BLUE BOND

A blue bond is a debt instrument that is issued to support investments in healthy oceans and sustainable blue economies. Investors lend money to a bond issuer, which agrees to repay the capital plus interest on (a) specific date(s). Environmental bonds, including green, climate, and blue bonds, require the issuer to specify that the capital will be invested in specific environmental projects or with specific environmental standards.

Issuers

Banks | Governments | Corporations

Financial Return Required

BLUE BONDS

None | Concessional | Market Rate

Complexity

BLUE BONDS

Easy | Medium | Hard

STRENGTHS

- Blue bonds may support a diversified portfolio of projects that cross sectors and geographies
- Environmental and social bonds have a strong market and track record
- Bonds are easy to understand by governments, financial institutions, and investors

CONSTRAINTS

- Projects must generate a financial return
- Minimum transaction size of at least USD $100m (for a portfolio of projects)
- May require credit enhancement to alter the risk-return profile

EXAMPLES

- Seychelles sovereign blue bond for marine protected areas and fisheries
- Nordic Investment Bank blue bond for wastewater & water pollution
- Bank of China blue bond for sanitation and marine renewable energy

VARIATIONS

- Impact bonds, also known as pay for performance bonds, connect payout terms to achievement of pre-agreed target
- Project bonds fund one large project, rather than a pipeline of projects
- Sustainability bonds incorporate both environmental and social criteria

DID YOU KNOW?

While there is no global standard specifically for blue bonds, the International Capital Market Association (ICMA) Green Bond Principles (GBP) is an accepted standard to issue blue bonds. Verification by a third party is required to show how funds will be disbursed, tracked, and reported.

This document is a resource material for ADB's Blue Finance Training: Designing and Financing Bankable Projects in Transitioning to a Blue Economy, held in November 2020.

BLUE CARBON

Blue carbon is atmospheric carbon that is captured and stored by marine environments. Voluntary markets allow the purchase and sale of blue carbon credits to fund projects that preserve or enhance the amount of carbon stored in marine environments. Restoration of degraded coastal habitats can remove significant amounts of carbon from the atmosphere while also providing direct and local ecological benefits.

Issuers

Governments | Corporations | Communities

Financial Return Required

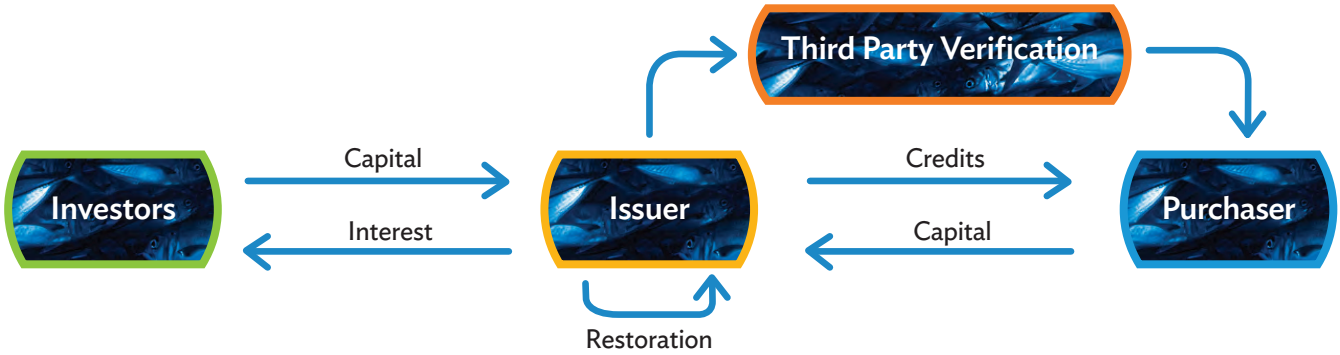
BLUE CARBON

None | Concessional | Market Rate

Complexity

BLUE CARBON

Easy | Medium | Hard



STRENGTHS

- High potential for good marketing which makes it attractive to businesses who are seeking brand promotion as part of their corporate social responsibility
- Many co-benefits for social and ecological impacts
- Can be implemented by communities at the local scale

CONSTRAINTS

- Upfront investment in ecosystem restoration is required
- Restoration methods do not always work, especially if the primary threats to ecosystem health (pollution, climate change, etc.) have not been addressed
- Verification, such as using the Verified Carbon Standard (VCS), and monitoring can be expensive
- Preservation of blue carbon, rather than restoration of degraded systems, is more effective scientifically but cannot be turned into verifiable credits at this time

EXAMPLES

- Mekong Delta, Viet Nam restoration of mangrove habitat in connection with an organic shrimp farm
- Sundarbans, India restoration of mangrove habitat using VCS credits
- Kaimana, Indonesia coastal conservation and community development to demonstrate viability of blue carbon and test methods

DID YOU KNOW?

Ocean plant systems are the largest carbon reserves on the planet. Vegetated coastal ecosystems suck in carbon dioxide up to 40 times faster than inland forests due to the ability to store large amounts of carbon in soils, which can remain sequestered for thousands of years. Coastal wetland ecosystems also provide many ecosystem services, such as: breeding ground for fish, including commercially-important species; cleaning water by absorbing excess nutrients and some pollutants; and acting as shoreline protection against coastal hazards.

This document is a resource material for ADB's Blue Finance Training: Designing and Financing Bankable Projects in Transitioning to a Blue Economy, held in November 2020.

CORAL REEF INSURANCE

Insurance can be used to mitigate risks to ocean health and provide an economic incentive for resource management. One type of insurance - parametric - is most often used in a natural resources conservation context. Parametric insurance means that the insurer pays money if a specified trigger, such as a high wind speed in a storm, is met. While coral reef insurance does not provide a steady stream of revenue, it does align economic incentives with healthy ocean outcomes and can provide financial resources for rapid response to catastrophic events.

