



Season 3. Episode 14: Fadi Bou Ali: Green and Blue Bonds Between Promise and Hard Reality

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Hisham Allam: Hello everyone and welcome to DevelopmentAid Dialogues. I'm your host, Hisham Allam. Today we are taking a hard look at the green and the blue bones. The fast-growing corner of global finance promises to fund everything from clean energy grids to healthier oceans, while the world scrambles to close a massive climate financing gap.

I'm delighted to be joined by Fadi Bou Ali, a specialist in sustainable finance who works at the intersection of capital markets and climate solutions. Fadi has advised financial institutions and issuers on ESG Strategies and upon the frameworks, helping, translating big sustainability goals into real transactions in the global market.

Fadi, it's a pleasure to have you on DevelopmentAid Dialogues, and thank you for joining me to explore both the potential and the challenges of these instruments.

Fadi Bou Ali: Thank you. I'm really glad to be with you.

Hisham Allam: Fadi, for listeners new to this topic like me, would you explain green bones versus blue bones simply, what are the main differences and are they just regular loans with green label?

Fadi Bou Ali: Simply the green bonds and regular loans are identical twins with different jobs. So structurally they are just like regular loans. An issuer borrows money and promises to pay it back with interest in a simple way. When it comes to label matters, the difference isn't just a label; it's illegal contract on where the money goes. So, in this sense, green bonds actually focus on land and earth, renewable energy, wind, solar energy efficiency, clean transport, deforestation, ecosystem restoration and so on. While the blue bonds, is a subset of green bonds, actually the money earmark for water.

So, they found marine conservation, sustainable fisheries, and wastewater treatment to protect oceans and fresh water. It's very important, the difference between the green bonds and the regular one, we have to add the governance layer. Unlike a standard loan where the borrower can't spend the cash on anything, these bonds have a governance layer.



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What does it mean? The proceeds or the money are legally earmarked for a specific project. Meaning a government cannot take blue bond money meant for coastal protection and spend it on general military or health care needs or other sectors.

Hisham Allam: This is an important point, and I think we're gonna dig deep to it later on, but for this introduction that sets the stage, and lastly for how these bonds originated and evolved.

Now I'd like to discuss how does a country issue a blue bond for coastal protection? Who checks where the money goes, as you have said, and what stops it from getting lost in general spending.

Fadi Bou Ali: Actually, this scheme follows the green bond principles. It was created by the International Capital Market Association because you need a valid organization to run the show.

If a country wants to issue a blue bond, it has to go through phases. First of all, there is a preparation phase. The country must create a blue bond framework that defines exactly which projects qualify, for instance, mangrove restoration versus a commercial port. Here we're talking about gray infrastructure. And here it should be like the involvement of the Ministry of Environment and Ministry of Oceans. I don't know. It depends on the country itself and also on the Ministry of Finance. They talk with each other in order to follow this law and create a blue bond framework.

After that, they need a credible external reviewer before selling the bond. That's why there is a second party opinion, which is required to verify the framework isn't just hot air, and it is a real need. Then we have the tracking to stop money from getting lost. It is obligatory that the funds are often held in indicated sub-account or trust fund, isolated from the general, budget or treasury.

And also, there is the auditing. Post issuance; third party auditors check that the cash was actually spent on the promised projects. Actually, this is the simple way how a country or any entity can issue this one.

Hisham Allam: Who could be the external reviewer, an NGO or an independent auditor or what?

Fadi Bou Ali: Yes. They are credible organizations. And this credibility actually comes from creating evidence based, knowledge. I can give you SustainLex, CICERO Center for International Climate Research. You need some reliable framework or reference to go through this process.

Hisham Allam: But there is no international body, some organizations related to the United Nations, for example specialized on making this external review or auditing?



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Fadi Bou Ali: Actually, they intervene through creating or contributing to the frameworks or fine-tuning things. But their existence is not very seen because this kind of bond is not obligatory; it's voluntary, and they are part of the ESG, which is environment, social, and governance, framework. Mainly those who are involved are multilateral banks. A little bit comes from the UN agencies.

Hisham Allam: Building on that momentum, let's look at what makes them tick mechanically. Poland, for example in 2016, has issued Green Bond that made headlines as one of the first virgin issuance. Beyond the PR, what do we know about its actual delivery or renewable or efficiency projects?

Fadi Bou Ali: Well, Poland didn't just make headlines. They set the template for that. So, they issued a 750 million euros bond that was heavily oversubscribed. The demand was so high compared to the supply. The actual delivery was; the funds were allocated to five strategic sectors.

