

An aerial photograph of a tropical coastline. The top half shows a sandy beach meeting turquoise water under a blue sky with scattered clouds. A small boat is visible in the water. The bottom half shows a closer view of the shallow, clear turquoise water with some people and a small boat near the shore.

BLOG POST

BLUE BONDS: EMPOWERING WATER CONSERVATION, GAINING MARKET MOMENTUM

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FINANCE AND THE BLUE ECONOMY

Sustainable finance encompasses a range of financial practices and approaches that aim to reconcile economic development with the promotion of environmental and social sustainability. This approach acknowledges the significant impact that financial and investment activities have on the environment and society and strives to incorporate Environmental, Social and Governance (ESG) considerations into all financial decisions.

Water, particularly the vast expanses of our oceans, is essential for the survival of all living beings on our planet, as 70% of planet Earth is covered by water[1]. Therefore, fostering a sustainable economy that focuses on oceans and water-related issues has the potential to yield multiple benefits for people, nature, and the overall economy[2]. A fundamental objective of the blue economy is to strike a balance between economic development and the conservation and sustainable management of marine ecosystems.

The concept of the blue economy, developed by the World Bank[3], is closely intertwined with global frameworks such as the Sustainable Development Goals (SDG) and the Paris Agreement. It recognizes the crucial role played by oceans in addressing challenges such as poverty alleviation, food security, climate change mitigation and adaptation, as well as the preservation of biodiversity and marine ecosystems. Aligned with these principles, it evolved the Sustainable Blue Economy Finance Principles[4].

Furthermore, acknowledging the pressing urgency and global significance of a healthy ocean, the UN Global Compact (UNGC)[5] has established the Sustainable Ocean Principles comprising nine principles. These principles are categorized into three topics, namely ocean health and production, governance and engagement, and data and transparency and complement the Ten Principles of the UNGC[6], which pertain to human rights, labor, environment, and anti-corruption.

The blue economy endeavors to maximize the advantages derived from ocean resources while minimizing detrimental effects on the environment. This holistic approach can effectively combat climate change, provide nourishing food for a growing population, and harness nearly limitless sources of renewable energy. Market projections indicate that the ocean economy will reach US\$3 trillion by 2030[7]. As the blue economy gains momentum and presents immense potential, blue bonds emerge as a financial instrument to support the conservation and sustainable use of the oceans.

MARKET GUIDANCE AND DEFINITIONS ON BLUE BONDS

Blue bonds represent an emerging and innovative financial tool with the purpose of mobilizing capital to tackle social and environmental challenges, promote sustainable business opportunities in the ocean and water sectors, and demonstrate responsible ocean stewardship[8]. The “blue” designation serves as a means for issuers to communicate their sustainability strategy, highlighting their dedication to fostering a healthy and productive ocean while ensuring access to water.

Although specific principles for blue bonds are still in development, the International Capital Market Association (ICMA) principles[9] for green, social, sustainable bonds, and sustainability-linked bonds can be temporarily applied. In 2022, the International Finance Corporation (IFC) also introduced guidance for financing the Blue Economy[10], which is aligned with the ICMA and Loan Market Association (LMA) standards. This is because, in the long run, ocean conservation brings about positive environmental and social impacts that can be linked to the principles of green and social bonds and loans.

Blue bonds follow the structure to green use of proceeds bonds, meaning that there is transparent allocation of resources for projects with a positive environmental impact, aligning with the core components of the Green Bonds Principles[11]. However, what sets blue bonds apart is that the majority or all of the proceeds must be dedicated to financing or refinancing projects related to the ocean or water. Furthermore, there should be a robust process for selecting projects, managing segregated and allocated resources for both green and blue projects (proceeds management), and monitoring and reporting the outcomes of these projects.

WHY BLUE?

Blue bonds, as a distinct category, provide a dedicated platform for focused research, case studies, and best practices specifically tailored to water-related projects and the preservation of oceanic health. By highlighting social inclusion and economic empowerment, these bonds ensure that these crucial aspects are not overshadowed within the broader scope of green and sustainable bonds.

The creation of the term “blue” establishes a specific definition that revolves around the oceans. This not only supports those seeking to showcase their commitment to the ocean but also provides validation to issuers who previously encountered difficulties aligning the financing of their assets or business operations with established frameworks for green, social, or sustainable bonds.

By introducing specific eligibility criteria for “blue” projects, opportunities arise for a wider range of issuers operating in sectors with significant potential for various forms of sustainable development. These issuers can now access funding through the thematic bond market, paving the way for innovation and progress.



Description: Northeast Brazilian coast, northern region of the state of Bahia

Source: Personal archive

The scope of blue bonds extends across diverse sectors, encompassing areas such as blue carbon[12], shoreline protection, ocean energy, offshore renewables, seafood and aquaculture, trade and transportation, tourism and recreation, telecoms and media, agriculture, consumer goods, and many more[13]. Despite their importance and increasing recognition, the number of blue bonds in circulation remains limited.

BLUE BONDS OVER TIME

In 2018, the Republic of Seychelles made history by issuing the world's first sovereign blue bond[14]. The Seychelles Blue Bond was a groundbreaking initiative aimed at financing sustainable fisheries, marine conservation, and the development of the blue economy on the African island of Seychelles. It served as a milestone in the realm of sustainable finance, raising global awareness about the potential of blue bonds as a financial instrument to support ocean-related projects. Through collaboration with the World Bank, it successfully raised US\$15 million from international investors.