Issuers

Governments | Corporations

Financial Return Required

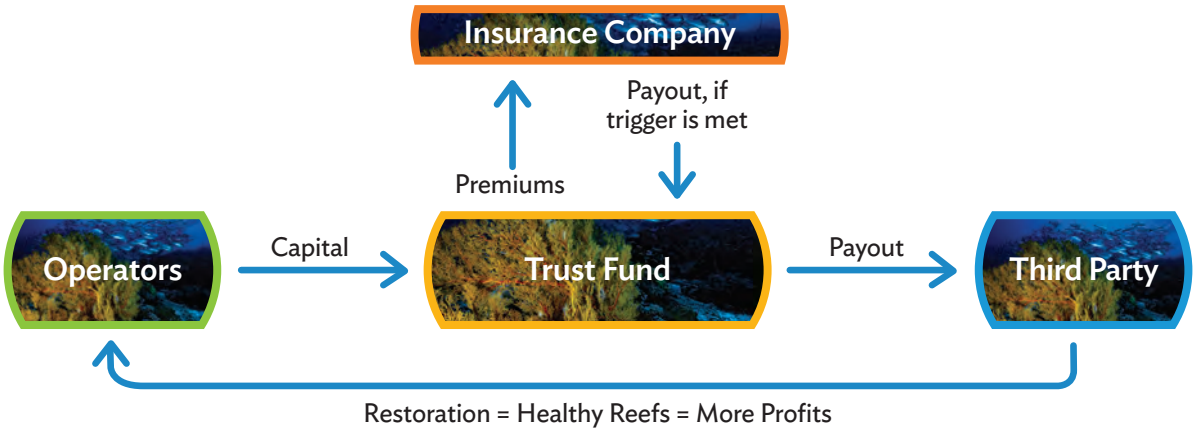
INSURANCE

None | Concessional | Market Rate

Complexity

INSURANCE

Easy | Medium | Hard



STRENGTHS

- Provides an economic incentive for good ocean governance and stewardship
- Entry point to reforming mainstream finance systems

CONSTRAINTS

- Does not provide steady revenue source
- Parametric insurance must be connected to a trigger that can be measured by a third party and not influenced by the beneficiaries
- In many developing country contexts, those that need insurance the most cannot afford it, and therefore, subsidised premiums are often required

EXAMPLES

Coral reef insurance for the State of Quintana Roo, Mexico in partnership with hotel operators and The Nature Conservancy. In this example, the trust fund also provides self-insurance if the weather triggers are not met, and reef resilience activities are connected to decreased premium prices.

VARIATIONS

- Government subsidies for insurance for fishers who lose fishing days due to extreme weather, so that they can maintain their livelihoods, as long as they abide by sustainable fishing practices
- Regulatory requirement for insurance for shipping companies in case they damage reefs, then they can pay to restore
- Responsible insurance companies may withhold insurance coverage for companies that damage the ocean to disincentivize bad actors in the economy

DID YOU KNOW?

ADB is currently exploring coral reef insurance for Indonesia, Philippines, and the Pacific Islands.

This document is a resource material for ADB's Blue Finance Training: Designing and Financing Bankable Projects in Transitioning to a Blue Economy, held in November 2020.

SUSTAINABILITY-LINKED LOAN

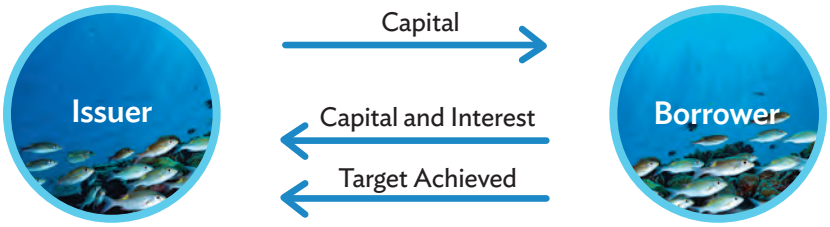
A sustainability-linked loan or results-based lending is a debt instrument in which the issuer provides capital to the borrower in exchange for a commitment to a pre-agreed sustainability target. The financial terms, including interest rate and time period, are connected to achievement of the target. Unlike project finance or blue bonds, the monies can be used for anything on the borrower's balance sheet as long as the sustainability target is achieved. This mechanism allows companies flexibility and enables innovation towards ambitious sustainability targets.

Issuers

Banks Governments

Financial Return Required

Complexity



STRENGTHS

- Can provide capital for companies to transition towards sustainability, even if they do not yet meet rigorous environmental standards
- Because funding is not tied to (a) specific project(s), companies are enabled to be more nimble and adaptive
- May be more holistic and include both environmental, social, and safety targets
- Entry point to reform mainstream financial systems

CONSTRAINTS

- May be high risk for the issuer because the company may not achieve the pre-agreed target(s)
- Reputational risk for the issuer if funding a company that is currently impacting the environment

VARIATIONS

- Loan to a commercial fishing operation to achieve by catch reduction target
- Loan to a shipping company to achieve pollution and carbon reduction targets
- Loan to a coastal hotel to achieve ambitious wastewater treatment standards

DID YOU KNOW?

In May 2020, the Asia Pacific Loan Market Association published voluntary principles for Sustainability-Linked Loans. The principles guide (1) the borrower's sustainability strategy, (2) target setting, (3) reporting, and (4) review. Common categories for the loans include energy efficiency, water consumption, circular economy, and biodiversity, among others.

This document is a resource material for ADB's Blue Finance Training: Designing and Financing Bankable Projects in Transitioning to a Blue Economy, held in November 2020.