The biggest ones went to sustainable agriculture and clean transportation, and we have renewable energy, national park, and deforestation. Transportation, specifically modernizing rail infrastructure. Poland actually in order to give this project a credibility and assurance for the investors, in their framework, they include strict execution criteria that legally barred any of this money from funding fossil fuel power, or nuclear energy. Ensuring the green label wasn't used to subsidize brown industries. This is what they have done in Poland actually, and it was a success story in this matter.

Hisham Allam: Those safeguards lead us to the tangible upsides for issuers and economies. These bonds hit almost \$2 trillion in total by 2025. Are they big in global fines now or still just for niche impact investors?

Fadi Bou Ali: No, they are no longer a niche with the broader sustainable bond market hitting around \$6.59 trillion globally. And UN issuance projected at 2 trillion US dollars annually.

This is a structural realignment of a global finance sustainable bond. What do I mean by sustainable bond is when we add the social aspect to that. It could be like a green one and a social one. That's why I call it a sustainable bond. And now I don't know how to say it, but. I guess we are falling into semantic snares, like we are using a lot of fancy terms, but I don't know, I don't know if we are going to harvest tangible results. Now institution demand is massive. In Poland's case, I can tell you demand was double the supply, driven by mainstream investors in Germany and UK, not just the small impact funds.

Why would investors like to go there? Because it is related to the local policies that encourage or provide incentives for companies that invest in climate, or they offset their carbon footprint. I don't know what will happen here right now, because we are facing global and political chaos.

I don't know if we are still like, committed to the climate promises. So actually, it's really critical to follow up on that and how the dynamic will flow.



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Hisham Allam: Especially for what we're seeing at COP summits and the failure of making real progress or achieving the agreed points. So, you're still optimistic about these bonds?

Fadi Bou Ali: No, I'm not. I'm not optimistic, because these are market-based solutions while the scale of the problem actually requires a radical shift in our mindset. I'm sorry to say that, but we are reaching a tipping point in several ecosystems.

So, I don't know what could happen if some of these systems collapse, let's say, and it'll affect the other systems. When we're talking about our commitment through the Paris Agreement, we are not going there, especially now. We are living in polarization.

We are living in an era where climate denial is everywhere. So, I don't know if we are going to succeed through that. There are a lot of instruments like loss and damage. We have also climate adaptation funds. So, there is a shift also at the international level, by increasing the budget on warfare, which really makes me a person who's been working on that for a long time. I'm really scared of what's going on. So, it's really hard to say. I'm really sorry to say. These kinds of bonds could be like the following, or investors could go for no-profit. And in this case, maybe the issuance could change their projects from, environmental impact project into a profitable one. And then you compromise the outcomes, social outcomes, and environmental outcomes.

Hisham Allam: That makes a lot of sense. Fadi, some cut emissions, but green washing is common. Companies claim green without really change. What is hard evidence worldwide?

Fadi Bou Ali: The evidence is mixed. We talked about the success story of Poland, but as you said, greenwashing remains the market's greatest threat actually. There are different failure stories. Like I can give you dam in Laos. It was financed as a clean energy project, but it destroyed the river's biodiversity and fish population. In this way, it technically produced renewable energy but failed on environmental due diligence.

Diligence showing a label alone doesn't guarantee a positive outcome. And here one, we destroy the riparian ecosystem or the river ecosystem. We are not affecting the environmental outcome actually, also the social, the livelihood of the people that really depend on this river.

And here comes the upper stream, communities and the lower stream communities. Here we start to talk about climate justice. Like sometimes a country can act, or do a dam on the upstream, and then if the river cross the border to the second country, and that country is not doing anything here, there is a problem at the justice level, though equality, it means I'm going to hit hard while I'm doing nothing.

I'm not responsible for this harm to nature. It's really critical how to deal with that. Also, there is something, the additional problem. There are some critics that argue some issuers use response to fund projects they were going to do anyway. Resulting in new positive impact. Where there was no second independent opinion to say if this project is feasible in terms of what we are planning to do, yes or no.



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Hisham Allam: Interesting. Thank you, Fadi, for providing these reflecting examples. Instead of isolated stories, how do these bonds stack up against traditional climate finance and driving systematic change, like shifting entire sectors towards sustainability?

Fadi Bou Ali: Actually, there is a shift towards what we call SLPs sustainability linked bonds. The use of proceeds or the money bonds, green, blue are often precise for funding as related showcase projects while the rest of the company, if we're talking about common, remains dirty. That's why we are now moving into a holistic approach.

