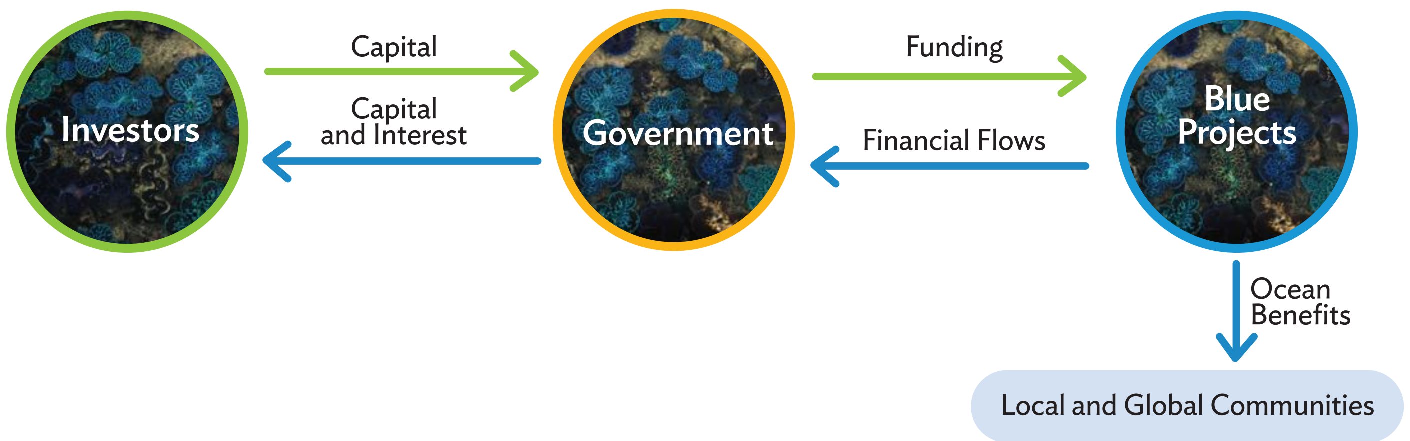
SOVEREIGN BLUE BONDS

Quick Start Guide

ADB



WHAT IS A BLUE BOND?

A blue bond is a relatively new form of a sustainability bond, which is a debt instrument that is issued to support investments in healthy oceans and blue economies. Like in the case of conventional bonds, investors lend money to a bond issuer, who agrees to repay the interest every year for the term of the bond plus the capital on a certain day. In a blue bond, earnings are generated from the investments in sustainable blue economy projects. Furthermore, the issuance of a blue bond enables investors to fulfill their corporate social responsibilities and generate benefit for the ocean and humankind.

WHO CAN ISSUE A BLUE BOND?

Blue bonds can be issued by governments, banks, or corporations. This quick start guide focuses on sovereign blue bonds, which can be issued by governments or affiliated institutions.

HOW DOES A BLUE BOND WORK?

To repay the capital and interest, the issuer of a blue bond must have a source of revenue. The Asian Development Bank (ADB) supports a model wherein blue bonds fund projects that generate financial returns, otherwise known as a "use of proceeds" bond. ADB's first blue bond, issued on 10 September 2021, is an example of this model. Bank of China[1] and Nordic Investment Bank[2] have also issued blue bonds with the use of proceeds model. Other types of blue bonds exist, for example the Republic of the Seychelles[3] issued a blue bond that, amongst other revenue streams, used a debt swap to support issuance.

[1] Bank of China Blue Bonds Program. https://www.boc.cn/en/investor/ir10/202009/t20200914_18398318.html. Accessed 8 Sep 2021.
[2] Nordic Investment Bank. 2019. "NIB Issues First Nordic–Baltic Blue Bond." https://www.nib.int/who_we_are/news_and_media/news_press_releases/3170/nib_issues_first_nordic-baltic_blue_bond. Accessed 8 Sep 2021.
[3] World Bank. 2018. "Seychelles launches World's First Sovereign Blue Bond." https://www.worldbank.org/en/news/press-release/2018/10/29/seychelles-launches-worlds-first-sovereign-blue-bond. Accessed 8 Sep 2021.

