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Blue bonds

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Blue Bonds

What are blue bonds?

As defined by the [World Bank](#), a blue bond is “a debt instrument issued by governments, development banks or others to raise capital from impact investors to finance marine and ocean-based projects that have positive environmental, economic and climate benefits”.

Blue bonds are debt-instruments whose proceeds must be channelled into the blue economy. A buyer of bonds essentially lends to the borrower (or *issuer*), providing them with available funds today that they will repay with interest in the future. In conventional bonds, companies or even governments will issue bonds to raise short term capital to invest in income-generating activity. In the case of a green or blue bond, this capital will go into things like marine restoration or conservation activity. To ensure this, they require a transparent reporting around the use, measurability and impact of the funds.

One of the best-known examples of this is the launching of a [\\$15 million USD blue bond](#) by the Seychelles in 2018. The finance made available from issuing the bond has been used to expand marine protected areas, improve fisheries governance, and develop a sustainable blue economy.

Blue bonds remain an underutilised tool for financing restoration and conservation. Globally, blue bonds make up less than 0.5% of the total market for sustainable debt, with \$5 billion USD worth of blue bond transactions taking place [between 2018 and 2022](#).

Are these specifically for developing nations?

No.

In order to serve the [expansion](#) of their blue economy, the [Bank of China](#) – majority state-owned and one of the world’s largest banks – issued [\\$942.5 million USD of blue bonds](#). [Credit Agricole](#) advised on structuring the deal and selection of projects, while the bonds were created in line with the International Capital Market Association’s [Green Bond Principles](#). So far this has been used to finance renewable energy and wastewater management. As of September 2022, China had the

[second largest GDP](#) in the world. There is still some debate around whether to class China as a [developing or developed nation](#), although the World Bank considers China to now be an [upper-middle-income country](#) and has a higher GDP than the UK.

The Nordic Investment Bank (NIB) has also launched [two blue bonds](#) that fund projects addressing issues such as [wastewater treatment, water pollution and climate change adaptation](#) in the Nordic-Baltic region¹. These were worth SEK 2 billion and SEK 1.5 billion which together equated to roughly \$380 million USD [at the time](#).

Could we do this in the UK?

Theoretically, yes.

National Savings & Investments (NS&I) already issues [Green Savings Bonds](#) backed by the UK Treasury. This allows UK citizens to invest their savings (as little as £100 can be invested) for a fixed period of 3 years in return for a fixed rate of interest. During 2023, the rate of interest on Green Savings Bonds was 4.2% AER, which was reasonably competitive with many high-street savings accounts, although this rate dropped in early 2024. The money invested in these bonds is passed on to HM Treasury and used towards government spending on green projects. These projects may include:

- Decarbonisation schemes and clean transport
- Renewable energy
- Nature restoration

The full details of green expenditure allocations can be found [here](#).

As we know, there are multiple areas of investment that could use this form of funding in the blue economy, such as:

- Coastal and marine restoration projects
- Nature-based coastal defence
- Sustainable aquaculture
- Wastewater treatment
- Monitoring and enforcement of marine protected areas
- Blue technologies

¹ NIB is an international financial institution owned by eight member countries from the Nordic and Baltic regions.

- Compensation to divert and reduce harmful activities (e.g. bottom-contact fishing)

A key requirement for any investments should be a demonstrably positive impact on the marine environment, in line with principles of marine and biodiversity net gain. Although blue bonds have been used elsewhere for spending on offshore renewables, this is not included in the suggestions listed here. Although the importance of offshore renewables for net-zero and environmental targets is recognised, offshore infrastructure can have a negative impact on marine ecosystems and needs to be managed carefully. Additionally, finance is already being directed towards renewable energy through Green Savings Bonds. It is therefore proposed here that blue bond funds are directed exclusively towards activities that protect and improve ocean health.

Why would the UK Government issue blue bonds?

Unlocking the blue economy

There is massive potential in the blue economy to create opportunities for growth, development and jobs that would boost the wider UK economy. A substantial injection of public capital could accelerate development of the blue economy, attracting private investment to grow further. It is estimated that every £1 invested in the oceans can generate [£5 or more in socioeconomic benefits](#).