It's not just to target one sector or one segment of, I don't know, maybe a company to cover its carbon footprint or the pollution that they produce. So now, as I said, the solution, the market is shifting towards Sustainability-linked bonds. These don't fund a specific project. They tie the entire companies' interest rate or sustainability target. They should have strict KPIs and key performance indicators in case the issuer is a company. Also, there is systemic pressure in order to avoid that.

For example, if a country misses its emission reduction target, the interest rate on the bond goes up, steps up. This force, the entire entity to transform, not just one department. As if through practice, you find a lot of leakage, then you have to close this leakage by introducing something, a policy or a new framework in order to fine tune things.

But why didn't it start with Sustainability-linked bonds. Because they were not aware of this problem. So, when they started the green and the blue bonds, then it appears okay, there are stories, and it's not, holistic. That's why we have to include society as well in the framework.

Hisham Allam: And who reports those KPIs?

Fadi Bou Ali: The KPIs, actually they are the guidelines created by the International Capital Market Association. Because they set up the Green Bond principles, and there is a kind of consensus on that because it is like a participatory approach, they learn from what they are doing. And sometimes the World Bank also supports in developing or generating these KPIs in order to measure the outcome, not the output itself.

Hisham Allam: That's a helpful way to frame it. Do these bonds help or hurt traditional aid? Might they push out grants for the poorest by favoring bankable projects?

Fadi Bou Ali: Yes, there is a real concern about bankable traps. There is a valid fear that these bonds favor bankable projects. What do we mean by bankable projects, those that generate revenue, profit fast profit, over essential social services that don't make money.

So yes, there is a concern. While private capital grows, traditional development aid has stagnated. So yes, we have this kind of dynamic this can lead to cherry picking profitable projects while ignoring deeper needs in the poorest nations. So here we start to talk about climate justice and with all elements, how should be



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including our taking into consideration the least developed countries, the underprivileged people, the poor people. All this must be taken into consideration. To fix this, multilateral banks like World Bank, Asian Development Bank or African Development Bank, they're trying to use concessional finance, which is below market loans to de-risk these projects for poor green nations. But it is in progress; it's not the final. I don't know what would happen in that area.

Hisham Allam: That is very candid. Speaking about the greenwashing risks, the guidelines are out there, but how do investors really spot the fakes? Have you seen bonds marketed as ocean protection, for example, that ended up funding something totally different?

Fadi Bou Ali: Yes, actually investors, they have red flags, and they have to respect that in order to commit to their policy or sustainable strategy. They look to vague definitions like buzzwords, eco-friendly without a science-based target. So, it's not just using a fancy label.

No, they should provide well-informed evidence about that. And sometimes if there is no independent review, lack of second party opinion also it is a major warning sign. Then you have the reporting failures. Issues where report outputs, money spent rather than outcomes. As I said before, let's say CO2 reduced or fish biomass increased, or 100 hectares of forest ecosystem restored.

Then they often hide a lack of impact. So, they avoid going through this process or investing. I can give you an example, let's say the Korean electric company issued a green bond while savvy investors rejected because the company was still building coal plants.

So here a green bond cannot clean a brown business strategy. And what I am afraid of, it is being like in a lot of cases, they are masking, they, they're, brown industries and telling the people, oh, I'm doing that, I have zero emissions, I don't have gap footprint.

So yes, these kinds of signs that investors look at in order to avoid failure and a bad reputation.

Hisham Allam: Yeah. The context is only getting tougher. Speaking about fairness issues. Poor countries are hit hardest by climate yet issue few responses. Does this widen the gap between rich and poor nations, especially in Africa and the Middle East?

Fadi Bou Ali: Yes. As I said, the gap is real. The MENA region or Africa are slow in this market. So poor nations often lack the institutional capacity to manage the complex reporting the sponsors require. So, it's a matter of trust with the institutions in a certain country.

And there is also the cost of the capital itself. Even when they do issue bonds, they often don't get green. It means green premium as if like an incentive, so cheap, cheaper borrowing costs. Compared to European nations. So, they are paying market rates to save the planet, which raises serious fairness questions here.



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Why let's say European institutions could have the premium or green premium because they have solid institutions and trusted institutions.

So, these are the, these are really major problems and challenges for let's say global south. In order to adopt this scheme, you need a level of transparency and accountability in the country. At the end, it's a loan, and the loan is paid by the citizens.

So, who's gonna benefit from this loan? And then later on, all the people will pay for it poor and rich, middle class. So, it's really not easy to do it and follow it and report it. I'm sorry to say that, but this is really a fair issue, as you said.