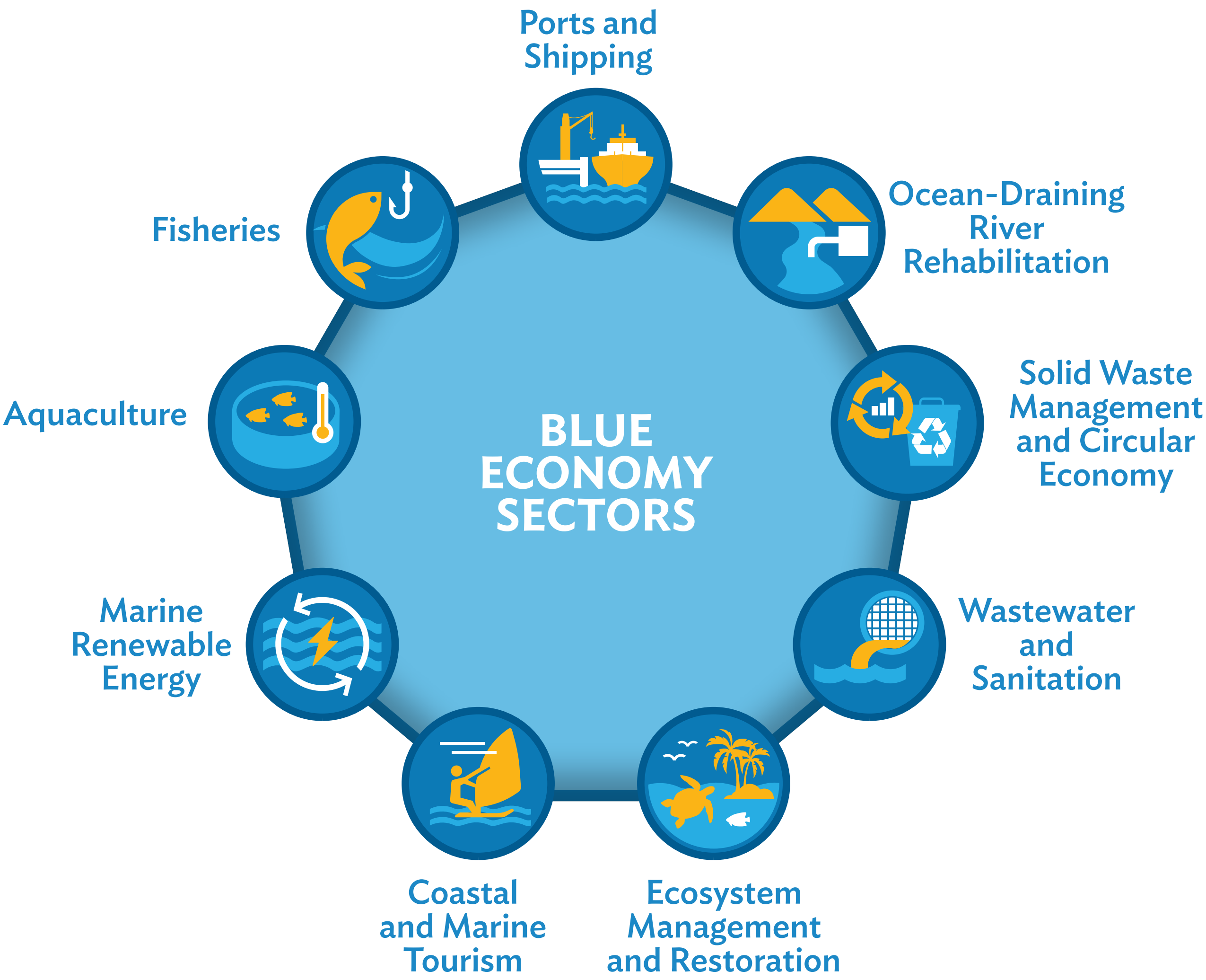
ADB published a comprehensive guide to developing green bonds that is also suitable for blue bonds. This quick start guide does not replace the comprehensive guide and only highlights frequently asked questions and provides a summarized look at pre-feasibility and first steps to develop a sovereign blue bond. This quick start guide is targeted at ADB developing member countries considering to issue their first blue bond.

Ocean photos by Francesco Ricciardi.

Residents of Tuvalu enjoying the sea. Photo by ADB.

WHAT TYPES OF PROJECTS CAN BE FUNDED BY A BLUE BOND?

