

Shades of blue in financing: transforming the ocean economy with blue bonds

Joywin Mathew and Claire Robertson

Abstract

Purpose – To provide an overview of how blue bonds can have a transformative impact on the blue- and ocean-based economies.

Design/methodology/approach – This article provides an overview of what a blue bond is, the process for issuing a blue bond, the transformative effects blue bonds can have on ocean economies, and the areas ocean economies should focus on to attract investors and catalyze investment into their ocean economies.

Findings – This article concludes blue bonds present an opportunity to not only achieve strong financial returns but to also contribute to a meaningful environmental and social impact on ocean economies. As the public and private sectors develop initiatives to catalyze investment into ocean initiatives, it is likely the investment community will eagerly adopt blue bonds into the suite of sustainable finance products, driving greater investment into ocean economies and supporting the health of our oceans.

Practical implications – One of the key constraints for blue-bond growth is the lack of familiarity to this product among market participants. Unlike its other ESG-labeled counterparts, blue bonds are not regulated by a set of principles such as those prescribed by the International Capital Markets Association (ICMA). Clarifying the alignment of globally recognized standards such as the ICMA principles and its correlation to blue financing may help ocean industries to achieve greater recognition within the sustainable bond market framework and can make the market aware of important characteristics of ocean industries, including differing risks and opportunities.

Originality/value – Practical guidance from experienced lawyers in ESG bonds and blue economy initiatives.

Keywords Blue bond, Blue economy, Ocean economy, Sustainability, Environmental social and corporate-governance (ESG) initiatives, International Capital Markets Association (ICMA)

Paper type Technical paper

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Introduction

The annual economic value generated by our oceans is approximately US\$3 trillion, making the ocean economy the fifth largest economy globally. However, the health of our oceans has deteriorated drastically from overfishing, marine littering, the effects of climate change and the rapid increase in the intensity and diversity in the ways we use our oceans.

The financial sector has a key role to play in supporting ocean sustainability and delivering transformative change to ocean economies. There is high demand for financial instruments that pursue the objectives of the United Nations Sustainable Development Goals (SDGs) and promote environmental, social, and corporate-governance (ESG) initiatives. Therefore, innovative financial solutions are crucial to ensuring the protection and preservation of ocean and coastal resources, whilst also presenting opportunities for the economic, social, and environmental development of coastal states and sustainable businesses. This article considers how blue bonds can have a transformative impact on the blue and ocean-based economies.

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Blue bonds & the ocean economy

What is a blue bond?

A blue bond is a debt security issued to raise capital specifically to finance the implementation of the SDGs related to the ocean, the seas and marine resources, as well as the transition toward a sustainable ocean economy. There are a number of SDGs to which a blue bond can relate given the diversity of factors relevant to a sustainable ocean-based economy. Corporations, financial institutions, governments, and municipalities can issue blue bonds to fund ocean-related assets and to deliver initiatives that support the SDGs.

An ocean economy, also known as “blue economy”, refers to all sectors of the economy that have a direct or indirect connection to the ocean. The ocean economy encompasses a broad array of economic activities related to the seas and the oceans, presenting numerous opportunities for social and economic development and diversification of coastal and sustainable businesses. This includes opportunities arising from traditional marine development activities, marine-oriented information and science sectors, tourism, and conservation projects.

The blue bond market emerged in 2018, with the Seychelles, supported by the World Bank, issuing its US\$15 million blue bond. As one of the world’s biodiversity hotspots, the Seychelles needed to balance its desire to pursue economic development against its need to protect its natural environment. Proceeds from the bond were used to support the expansion of marine protected areas, to improve governance of priority fisheries, and to develop the Seychelles’ ocean economy. In January 2019, the Nordic Investment Bank followed with its issuance of a SEK 2 billion blue bond.

Issuing a blue bond

Unlike its ESG-labeled bond counterparts, such as a green bond, a social bond or a sustainability-linked bond, blue bonds are not regulated by a set of principles from a body such as the International Capital Markets Association (ICMA). Despite a lack of blue bond principles, a blue market already exists within the current green and sustainable bond frameworks, allowing issuers to signal sustainability strategies seeking to advance sustainable ocean initiatives. Therefore, a blue bond may be named a “blue-green bond”, a “blue-sustainable bond” or a “blue sustainability-linked bond” to ensure recognition of the issuance and its alignment to existing frameworks and principles such as the ones developed by ICMA for green, social, sustainable or sustainability-linked bonds.