The proceeds were primarily focused on expanding sustainable-use marine protected areas, with the goal of increasing protected areas to 30% by 2020. Additionally, the funds were allocated towards improving governance of priority fisheries, fisheries management planning, promoting sustainable practices, project management and coordination, education awareness programs, and stock rebuilding.



Description: Fisherman braiding a bamboo fishing trap in Seychelles

Source: Alamy Stock Photo (2009). *Aurélien Brusini*.

Another noteworthy example is Belize, which signed a [Blue Bonds Loan](#) agreement through debt-for-nature swaps in 2021. Under this agreement with The Nature Conservancy (TNC), the Government of Belize, and the U.S. Development Finance Corporation (DFC), Belize committed to spending US\$4 million annually on marine conservation until 2041. Additionally, Belize made a pledge to protect 30% of its ocean by 2026. As part of the transaction, TNC provided US\$364 million in funds to Belize, allowing the country to repurchase the existing Eurobond, the “super bond”, for marine conservation into blue debt bond. This debt restructuring initiative reduced Belize's national debt by 12% of its gross domestic product while showcasing the positive impact of blue bonds in addressing environmental and financial challenges.

In May 2023, Ecuador accomplished the largest debt-to-nature transaction to date by selling a bond worth US\$656 million^[1]. The funds raised will be allocated towards long-term marine conservation efforts in the Galapagos Islands until 2041. This operation received a guarantee of US\$85 million from the Inter-American Development Bank (IDB) and political risk insurance from the DFC, providing Ecuador with more favorable terms for the purchase of existing public debt.

Overall, these examples demonstrate the significant role that blue bonds play in mobilizing funds for marine conservation and sustainable development, while also highlighting the partnerships and support from international organizations that contribute to their success.

BLUE BONDS OVER TIME

Prior to the most recent transaction mentioned above, Latin America and Caribbean (LAC) have seen the issuance of blue bonds amounting to US\$822.15 million. These figures highlight the significance of the Galapagos bond, which stands out among the rest.

HPL has developed a proprietary database of all thematic (use of proceeds) and sustainability-linked bond transactions in LAC. Below are some examples of blue issuances obtained from the database.

- In 2022, BKR Ambiental Participações issued Brazil's first blue bond [[SPO](#)] in the water supply and sanitation sector, valued at R\$ 1.95 billion (US\$365.17 million). This marked the first blue bond by a private issuer in LAC and the world's first in the sanitation segment. The proceeds from this issuance are focused on improving sanitation services, and water access, reducing water waste by 25% over 20 years, benefiting 1.5 million people, and supporting ocean health.
- In 2022, [Banco Internacional](#) in Ecuador issued a US\$70 million blue bond. The net proceeds from these bonds will finance projects meeting specific eligibility criteria, including water supply and treatment, plastic pollution prevention, sustainable maritime transport, fisheries, marine ecosystem restoration, and sustainable tourism services.
- The [Central American Bank for Economic Integration](#) (CABEI) has issued four blue bonds to date. In 2022, two bonds were issued in Australia and Japan funding projects related to water resource protection, sustainable water management, renewable energy, blue economy initiatives, and nature protection. CABEI issued the first bond in Australia for AUD 30 million (US\$20.1 million), the second in Japan for JPY 10,000 million (US\$73 million). In January 2023, CABEI issued the third bond for JPY 7,000 million (US\$54.7 million) and in August another bond in Australia for AUD 30 million (US\$19.7 million).
- In April 2023, [SANEPAR](#), a Brazilian sanitation utilities company, issued BRL 400 million (US\$80.4 million) of “sustainable and blue” debentures. This marked SANEPAR's first venture into blue bonds, focusing on water supply and sanitation to enhance water resource management. SANEPAR became the first public sanitation company to issue a blue bond, making history in the process.

- In June 2023, BBVA and IFC launched the first blue bond in Colombia. Valued at US\$50 million, this bond aims to finance projects related to water and sewage treatment plants, ocean preservation, and lake protection.
- In July 2023, Banco Bolivariano and IDB issued the first blue bond with performance-based incentives tied to achieving specific objectives. This new blue bond in Ecuador for US\$80 million is to support ocean conservation efforts, water and wastewater management, as well as solid waste management and the circular economy. The issuance also incorporates a fair transition element by actively encouraging the involvement of micro, small, and medium-sized enterprises in resource applications within the supply/value chain.



Blue bonds issuer by volume and country in LAC. (This image is restricted to blue bonds, and does not include debt-for-nature transactions or blue loans).

Source: HPL

These examples highlight the diverse opportunities for issuing blue bonds, not limited to the Latin American market. Fiji plans to issue a [Sovereign Blue Bond](#), while the Asian Development Bank (ADB) issued dual-tranche blue bonds in Australian and New Zealand dollars for projects in Asia and the Pacific. The [Nordic Investment Bank](#) issued the first blue bond in the Baltic region, targeting wastewater treatment and water-related climate change adaptation. Also, Cabo Verde issued the first blue bond, and this is a public offer through the International Investment Bank (iiB) in the partnership between Cabo Verde Stock Exchange and UNDP (under Cabo Verde's Integrated [National Financing Framework](#), INFF). These instances demonstrate the potential for blue bonds to support environmental projects globally.

CONCLUSION

The concept of the blue economy presents an instrument that can be utilized by sovereigns, companies, and investors interested in conservation while capitalizing on sustainable business opportunities. Issuing blue bonds raises awareness of the importance of ocean conservation and sustainable practices. As a thematic bond, the success of blue bonds and their advantages depend on implementing, managing, and monitoring the funded projects. Transparency, accountability, and adherence to sustainability standards are crucial to ensure the desired positive impact on marine ecosystems and communities.

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