

Blue Bonds – the changing colors of Ethical Bonds

by Kash

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1. Background

Seychelles is one of the world's bio-diversity hot-spots. It has been receiving support of HRH The Prince of Wales' International Sustainability Unit. Tourism and fisheries are the two most important sectors for the country. Fish products are the primary exports of the country by a wide margin. Late in 2018, Seychelles issued the world's first sovereign blue bond.

2. What are Blue Bonds?

Blue Bonds are a sub-set of "Ethical Bonds" viz. bonds that support positive social or environmental impact. Blue Bonds focus on improvement of the oceans. The forerunner to Blue Bonds were Green Bonds, where the objective was to promote positive climate change. At a broader level, such structures can be called Sustainable Finance / Responsible Finance / Impact Finance / Conservation Finance. Such structures seek to make it attractive for private capital to fund social goals.

Ethical bonds can be issued through multiple formats. For example:

- They can be issued as 'project bonds' where the application of money is linked to a specific project; or
- They can be issued based on a broad investment objective, with the moneys being deployed in multiple projects that meet pre-specified criteria.

Project bonds are riskier, and will almost always need credit enhancement support through government, multi-laterals etc. The bonds issued based on investment objective can benefit from diversification across multiple projects. However, the investor might lose control over application of funds, since the bonds are issued in anticipation of projects.

In most Blue Bond structures, a clear commitment is sought from the relevant government authority to create a policy-framework that is supportive of the mission.

3. The Seychelles Blue Bond

USD15mn was mobilized through a 10-year structure to finance ocean projects aimed at expanding Seychelles' marine protected areas and boosting its fisheries sector. Three social impact investors based in the United States viz. Calvert Impact Capital, Nuveen, and Prudential invested. The bond is partially guaranteed by a USD5 mn guarantee from the International Bank for Re-construction & Development (IBRD). The Global Environment Facility (GEF) [an international partnership of 183 countries, international institutions, civil society organizations and the private sector], is partially supporting interest payments through a soft loan of USD 5mn.

Eighty per cent of the funds are to be utilized to offer low-interest loans and grants to local fishermen communities; the balance will finance research on sustainable fisheries projects.

Seychelles has been working with a larger strategy of promoting marine life through measures that include creating large areas as no-fishing zones. The latest issue of Blue Bond is part of the bank-rolling plan for implementing this strategy.

4. The Way Forward

The need for capital in the social and environmental space is gigantic. So, several players are getting involved. For example, The Nature Conservancy (TNC), a charitable non-profit based in the US, is working with 20 island and coastal countries in the Caribbean, the Pacific Islands and the West Indian Ocean to improve marine area management and create new marine protected areas over the next five years. They claim that “if we can raise \$40.5 million in philanthropy, we can catalyze investments of up to \$1.6 billion for ocean conservation.” They have set up NatureVest to channel private money into conservation.

Based on prior experience, MAVUCA believes that Blue Bond structures can be a huge success if:

- The social impact is given at least as much importance as servicing of the investors;
- The social impact is measured through transparent and credible approaches;
- The measurement of social impact is conducted, both at launch of the issue, and on an ongoing basis, by an independent agency. Ideally, there should be a Credit Risk rating and a Social Impact rating;
- Risk of conflicts of interest, for example, through tied supply contracts, kickbacks etc. is avoided;
- Credible standards / protocols are established on what is green and what is not.

MAVUCA, through its insights on helping strategy drive organizations, understanding of capital markets, and competency in innovative structuring can create interesting solutions that benefit issuers, investors and society. Feel free to get in touch at team@mavuca.in to discuss how we can help you.

References

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