The Practical Guidance to Issue a Blue Bond, [1] developed by the United Nations Global Compact, outlines several pillars of best practices, as well as benchmarks and frameworks. The guidance recommends a series of steps for those interested in issuing a blue bond aligned with a sustainability strategy to advance a healthy, productive ocean.

Steps to issue a blue bond:

1. **Align with existing global standards:** Aligning a blue bond issue to globally recognized standards such as, for example, the ICMA green bond, social bond, sustainable bond or sustainability-linked bond principles, means issuers can follow the recommended structuring features, disclosure guidelines, and reporting obligations. As institutional investors rely on the credibility and transparency of the ICMA principles, aligning a blue bond issue within these frameworks will increase the recognition and therefore, the marketability of the bond issue.
2. **Develop a “blue” framework, including:**
 - (a) **Setting a “blue” baseline:** When setting a “blue” baseline, an issuer must ensure its business model and strategy is consistent with the SDGs and align its proposed issuance with the various existing sustainable finance principles and the blue

finance principles that are being developed. For example, the European Union together with the Prince of Wales's International Sustainability Unit and the European Investment Bank (EIB) has developed has *Sustainable Blue Economy Finance Principles* [2]. This includes considering how an issuer takes the ocean into account in setting their own risk management, reporting and disclosure standards on operations.

- (b) **Developing clear and measurable targets or KPIs:** A bond with clear targets and objectives is likely to attract greater interest from investors. A blue bond issue should include a direct positive target that contributes to achieving the objectives of the SDGs. This could include objectives supporting conservation, sustainable business opportunities, biodiversity, and eco-tourism.
 - (c) **Disclosing relevant sustainability performance metrics on a regular basis:** Disclosure obligations may vary depending on the relevant framework chosen; however, maintaining ongoing disclosure will promote credibility to issuers which, in turn, may increase investor confidence to support subsequent bond issues.
3. **Secure a second-party opinion:** Second-party opinions offer prospective investors an insight into the sustainability aspects of the bond as well as that of the issuer. The majority of the green, social, sustainable and other ESG labeled issuances benefit from external reviews and third-party opinions.
 4. **List the blue bond on an exchange:** Listing a blue bond provides a platform for investors and issuers to generate greater market liquidity and transparent price discovery. Listing also allows issuers to take advantage of the publicity associated with listing a bond, and to capitalize on dedicated ESG listing options. For example, the London Stock Exchange has a Sustainable Bond Market segment that combines its green bond segment with new dedicated segments for social and sustainability bonds. Listing in these exchanges, which provides dedicated segments toward ESG-labeled issuances, may help issuers to connect with the right type of investors and develop long-term relationships with ESG investors.

Transformative effects of blue bonds

There are four main areas where blue bonds can have a transformative effect on ocean economies.

Financial support for ocean initiatives

Blue bonds provide an opportunity for private-sector capital to be mobilized to support ocean economies. Issuing a blue bond could provide much needed financial support to coastal nation states and industries that operate in the marine sector, which in turn, could have a transformative effect on sustainable economic development. A blue bond issuance may also help stimulate interest among public and private investors wanting a bigger role in ensuring the sustainable use of ocean and marine resources.

This in turn can assist governments and companies to appear more attractive to public and private sector investors, potentially increasing the number of available financing options, or receiving better financing terms. For instance, the Seychelles' blue bond issue stabilized its credit rating and promoted further investment into its economy.

Economic and social benefits

Innovative ocean financing tools like blue bonds can be used to invest in sectors of the ocean economy such as fisheries to enhance food security, protect livelihoods, and help drive sustainable ecosystems.

Strategic alignment with the United Nations sustainable development goals

Many States and organizations have made commitments to achieving the goals articulated in SDGs including SDG 14 (“*Conserve and sustainably use the oceans, seas and marine resources for sustainable development*”). For both public and private issuers who want to support the SDGs, issuing a blue bond would encourage strategic alignment with these commitments and provide the necessary finance to develop projects to achieve these goals.