Hisham Allam: Thanks, Fadi, for unpacking that. Moving to who can buy. Can everyday investors join, or only big institutions? Yields are often lower than real demand or just show.

Fadi Bou Ali: Actually, it's a wholesale market. So, in most jurisdictions, these are wholesale products for big institutions. While retail there is a warning in retail because every day investors should be very careful.

So direct offers of social media are often scams. Also, there is a kind of fraud in this area. The yields in Europe, as I said, there is a green, which is a green premium, lower yield for investors. Meaning investors strictly want these assets. So, in an emerging market, this discount is inconsistent and often requires guarantees from the World Bank to exist, so this is the case. In some cases, the big institutions can go for retail selling of these bonds in one way or another. It depends on the situation. It's not generalized.

Hisham Allam: That's a strong challenge for all of us.

Fadi Bou Ali: Yes, of course.

Hisham Allam: By 2030, can blue bonds transform ocean projects at a scale like Lebanon's Coast, for example, or will fossil fuels hold them back?

Fadi Bou Ali: If we talk about Lebanon, there, there is a potential. So, Lebanon has a 30 times 30 goal, which is protecting 30% of marine space by 2030. However, blue bonds could finance wastewater treatment, clean the seawater, tourism and marine protected areas.

But we have a huge obstacle, which is related to political aspects. Without governance reform and legal framework to actually enforce protection in this case, blue bonds risk being just a creative storytelling. It's nothing. Fossil fuel politics and weak informants are the main choke point.



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I can talk about Lebanon. We have this failed state. It's not trusted to go through that. I've been in this sector for almost 25 years. And I know the problem at the level of institutions that you cannot apply to this kind of scheme and make it sustainable because of this fragility, state of fragility.

Hisham Allam: From your work what is one bond project that disappointed and one fix to make them vital for aid work?

Fadi Bou Ali: Actually, the disappointment is in the repackaged bond. In cases where an issuer takes a project that already exists and slaps a green label on it. To get let's say cheap money without creating any new environmental benefits. Zero additionality. It happens a lot, because it's easy for those who are chasing profit to find an entry point in this system to use it. And if it is not well safeguarded then, yeah, the system could be abused. So, the fix is like you have to make coordination strong. Let's say at the financial level, if you miss the environmental target, you pay more interest. This moves the risk from the plan to the issuer. So, at the level of governance, you need the Ministry of Finance who has the money actually, and the Ministry of Environment who has the expertise talking daily. That's why it needs cooperation and a strict one because disconnected ministry are why projects fail.

Hisham Allam: To close on an aspiration for the field. If these scale up, can they turn aid from short-term fixes to lasting resilience? And what is the best way to measure real progress?

Fadi Bou Ali: Actually, to achieve lasting resilience, we need to move away from ready-made projects from the Global North and engage in deep consultation with local communities who actually own the land. Hear the indigenous people because in most of the cases they are expelled out of their area for the sake of big companies. These companies are labeling themselves with fancy words and terms and beautiful visibility while in the backyard they're doing nasty job. This is what is happening. To measure progress, we need to move from output to outcomes.

Here we are talking about, let's say, using a source to see approach, a source to see approach, let's say to move away from the sea and look at the other ecosystem, what's happening there. So, in that sense, in order to avoid the number of solar panels installed, if you have a green energy project, or something like this, it's not about counting or putting a number on paper, say, okay, we have 100 renewable or solar systems we installed. No, it's not about that. We have to move toward a solid metric—let me give you a few examples: tons of CO₂ avoided, increases in fish biomass, the size of protected areas, and the number of local endemic species protected.

This is what I meant by the outcome. So real progress requires standardized KPIs, so issuers can't cherry pick the data that makes them look good. This is very important to have ropes, the KPIs, in order to measure the outcome. The challenge for this kind of scheme is that when you invest money in the environment or climate, the payoff is not as fast as possible. It's really beyond the timetable of the loan itself or the project itself. So, it's really a big challenge. And I don't know if we are able to overcome all these challenges to advance climate finance really in a well and accountable, just and fair way, let's say.



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Hisham Allam: We will Fadi be optimistic. Thank you for joining DevelopmentAid Dialogues and for bringing such a clear, grounded perspective to the world of green and blue bonds. For our listeners, this conversation is a reminder that climate finance is no longer a niche topic. It's reshaping how governments, investors, and communities think about risk, opportunity, and responsibility on a global scale.

If you find this episode useful, please follow and subscribe to DevelopmentAid Dialogues on your favorite platform, and share it with colleagues and partners interested in the future of sustainable finance. I'm Hisham Allam signing off. Thank you for listening and see you next time. Goodbye.