-nominal-gdp#:text=Sri%20Lanka%20Government%20debt%20accounted%20104.3%20%25%20in%20the%20previous%20quarter>

⁸⁵ <file:///Users/tashyana/Downloads/ILKAEA2023001.pdf>

⁸⁶ <https://www.fitchratings.com/research/sovereigns/sri-lankas-ambitious-budget-agenda-faces-high-implementation-risks-15-11-2023>

⁸⁷ <https://www.dailynews.lk/2023/10/02/admin-catagories/breaking-news/148646/release-of-eff-second-tranche-soon/>

⁸⁸ <https://economynext.com/sri-lanka-draws-up-framework-to-sell-green-bonds-121183/>

⁸⁹ <https://economynext.com/sri-lanka-draws-up-framework-to-sell-green-bonds-121183/>

⁹⁰ <https://www.cffacape.org/publications-blog/gabon-debt-ocean-swap-tnc>

⁹¹ <https://www.cffacape.org/publications-blog/gabon-debt-ocean-swap-tnc>

learning curve to benefit their own economies. With support from international institutions, leaders in this industry are taking proactive measures to minimise and mitigate recognized limitations associated with blue bonds, thereby offering clarity and assurance for governments in the future.

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