Increased publicity

When the Seychelles issued its blue bond, it received significant publicity as it was a Small Island Developing State that was the first to issue this type of bond in the world. Subsequent issuers would likely still receive substantial publicity through issuing blue bonds, which could generate further investment in other ocean initiatives or stimulate investment in other related sectors such as tourism or social development.

Catalyzing investment into ocean economies

Public and private financing plays a key role in encouraging coastal states and companies to pursue sustainable initiatives that also drive social and economic development. However, to unlock this funding, there are three main areas that may influence investors:

Ocean economy planning

As investors seek to further incorporate sustainable investments into their portfolios, governments and companies should consider how best to attract, and subsequently catalyze, investment into their blue and ocean economies, and businesses, respectively.

From a government perspective, the government plays an important role in terms of developing the enabling conditions for blue-financing investment. It is fundamental that a government develop a clear road map that outlines its objectives for its ocean economy. Governments that implement strong ocean economy plans are likely to leverage greater interest from the private sector, particularly in developing countries, because these plans can help to direct the type of investment to ensure a sustainable outcome. From a corporate perspective, good governance is a key driver for successful blue-business initiatives. A corporation should ensure that its business model and strategy is legitimate and makes a genuine contribution to a sustainability goal that is connected to water or ocean-related outcomes. This means a corporation should plan to use the bond proceeds for an activity or investment that has a direct relationship with those areas so investors are confident the bond proceeds will have a direct impact on our oceans and that the purpose of the bond issuance is aligned toward meeting the SDGs. Investors are more likely to make ongoing commitments to businesses that have accounted for the long-term effects and considerations of their operations on our oceans, rather than those who focus solely on a short-term outcome tied to a bond issue.

Blue financing taxonomy

There has been a considerable effort from the public and private sectors to increase transparency and consistency around blue bond issuances. Unlike their other ESG-labeled counterparts, such as green bonds, social bonds or sustainability-linked bonds, blue bonds are not regulated by a set of principles such as those prescribed by the ICMA. Despite lacking universal blue-bond principles, the public and private sector have attempted to scale the blue bond market by developing various blue-finance principles. As mentioned earlier in this article, the European Union has developed the *Sustainable Blue Economy Finance Principles*.

It is important that the ocean community and the finance community have a shared understanding of the meaning of “blue” to encourage long-term partnerships between these sectors. In turn, standardization of the blue bond market will also decrease the risk of “blue washing” – where a bond that is marketed as being used to promote “blue” initiatives does not necessarily use the proceeds to pursue those objectives.

Ocean financing advocacy

It is crucial to raise awareness and build the blue bond market. At present, “blue” or “ocean” initiatives fall under the banner of green bonds, social bonds or sustainability-linked bonds. Expanding the eligibility criteria may help ocean industries to feel greater recognition within the sustainable bond market framework and can make the market aware of important characteristics of ocean industries, including differing risks and opportunities. In raising awareness and building the market, blue bonds can fund opportunities and businesses that contribute positively to the ocean and support sustainable development.

Conclusion

Blue bonds present an opportunity not only to achieve strong financial returns but to also contribute to a meaningful environmental and social impact on ocean economies. Whilst one of the constraints for its growth is this product’s lack of familiarity among market participants, it is expected that it will increase in popularity in the same manner as did other ESG labeled bonds. The fact that global green-bond issuance exceeded the US\$1 trillion mark in 2020 (after the first such issuance in 2007 by the European Investment Bank) is a sure indicator of the trajectory of other similar ESG-labeled issuances such as blue bonds. Multilateral development banks have always led the way in supporting sustainable finance and it is expected that they will play a significant role in facilitating blue bond issuances. As has been the case with other ESG-labeled bonds, it is likely that the investment community will eagerly adopt blue bonds into the suite of sustainable finance products, driving greater investment into ocean economies and supporting the health of our oceans.

This article forms part of DLA Piper’s Sustainable Finance Series: a series of publications and insights on green and sustainable finance and the developments in this sector.

Notes

1. <https://ungc-communications-assets.s3.amazonaws.com/docs/publications/Practical-Guidance-to-Issue-a-Blue-Bond.pdf>
2. www.unepfi.org/blue-finance/the-principles/

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