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BLUE BONDS
EXPANDING TO THE OCEANS

GROWING THE GREEN ECONOMY

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BLUE BONDS EXPANDING TO THE OCEANS

The blue economy is of growing importance and gaining momentum amongst policymakers across the world. The earth's surface is made up of 71 per cent. water, and billions of people rely on the oceans for their livelihoods and socioeconomic well-being. However, the effects of climate change and human activities are destroying the biodiversity of our oceans.

Innovative financial solutions will be required to enhance ocean and coastal resilience. Blue finance, specifically 'blue bonds', have huge potential to help unlock the ocean economy, while also protecting the marine environment.

Blue bonds are a pioneering debt financial instrument issued usually by governments or development banks. Blue bonds follow the same components of the ICMA Green Bond Principles i.e. the use of proceeds must be for projects that address key environmental concerns, a process for project evaluation and selection must be in place, a formal internal process to track the application of, and management of, proceeds must be applied, and annual reporting on the use of proceeds must take place. Where blue bonds slightly differ from green bonds is in the use of proceeds, whereby proceeds from a blue bond issuance are used specifically to finance marine and ocean-based projects or to safeguard the blue economy.

The first blue bond – Seychelles

On 11 October 2018, Clifford Chance advised Standard Chartered Bank as placement agent for the launch of the world's first sovereign blue bond by the Republic of Seychelles to advance the small island state's blue economy. The Seychelles blue bond was partially guaranteed by the World Bank (International Bank for Reconstruction and Development). The ten-year, privately placed bond raised USD15 million from three US international investors. The deal was structured as a private placement to Calvert Impact Capital, Prudential and Nuveen, the Chicago-based asset manager owned by pension fund TIAA-CREF, each investing USD5 million. BNY Mellon acted as trustee for the transaction. The use of proceeds specified, through operating manuals that were shared with investors, that the Government would use the proceeds to finance ocean-based projects, and enhance the protection of marine resources, while further developing the Seychelles' blue economy as it transitioned to a more sustainable fisheries industry.

Other blue bond Issuances

On 24 January 2019, Nordic Investment Bank launched its first Nordic-Baltic Blue Bond. The five-year SEK 2 billion bond was launched under the NIB Environmental Bond Framework and will focus on investments within water resource management and protection for projects such as wastewater treatment, prevention of water pollution and water-related climate change adaptation.

The Nature Conservancy, an international not-for-profit group, recently unveiled plans to mobilise USD1.6 billion of funding for global ocean conservation efforts through blue bonds under a scheme dubbed "blue bonds for conservation", an innovative financial model using philanthropy to save the world's oceans by providing upfront capital.

Blue bond benefits

The inaugural blue bond helped the Republic of Seychelles preserve and restore the biodiversity of the seas around the archipelago. It encouraged international investment and empowered local communities and businesses by developing sustainable fisheries, and encouraging tourism.

Blue bonds offer an opportunity for private sector capital to be mobilised to support sustainable investment. Capital markets have a key role to play in environmental stewardship and, more specifically, the protection of the oceans.

CONTACTS



Deborah Zandstra
Partner

T: +44 20 7006 8234
E: deborah.zandstra@cliffordchance.com

GROWING THE GREEN ECONOMY



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The severe warnings on climate change starkly documented by the IPCC report and others demonstrate why urgent action to meet the goals of the Paris Agreement is needed. The public, governments and legislators are taking notice and taking action. Much of the legislative effort to date has been focused on the financial system but there is an increasing emphasis on non-financial entities and the requirements that are beginning to be expected of them. These requirements stem from legislation, public pressure and possible litigation.

GROWING THE GREEN ECONOMY reflects the breadth and depth of the impact of these environmental and sustainable factors. Visit www.cliffordchance.com/greeneconomy to read and download the publication in full.

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London, E14 5JJ

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