Proceeds of the bonds could also be made available for blended finance mechanisms. As the markets and frameworks for private investment develop, providing operational grants and first-loss capital could de-risk projects sufficiently to attract investors and trigger a blue rush from within the private sector.

Public interest

There is huge potential for private investment into the blue economy, but governments should not forget that it is ultimately their responsibility to serve the public interest, which includes protecting and enhancing the life-supporting services and other benefits that society derives from the marine environment.

Leadership and signalling

In light of the two previous points, creation of a blue bond scheme would be a clear demonstration of the UK's commitment to its biodiversity and climate targets, and a signal to attract investors to the UK's blue economy. At this point, the UK would also be a relative front runner amongst its peers in leading the way for blue finance.

Creating a safety net

Public investment can also safeguard against the risk that private finance does not reach its perceived potential for funding marine recovery. The potential is huge, but we are yet to see any large-scale private investment in the UK and there remains a large finance gap for restoration projects, where revenues from ecosystem services fall short of high project costs. Unlocking private finance will depend on several factors, including development of codes and standards, which could take several years. An expectation of private investment in the future should not delay much needed public funding into the blue economy in the short to medium term.

What are the obstacles?

A [lack of standardisation](#) of metrics used to measure the impact of blue bond proceeds has been identified as a barrier. Clear metrics that demonstrate desired impacts are more appealing to investors, but this is not always straight forward. There are established metrics for areas such as wastewater treatment and renewables, but other areas are harder to quantify. For example, carbon sequestration by marine restoration projects is highly variable and difficult to measure.

The main obstacle may be around knowledge and understanding of the marine environment and the blue economy. Resources and support should be made available to inform decision makers on where best to apply blue bond funds. Conservation organisations and the scientific community could offer to support in building this knowledge base and guide funds to the right places. A clear understanding of where funds are going and why is essential to avoid [“bluewashing”](#).

The marine environment may appear intangible to everyday investors. Anything labelled *green* is a clear signal to the general public, whereas *blue* bonds may struggle to attract the same level of interest. A change of branding or targeted marketing could go some way to address this.

Given that green bonds already exist, it may be simpler to expand them to include ocean-based projects. This should not be the preferred approach though, as marine projects are underdeveloped compared to terrestrial projects and vastly underfunded. Separate bonds will ensure that terrestrial and marine projects are not forced to compete for the same pool of funding.

Guidance on blue bonds

There is [various guidance](#) available for issuing blue bonds and financing the blue economy. [The Practitioners Guide](#) is the result of collaboration between 5 organisations: the UN Environment Programme, UN Global Compact, the Asian Development Bank, the International Finance Corporation and the International Capital Market Association. They have synthesised their respective guides and principles to provide one comprehensive guide for using bonds to finance the sustainable blue economy. This includes guidance on the eligibility criteria for selecting appropriate blue economy projects.

What about the devolved nations?

The Wales Act 2014 and 2017 mean that [Welsh Government](#) has powers to issue government bonds to raise capital for infrastructure that can boost the economy, but this has historically been [underutilised](#). The Scotland Act 2012 gave the [Scottish Government](#) power to issue bonds for [capital investment purposes](#). It is unclear whether Scottish or Welsh governments could or would issue blue bonds, however.

What role can the Marine Conservation Society play?

The Marine Conservation Society want to see a sustainable blue economy in the UK, where public spending and private investment are directed towards regenerative coastal and marine projects. With this goal, the Marine Conservation Society would like to support relevant governmental departments in creating blue bonds in the UK and offer guidance on how to apply blue bond proceeds most effectively. The UK has the potential to become a leader in blue finance, setting a clear example and sending a clear message around the need to invest in marine environment for the wellbeing of current and future generations. The creation of blue bonds presents a valuable and practical means of achieving this.

Recommended reading:

The following resources are recommended for further information and guidance on blue bonds.

1. Bosmans and de Mariz (2023) - [The Blue Bond Market: A Catalyst for Ocean and Water Financing](#).
2. Economist Impact - [A new, global tool: bonds to finance the blue economy](#).
3. Food and Agriculture Organization of the United Nations - [Blue Growth Initiative – Blue Finance Guidance Notes – Blue Bonds](#)
4. Fidelity International - [Blue bonds and the ocean funding gap](#)
5. UN Global Compact - [Practical Guidance to Issue a Blue Bond](#).