Just like all thematic bonds (e.g., green, climate, and social and sustainability bonds), a framework document is required to define which projects are eligible for funding. ADB developed the Green and Blue Bond Framework, with a Second Party Opinion issued by CICERO Shades of Green, to support its own issuance of both green and blue bonds. The ADB framework is consistent with the International Capital Markets Association's Green Bond Principles and Sustainable Blue Economy Finance Principles of the the United Nations Environment Programme Finance Initiative. It also contains a typology of eligible project categories along with exclusion criteria. Governments may choose to develop their own frameworks to support blue bond issuance to ensure that investors have confidence and transparency in project selection.



HOW DO I KNOW IF A BLUE BOND IS A GOOD FIT?

Blue bonds are one of many finance mechanisms available to support ocean health and blue economies, and while they are important tools, they are most appropriate for countries with robust ocean governance, sustainable economic activities, and sizable pipelines of loan projects. It is important to conduct a quick feasibility check before committing resources to develop a blue bond. To be successful a sovereign blue bond would benefit from:

- **Robust ocean governance system.** This includes strong institutions with mandates to protect the ocean and grow a sustainable blue economy, strategies and policies to protect ocean habitats and species, clear regulatory frameworks to define which types of economic activities are allowed in and adjacent to the oceans, and an effective system of monitoring and enforcement . Blue bonds require economic activities that interact with the ocean, and these must be tightly and transparently managed to avoid perverse incentives such as the overdevelopment of the fisheries sector. A blue bond could be used to fund the improvement and operation of ocean governance systems.
- **Sustainable economic activities.** Blue bonds are a debt instrument and therefore the money must be repaid to investors with interest. This makes blue bonds difficult for marine protected areas that disallow economic activities and other conservation activities that do not have a revenue base. Well-defined sustainable blue economy sectors—such as sustainable fishing, ecotourism, waste management sector, and marine renewable energy—are the basis of a blue bond.
- **Sizable pipeline of loan projects.** Due to the costs involved in issuing a bond, most blue bonds need to be at least $50 million–$500 millio in scale. To service that debt over time a sizable portfolio of blue projects must be identified. It is recommended that the total portfolio of eligible blue projects (existing and new) is larger than the first issuance for both contingency and long-term planning.

If these enabling conditions are lacking, ADB recommends careful consideration if a blue bond is the right fit, or if another finance mechanism may be better suited to the context.[4] ADB may also be able to support countries in strengthening these enabling conditions to build a pathway towards blue bond issuance.

FIRST STEPS

1. **Identify potential projects.** Determine the size and composition of a portfolio of eligible blue projects (new and existing). If the portfolio is of sufficient size (as previously explained), then it is worth proceeding.
2. **Define and document a national blue bond framework.** An existing national green or sustainability bond framework may be suitable, so it is important to check that first. The creation of a blue bond framework, or the expansion of a green bond framework to explicitly include blue projects, is required to issue a blue bond. The framework will include the typology of blue projects (categorization of the types of projects allowed) as well as eligibility criteria for each sector. The framework will also indicate how the blue impact of the projects will be tracked and reported.
3. **Seek external review.** The framework needs to be externally reviewed by a second party opinion provider. CICERO Shades of Green and Sustainalytics are examples of firms with experience in blue bond framework review, but others are also available.

DIVE DEEPER

ADB. 2021. *Detailed Guidance for Issuing Green Bonds*. https://asianbondsonline.adb.org/green-bonds/pdf/green-bonds-factsheet-en.pdf.

ADB. 2021. *Primer on Social Bonds and Recent Developments in Asia*. February. https://www.adb.org/publications/social-bonds-recent-developments-asia.

N. Roth, T. Thiele, and M. von Unger. 2019. *Blue Bonds: Financing Resilience of Coastal Ecosystems - Key Points for Enhancing Finance Action*. March. https://www.4climate.com/dev/wp-content/uploads/2019/04/Blue-Bonds_final.pdf.

United Nations Environment Programme Finance Initiative. United Nations' Sustainable Blue Finance Initiative: Mobilising Capital for a Sustainable Ocean. https://www.unepfi.org/blue-finance/.

[4] The Biodiversity Finance Initiative (BIOFIN) is a global partnership managed by the United Nations Development Programme. For more information, refer to the BIOFIN Catalogue of Finance Solutions at https://www.biofin.org/finance-solutions.

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